MITSUBISHI UFJ FINANCIAL GROUP INC
Form 20-F
September 19, 2008

As filed with the Securities and Exchange Commission on September 19, 2008

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

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended March 31, 2008

OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

For the transition period   to

OR

¨ SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

Date of event requiring this shell company report

Commission file number 1-10277

KABUSHIKI KAISHA MITSUBISHI UFJ FINANCIAL GROUP

(Exact name of Registrant as specified in its charter)

MITSUBISHI UFJ FINANCIAL GROUP, INC.

(Translation of Registrant s name into English)

Japan

(Jurisdiction of incorporation or organization)

7-1, Marunouchi 2-chome

Chiyoda-ku, Tokyo 100-8330

Japan

(Address of principal executive offices)

Takeaki Ishii, +81-3-3240-8111, +81-3-3240-7520, address is same as above

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

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

Title of each class	Name of each exchange on which registered
Common stock, without par value	New York Stock Exchange (1)
American depositary shares, each of which represents one share of common stock	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:

$2,300,000,000 Fixed/Floating Rate Non-Cumulative Preferred Securities of MUFG Capital Finance 1 Limited, and Mitsubishi UFJ Financial Group, Inc. s Guarantee thereof

750,000,000 Fixed/Floating Rate Non-Cumulative Preferred Securities of MUFG Capital Finance 2 Limited, and Mitsubishi UFJ Financial Group, Inc. s Guarantee thereof

¥120,000,000,000 Fixed/Floating Rate Non-Cumulative Preferred Securities of MUFG Capital Finance 3 Limited, and Mitsubishi UFJ Financial Group, Inc. s Guarantee thereof

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock as of the close of the period covered by the annual report:

At March 31, 2008, (1) 10,861,643,790 shares of common stock (including 503,153,835 shares of common stock held by the registrant and its consolidated subsidiaries as treasury stock), (2) 100,000,000 shares of first series of class 3 preferred stock, (3) 17,700,000 shares of class 8 preferred stock, (4) 1,000 share of class 11 preferred stock, (5) 33,700,000 shares of class 12 preferred stock were issued.

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

Yes x No ¨

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

Yes ¨ No x

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

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

Yes x No ¨

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

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨

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

U.S. GAAP x International Financial Reporting Standards as issued by the International Accounting Standards Board ¨ Other ¨

Indicate by check mark which financial statement item the registrant has elected to follow:

Item 17 ¨ Item 18 x

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

Yes ¨ No x

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

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

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

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Forward-Looking Statements

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

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

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

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

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

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PART I

Item 1. Identity of Directors, Senior Management and Advisors.

Not applicable.

Item 2. Offer Statistics and Expected Timetable.

Not applicable.

Item 3. Key Information.

A. Selected Financial Data

The selected statement of operations data and selected balance sheet data set forth below have been derived from our audited consolidated financial statements. On October 1, 2005, Mitsubishi Tokyo Financial Group, Inc., or MTFG, merged with UFJ Holdings, Inc., or UFJ Holdings, with MTFG being the surviving entity. Upon consummation of the merger, MTFG changed its name to Mitsubishi UFJ Financial Group, Inc., or MUFG. The merger was accounted for under the purchase method of accounting, and the assets and liabilities of UFJ Holdings and its subsidiaries were recorded at fair value as of October 1, 2005. Therefore, numbers as of and for the fiscal years ended March 31, 2004 and 2005 reflect the financial position and results of MTFG and its subsidiaries only. Numbers as of March 31, 2006 reflect the financial position of MUFG while numbers for the fiscal year ended March 31, 2006 comprised the results of MTFG and its subsidiaries for the six months ended September 30, 2005 and the results of MUFG from October 1, 2005 to March 31, 2006. Numbers as of and for the fiscal years ended March 31, 2007 and 2008 reflect the financial position and results of MUFG. See note 2 to our consolidated financial statements for more information.

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 Japanese GAAP, and the average balance information, the selected financial data set forth below are derived from our consolidated financial statements prepared in accordance with US GAAP.

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

	Fiscal years ended March 31,				
	2004	**2005**	**2006**	**2007**	**2008**
	(in millions, except per share data and number of shares)				
Statement of operations data:					
Interest income	¥ 1,417,902	¥ 1,438,701	¥ 2,530,682	¥ 3,915,729	¥ 4,366,811
Interest expense	425,162	469,606	882,069	1,585,963	2,087,094
Net interest income	992,740	969,095	1,648,613	2,329,766	2,279,717
Provision (credit) for credit losses	(114,364)	108,338	110,167	358,603	385,740
Net interest income after provision (credit) for credit losses	1,107,104	860,757	1,538,446	1,971,163	1,893,977
Non-interest income	1,298,665	986,810	1,067,352	1,947,936	1,778,114
Non-interest expense	1,229,405	1,129,173	2,076,125	2,784,168	3,659,736
Income from continuing operations before income tax expense and cumulative effect of a change in accounting principle	1,176,364	718,394	529,673	1,134,931	12,355
Income tax expense	355,308	303,755	165,473	552,826	553,045
Income (loss) from continuing operations before cumulative effect of a change in accounting principle	821,056	414,639	364,200	582,105	(540,690)
Income (loss) from discontinued operations net	1,946	1,493	8,973	(817)	(1,746)
Cumulative effect of a change in accounting principle, net of tax(1)		(977)	(9,662)		
Net income (loss)	¥ 823,002	¥ 415,155	¥ 363,511	¥ 581,288	¥ (542,436)
Net income (loss) available to common shareholders	¥ 815,021	¥ 408,318	¥ 156,842	¥ 300,227	¥ (557,014)
Amounts per share(2):					
Basic earnings (loss) per common share income (loss) from continuing operations available to common shareholders before cumulative effect of a change in accounting principle	¥ 128.04	¥ 62.64	¥ 19.40	¥ 29.94	¥ (53.88)
Basic earnings (loss) per common share net income (loss) available to common shareholders	128.35	62.72	19.31	29.86	(54.05)
Diluted earnings (loss) per common share income (loss) from continuing operations available to common shareholders before cumulative effect of a change in accounting principle	124.74	62.40	19.04	29.76	(53.88)
Diluted earnings (loss) per common share net income (loss) available to common shareholders	125.03	62.48	18.95	29.68	(54.05)
Number of shares used to calculate basic earnings (loss) per common share (in thousands)	6,350,009	6,510,461	8,120,732	10,053,408	10,305,911
Number of shares used to calculate diluted earnings (loss) per common share (in thousands)	6,516,575(3)	6,516,375(3)	8,120,733(4)	10,053,409(4)	10,305,911
Cash dividends per share declared during the fiscal year:					
Common share	¥ 4.00	¥ 6.00	¥ 9.00	¥ 9.00	¥ 13.00
	$ 0.03	$ 0.06	$ 0.08	$ 0.08	$ 0.11
Preferred share (Class 1)	¥ 82.50	¥ 82.50	¥ 41.25		
	$ 0.73	$ 0.77	$ 0.37		
Preferred share (Class 2)	¥ 16.20	¥ 8.10			
	$ 0.14	$ 0.07			
Preferred share (Class 3)			¥ 37.07	¥ 60.00	¥ 60.00
			$ 0.31	$ 0.52	$ 0.51
Preferred share (Class 8)				¥ 23.85	¥ 15.90
				$ 0.21	$ 0.14
Preferred share (Class 9)				¥ 18.60	
				$ 0.16	
Preferred share (Class 10)				¥ 19.40	

	$	0.17		
Preferred share (Class 11)	¥	7.95	¥	5.30
	$	0.07	$	0.05
Preferred share (Class 12)	¥	17.25	¥	11.50
	$	0.15	$	0.10

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	At March 31,				
	2004	2005	2006	2007	2008
	(in millions)				
Balance sheet data:					
Total assets	¥ 103,699,099	¥ 108,422,100	¥ 186,219,447	¥ 186,202,911	¥ 190,731,786
Loans, net of allowance for credit losses	47,469,598	50,164,144	94,494,608	94,210,391	97,867,139
Total liabilities	99,854,128	104,049,003	176,551,294	175,769,599	182,241,671
Deposits	69,854,507	71,143,099	126,639,931	126,587,009	129,240,128
Long-term debt	5,659,877	5,981,747	13,889,525	14,389,930	13,675,250
Total shareholders equity	3,844,971	4,373,097	9,668,153	10,433,312	8,490,115
Capital stock[5]	1,084,708	1,084,708	1,084,708	1,084,708	1,084,708

	Fiscal years ended March 31,				
	2004	2005	2006	2007	2008
	(in millions, except percentages)				
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Other financial data:					
Average balances:					
Interest-earning assets	¥ 90,653,495	¥ 99,282,143	¥ 135,385,329	¥ 168,767,341	¥ 172,467,323
Interest-bearing liabilities	84,860,252	92,226,818	118,120,185	146,796,013	156,151,982
Total assets	102,827,850	110,829,406	159,347,769	185,683,033	194,066,264
Total shareholders equity	3,289,783	3,880,044	7,106,910	9,823,404	9,957,382
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Return on equity and assets:					
Net income (loss) available to common shareholders as a percentage of total average assets	0.79%	0.37%	0.10%	0.16%	(0.29)%
Net income (loss) available to common shareholders as a percentage of total average shareholders equity	24.77%	10.52%	2.21%	3.06%	(5.59)%
Dividends per common share as a percentage of basic earnings per common share	3.12%	9.57%	46.60%	30.14%	(6)
Total average shareholders equity as a percentage of total average assets	3.20%	3.50%	4.46%	5.29%	5.13%
Net interest income as a percentage of total average interest-earning assets	1.10%	0.98%	1.22%	1.38%	1.32%
Credit quality data:					
Allowance for credit losses	¥ 888,120	¥ 739,872	¥ 1,012,227	¥ 1,112,453	¥ 1,134,940
Allowance for credit losses as a percentage of loans	1.84%	1.45%	1.06%	1.17%	1.15%
Nonaccrual and restructured loans, and accruing loans contractually past due 90 days or more	¥ 1,730,993	¥ 1,285,204	¥ 2,044,678	¥ 1,699,500	¥ 1,679,672
Nonaccrual and restructured loans, and accruing loans contractually past due 90 days or more as a percentage of loans	3.58%	2.52%	2.14%	1.78%	1.70%
Allowance for credit losses as a percentage of nonaccrual and restructured loans, and accruing loans contractually past due 90 days or more	51.31%	57.57%	49.51%	65.46%	67.57%
Net loan charge-offs	¥ 336,876	¥ 260,622	¥ 136,135	¥ 262,695	¥ 355,892
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Net loan charge-offs as a percentage of average loans	0.69%	0.51%	0.19%	0.27%	0.37%
Average interest rate spread	1.06%	0.94%	1.12%	1.24%	1.19%
Risk-adjusted capital ratio calculated under Japanese GAAP[7]	12.95%	11.76%	12.20%	12.54%[8]	11.19%

Notes:

(1) Effective April 1, 2004, we adopted Financial Accounting Standards Board Interpretation, or FIN, No. 46 (revised December 2003), Consolidation of Variable Interest Entities, an interpretation of ARB No. 51. Effective March 31, 2006, we adopted FIN No. 47, Accounting for Conditional Asset Retirement Obligations, an interpretation of FASB Statement No. 143.

(2) Effective September 30, 2007, MUFG split its common and preferred stock whereby each common and preferred share was split into 1,000 common and preferred shares. As a result, amounts per share have been retroactively adjusted.

(3) Includes the common shares potentially issuable by conversion of the Class 2 Preferred Stock.
(4) Includes the common shares potentially issuable by conversion of the Class 11 Preferred Stock.
(5) Amounts include common shares and convertible Class 2 Preferred Stock. Redeemable Class 1 and Class 3 Preferred Stock are excluded.
(6) Percentages of basic loss per common share have not been presented because such information is not meaningful.
(7) Risk-adjusted capital ratios have been calculated in accordance with Japanese banking regulations, based on information derived from our consolidated financial statements prepared in accordance with Japanese GAAP.
(8) Risk-adjusted capital ratio at March 31, 2007 has been restated from 12.59% to 12.54%.

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Exchange Rate Information

The tables below set forth, for each period indicated, the noon buying rate in New York City for cable transfers in Japanese yen as certified for customs purposes by the Federal Reserve Bank of New York, expressed in Japanese yen per US$1.00. On September 17, 2008, the noon buying rate was US$1.00 equals ¥104.71 and the inverse noon buying rate was ¥100 equals US$0.96.

	Year 2008						
	March	**April**	**May**	**June**	**July**	**August**	**September**(1)
High	103.99	104.56	105.52	108.29	108.19	110.48	108.85
Low	96.88	100.87	103.01	104.41	104.64	107.59	104.71

(1) Period from September 1, 2008 to September 17, 2008.

	Fiscal years ended March 31,				
	2004	**2005**	**2006**	**2007**	**2008**
Average (of month-end rates)	¥ 112.75	¥ 107.28	¥ 113.67	¥ 116.55	¥113.61

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 below as well as all the other information in this Annual Report, including our consolidated financial statements and related notes, Item 5. Operating and Financial Review and Prospects, Item 11. Quantitative and Qualitative Disclosures about Credit, Market and Other Risk and Selected Statistical Data.

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

Risks Related to Our Business

We have experienced and may continue to experience difficulty integrating our IT system and other aspects of our operations with those of the UFJ group and, as a result, may have difficulty achieving the benefits expected from the integration.

Since our merger with UFJ Holdings, which was completed in October 2005, we have been implementing a business integration plan that is complex, time-consuming and costly. Achieving the targeted revenue synergies and cost savings is dependent on the successful implementation of the integration plan. We may not succeed in addressing the risks or other problems encountered in the ongoing integration process. In particular, as part of our integration process, we are currently undertaking a significant project to fully integrate the IT systems of the merged commercial bank subsidiaries and the merged trust bank subsidiaries, respectively. The Bank of Tokyo-Mitsubishi UFJ, Ltd., or BTMU, commenced the integration of the two systems into a new common IT system in the first half of calendar year 2008 and has since encountered some system problems. These and other problems in the ongoing integration process may cause us to incur significant additional costs, preventing us from achieving the previously announced cost reduction targets as scheduled. Those problems could also severely damage our reputation. In addition, previously expected revenue synergies may not materialize in the expected time period if we fail to address any problems that arise in the ongoing integration process. If we are unable to resolve smoothly any problems that arise in the ongoing integration process, our business, results of operations, financial condition and stock price may be materially and adversely affected.

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

In accordance with US GAAP, we have accounted for our recent acquisitions, including the merger with UFJ Holdings and the acquisition of additional shares in kabu.com Securities Co., Ltd., using the purchase method of accounting. We recorded the excess of the purchase price over the fair value of the assets and liabilities of the acquired companies as goodwill. US GAAP requires us to test goodwill for impairment at least annually, or more frequently if events or changes in circumstances indicate that goodwill may be impaired. Goodwill is tested by initially estimating fair value and then comparing it against the carrying amount. If the carrying amount of a reporting unit exceeds its estimated fair value, we are required to record an impairment loss. The amount of impairment and the remaining amount of goodwill, if any, is determined by comparing the fair value of the reporting unit as of the test date against the fair value of the assets and liabilities of that reporting unit as of the same date.

The recent global financial market instability led to the decline in our market capitalization and negatively affected the fair value of our reporting units for purposes of our periodic testing of goodwill for impairment. As a result, we recorded a significant amount of impairment of goodwill in the fiscal year ended March 31, 2008. As of March 31, 2008, we recorded goodwill of ¥1,074.1 billion. The amount of goodwill is expected to increase as a result of our acquisition of additional common shares of Mitsubishi UFJ NICOS in August 2008 and our expected acquisition of additional common shares of UnionBanCal Corporation, or UNBC, through our tender offer that is scheduled to expire on September 26, 2008, unless extended, and the planned subsequent merger. We may be required to record additional impairment charges relating to goodwill in future periods if the fair value of any of our reporting units declines below the fair value of related assets net of liabilities. Any additional impairment charges will negatively affect our financial results, and the price of our securities could be adversely affected. For a detailed discussion of the goodwill recorded and our periodic testing of goodwill for impairment, see Item 5. Operating and Financial Review and Prospects Critical Accounting Estimates Accounting for Goodwill and Intangible Assets and Item 5. Operating and Financial Review and Prospects B. Liquidity and Capital Resources Financial Condition Goodwill.

We may suffer additional credit-related losses in the future due to problem loans.

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

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

If actual loan losses are higher than currently expected, the current allowances for credit losses will be insufficient. Our allowance for credit losses in our loan portfolio is based on evaluations, assumptions and estimates about customers, the value of collateral we hold and the economy as a whole. Our loan losses could prove to be materially different from the estimates and could materially exceed these allowances. In addition, the standards for establishing allowances change, causing us to change some of the evaluations, assumptions and estimates used in determining the allowances. As a result, we may need to provide for additional allowances for credit losses.

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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. We may not be able to realize the value of the collateral we hold or enforce our rights against defaulting customers because of the difficulty of foreclosing on collateral in Japan, the illiquidity of and depressed values in the Japanese real estate market, and other reasons.

In addition, 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 forbear from exercising some or all of our rights as a creditor against them, and we may forgive loans to them in conjunction with their debt restructuring. These practices may substantially increase our exposure to troubled borrowers and increase our losses. An increase in loan losses would adversely affect our results of operations, weaken our financial condition and erode our capital base.

We may be adversely affected if economic conditions in Japan or elsewhere worsen.

Our performance is affected by general economic conditions of the countries in which we operate, particularly Japan where we primarily conduct our business. General economic conditions that could affect us include interest rates, inflation, investor sentiment, the availability and cost of credit, the liquidity of the global financial markets, the level and volatility of debt and equity capital markets, and raw material prices. Any of these economic conditions, currently existing or occurring in the future, may adversely affect our financial condition and results of operations. For a discussion of the current economic environment in Japan and certain other countries, see Item 5. Operating and Financial Review and Prospects Business Environment.

If the Japanese stock market declines in the future, we may incur losses on our securities portfolio and our capital ratios will be adversely affected.

We hold large amounts of marketable equity securities, of which a significant portion are securities of Japanese issuers. The market values of these securities are inherently volatile. We have experienced impairment losses on our marketable equity securities in the fiscal year ended March 31, 2008 as a result of a decline in Japanese stock prices, and we may incur additional losses on our securities portfolio if the Japanese stock market further declines in the future. Material declines in the Japanese stock market may also materially adversely affect our capital ratios. For a detailed discussion of our holdings of marketable equity securities and the effect of market declines on our capital ratios, see Item 5. Operating and Financial Review and Prospects B. Liquidity and Capital Resources Capital Adequacy and Selected Statistical Data Investment Portfolio.

Our results of operations may be negatively affected by the recent global financial instability triggered by disruptions in the residential mortgage market in the United States.

The recent credit market instability initially triggered by disruptions in the residential mortgage market in the United States resulting from concerns with increased defaults of higher risk mortgages to lower income households may adversely affect our loan and investment portfolios, which includes securitization products such as asset-backed securities. For example, some of our investment securities may need to be marked at a significantly lower price because a market price for those securities is depressed or not properly quoted. We may also be affected by credit market deterioration caused by defaults on these higher risk residential mortgages. Specifically, the availability of credit may become limited, causing some of our counterparties to default, or some of our credit derivative transactions to be negatively affected. For example, Lehman Brothers Holdings Inc. filed a petition under Chapter 11 of the US Bankruptcy Code on September 15, 2008, as a result of which we expect an adverse impact of approximately ¥20 to ¥30 billion on our income from continuing operations before income tax expense for the fiscal year ending March 31, 2009. Moreover, the negative developments in the US credit markets may cause significant fluctuations in stock markets globally and foreign currency exchange rates, which in turn may affect our results of operation. If credit market conditions continue to deteriorate, our capital funding structure may need to be adjusted, our funding costs may increase, or our credit-related losses may increase, all of which could have a material impact on our financial results and financial condition.

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The valuation of certain financial instruments relies on quoted market prices that may fluctuate significantly.

A substantial portion of the assets on our balance sheet comprises financial instruments that we carry at fair value. Generally, in order to establish the fair value of these instruments, we rely on quoted market prices. If the value of a financial instrument carried at fair value declines, a corresponding write-down may be recognized in our income statement. As the global financial markets became unstable following concerns of increased defaults of higher risk mortgages in the United States, there have been increasing circumstances where quoted market prices for securities became significantly depressed or were not properly quoted. Significant fluctuations in the market or disfunctionalities in the market could have a significant adverse effect on the fair value of the financial instruments that we hold.

Our business may be adversely affected by negative developments with respect to other financial institutions, both directly and through the effect they may have on the overall banking environment and on their borrowers.

Some domestic and foreign financial institutions, including banks, non-bank lending and credit institutions, securities companies and insurance companies, have experienced declining asset quality and capital adequacy and other financial problems. This may lead to severe liquidity and solvency problems, which have in the past resulted in the liquidation, government control or restructuring of affected institutions. For example, the recent deterioration of the asset-backed securitization products market and residential mortgage market in the United States resulted in Lehman Brothers Holdings Inc. filing a petition under Chapter 11 of the US Bankruptcy Code. Other banks, securities companies, insurance companies and other financial institutions, especially US institutions, continue to be under significant pressure due to declining asset quality as a result of recent deterioration of the global financial markets. These developments are expected to adversely affect our financial results for the fiscal year ending March 31, 2009. Other financial difficulties relating to financial institutions could adversely affect us because:

- we have extended loans, some of which may need to be classified as nonaccrual and restructured loans, to banks, securities companies, insurance companies and other financial institutions that are not our consolidated subsidiaries;

- we are a shareholder of some other banks and financial institutions that are not our consolidated subsidiaries;

- we may be requested to participate in providing assistance to support distressed financial institutions that are not our consolidated subsidiaries;

- the government may elect to provide regulatory, tax, funding or other benefits to those financial institutions to strengthen their capital, facilitate their sale or otherwise, which in turn may increase their competitiveness against us;

- deposit insurance premiums could rise if deposit insurance funds prove to be inadequate;

- bankruptcies or government support or control of financial institutions could generally undermine confidence in financial institutions or adversely affect the overall banking environment;

- negative media coverage of the financial industry, regardless of its accuracy and applicability to us, could affect customer or investor sentiment, harm our reputation and have a materially adverse effect on our business or the price of our securities;

- new regulations may be adopted to prevent future difficulties of financial institutions, which could increase our short term costs; and we could be perceived to be facing the same issues as other financial institutions that hold assets with no market liquidity or with significantly depressed values as a result of the significantly negative views about the financial services industry in general.

Changes in interest rate policy, particularly unexpected or sudden increases in interest rates, could adversely affect the value of our bond and financial derivative portfolios, problem loans and results of operations.

We hold a significant amount of Japanese government bonds and foreign bonds, including US Treasury bonds. We also hold a large financial derivative portfolio, consisting primarily of interest-rate futures, swaps and options, for our asset liability management. An increase in relevant interest rates, particularly if such increase is unexpected or sudden, may negatively affect the value of our bond portfolio and reduce the so called spread, which is the difference between the rate of interest earned and the rate of interest paid. In addition, an increase in relevant interest rates may increase losses on our derivative portfolio and increase our problem loans as some of our borrowers may not be able to meet the increased interest payment requirements, thereby adversely affecting our results of operations and financial condition. For a detailed discussion of our bond portfolio, see Selected Statistical Data Investment Portfolio.

Our trading and investment activities as well as our international operations expose us to interest rate, exchange rate and other risks.

We undertake extensive trading and investment activities involving a variety of financial instruments, including derivatives. We also have significant business operations abroad, including operations of UNBC, in the United States and elsewhere. Our income from these activities as well as our foreign assets and liabilities resulting from our international operations are subject to volatility caused by, among other things, changes in interest rates, foreign currency exchange rates and equity and debt prices. For example:

- increases in interest rates may have an adverse effect on the value of our fixed income securities portfolio, as discussed in Changes in interest rate policy, particularly unexpected or sudden increases in interest rates, could adversely affect the value of our bond and financial derivatives portfolios, problem loans and results of operations above; and

- fluctuations in foreign currency exchange rates against the Japanese yen may adversely affect our financial condition, including our capital ratios, to the extent that our foreign currency denominated assets and liabilities are not matched in the same currency or appropriately hedged, and will create foreign currency translation gains or losses, as described in Item 5. Operating and Financial Review and Prospects A. Operating Results Effect of the Change in Exchange Rates on Foreign Currency Translation.

In addition, downgrades of the credit ratings of some of the securities in our portfolio could negatively affect our results of operations. Our trading and investment activities in financial instruments may also be adversely affected by regulatory measures taken by government agencies, such as the SEC measures taken recently to limit certain types of shortselling in securities. Our results of operations and financial condition are exposed to the risks of loss associated with these activities. For a discussion of our investment portfolio and related risks see Item 5. Operating and Financial Review and Prospects B. Liquidity and Capital Resources Financial Condition Investment Portfolio and Item 11. Quantitative and Qualitative Disclosures about Credit, Market and Other Risk.

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

We, as a holding company, and our Japanese banking subsidiaries are required to maintain risk-weighted capital ratios above the levels specified in the capital adequacy guidelines of the Financial Services Agency of Japan. The capital ratios are calculated in accordance with Japanese banking regulations based on information derived from the relevant entity s financial statements prepared in accordance with accounting principles generally accepted in Japan, or Japanese GAAP. Our subsidiaries in California, UNBC and Union Bank of California, N.A. are subject to similar US capital adequacy guidelines. We or our banking subsidiaries may be unable to continue to satisfy the capital adequacy requirements because of:

- increases in credit risk assets and expected losses we or our banking subsidiaries may incur due to fluctuations in our or our banking subsidiaries loan and securities portfolios as a result of deteriorations in the credit of our borrowers and the issuers of equity and debt securities;

increases in credit costs we or our banking subsidiaries may incur as we or our banking subsidiaries dispose of problem loans or as a result of deteriorations in the credit of our borrowers;

- declines in the value of our or our banking subsidiaries securities portfolio;

- changes in the capital ratio requirements or in the guidelines regarding the calculation of bank holding companies or banks capital ratios or changes in the regulatory capital requirements for securities firms;

- a reduction in the value of our or our banking subsidiaries deferred tax assets;

- adverse changes in foreign currency exchange rates; and

- other adverse developments discussed in these risk factors.

Our capital ratios may also be adversely affected if we or our banking subsidiaries fail to refinance our subordinated debt obligations with equally subordinated debt. As of March 31, 2008, subordinated debt accounted for approximately 29.8% of our total regulatory capital, 31.2% of BTMU s total regulatory capital, and 21.4% of total regulatory capital of Mitsubishi UFJ Trust and Banking, or MUTB, in each case, as calculated under Japanese GAAP. The failure to refinance these subordinated debt obligations with equally subordinated debt may reduce our total regulatory capital and, as a result, negatively affect our capital ratios.

If our capital ratios fall below required levels, the Financial Services Agency could require us to take a variety of corrective actions, including withdrawal from all international operations or suspension of all or part of our business operations. For a discussion of our capital ratios and the related regulatory guidelines, see Item 4.B. Information on the Company Business Overview Supervision and Regulation Japan Capital Adequacy and Item 5. Operating and Financial Review and Prospects B. Liquidity and Capital Resources Capital Adequacy.

We may have difficulty achieving the benefits expected from the recently completed and planned mergers and other business combinations.

In line with our ongoing strategic effort to create a leading comprehensive financial group that offers a broad range of financial products and services, we have recently completed and are planning to complete mergers and other business combinations, including transactions with some of our subsidiaries and equity-method investees. For example, on August 29, 2008, BTMU commenced a tender offer to acquire all of the shares of UNBC s common stock not owned by us. On September 16, 2008, we commenced a tender offer to acquire additional common shares of ACOM Co., Ltd. We also review opportunities to pursue new acquisitions or business combinations regularly.

If a planned merger or business combination fails, we may be subject to various material risks. For example, our growth strategies in Japan and globally may not be implemented as planned. In addition, the price of our stock may decline to the extent that the current market price reflects a market assumption that any pending transaction will be completed. Furthermore, our costs related to any planned transaction, including legal, accounting and certain financial adviser fees, must be paid even if the transaction is not completed. Our reputation may also be harmed due to our failure to complete an announced transaction. Even after a transaction is completed, there are various risks that could adversely affect our ability to achieve our business objectives, including:

- The growth opportunities and other expected benefits of these business combinations or acquisitions may not be realized in the expected time period and unanticipated problems could arise in the integration process, including unanticipated expenses related to the integration process as well as delays or other difficulties in coordinating, consolidating and integrating personnel, information and management systems, and customer products and services;

We may be unable to cross-sell our products and services as effectively as anticipated and we may lose customers and business as some of the operations are reorganized, consolidated with other businesses and, in some cases, rebranded;

We may have difficulty in coordinating the operations of our subsidiaries and affiliates as planned due to legal restrictions, internal conflict or market resistance;

The diversion of management and key employees attention may detract from our ability to increase revenues and minimize costs; and

We may encounter difficulties in penetrating certain markets due to adverse reactions to our newly acquired ownership in, or closer affiliation with, other financial institutions or businesses.

Any of the foregoing and other risks may adversely affect our business, results of operations, financial condition and stock price. For a more detailed discussion of recently completed and planned mergers and other business combinations involving our subsidiaries and affiliates, see Item 4.B. Information on the Company Business Overview and Item 5. Operating and Financial Review and Prospects Recent Developments.

Any adverse changes in UNBC s business could significantly affect our results of operations.

UNBC contributes to a significant portion of our net income. Any adverse change in the business or operations of UNBC could significantly affect our results of operations. Factors that could negatively affect UNBC s results include adverse economic conditions in California, including the downturn in the real estate and housing industries in California, substantial competition in the California banking market, uncertainty over the US economy due to deteriorating credit markets in the United States, the threat of terrorist attacks, fluctuating oil prices and rising interest rates, negative trends in debt ratings, and additional costs and other adverse consequences which may arise from enterprise-wide compliance, or failure to comply, with applicable laws and regulations such as the US Bank Secrecy Act and related amendments under the USA PATRIOT Act. We will be more significantly impaired by any adverse developments at UNBC if we are able to successfully acquire the shares for which we have launched a tender offer and complete the planned second-step merger after the tender offer.

We are exposed to new or increased risks as we expand the range of our products and services and the geographic scope of our business.

As we expand the range of our products and services beyond our traditional banking and trust businesses and as the sophistication of financial products and management systems grows, we will be exposed to new and increasingly complex risks. We may have only limited experience with the risks related to the expanded range of these products and services. As a result, we may not be able to foresee certain risks, and new products and services we introduce may not gain acceptance among customers. Moreover, some of the activities that our subsidiaries are expected to engage in, such as derivatives and foreign currency trading, present substantial risks. As we expand the geographic scope of our business, we will also be exposed to risks that are unique to particular jurisdictions or markets. Our risk management systems may prove to be inadequate and may not work in all cases or to the degree required. As a result, we are subject to substantial market, credit and other risks in relation to the expanding scope of our products, services and trading activities or expanding our business beyond our traditional markets, which could result in us incurring substantial losses. In addition, our efforts to offer new services and products or penetrate new markets may not succeed if product or market opportunities develop more slowly than expected or if the profitability of opportunities is undermined by competitive pressures. For a detailed discussion of our risk management systems, see Item 11. Quantitative and Qualitative Disclosures about Credit, Market and Other Risk.

Changes in the business environment for consumer finance companies in Japan have adversely affected our recent financial results, and may further adversely affect our future financial results.

We have a large loan portfolio to the consumer lending industry as well as large shareholdings of consumer finance companies. The Japanese government has been implementing regulatory reforms affecting the consumer lending industry in recent years. In December 2006, the Diet passed legislation to reduce the maximum permissible interest rate under the Law Concerning Acceptance of Investment, Cash, Deposit and Interest Rate, etc., which is currently 29.2% per annum, to 20% per annum. The reduction in the maximum permissible interest rate will be implemented before 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, or has already compelled, 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, provided that they satisfy certain conditions set forth in the Law Concerning Lending Business. Accordingly, MUFG s consumer finance subsidiaries and equity-method investees offer loans at interest rates above the Interest Rate Restriction Law. As a result of recent decisions by the Supreme Court of Japan, consumer finance companies experienced a significant increase in borrowers claims for reimbursement of previously collected interest payments in excess of the limits stipulated by the Interest Rate Restriction Law. New regulations that are scheduled to be effective before mid-2010 may also have a negative impact on the business of consumer finance companies as those new regulations are expected to require, among other things, consumer finance companies to review the repayment capability of borrowers before lending, thereby limiting the amount of borrowing available to individual borrowers.

These and other related developments have adversely affected, and may further adversely affect, the operations and financial condition of our subsidiaries and borrowers which are engaged in consumer lending, which in turn may affect the value of our related shareholdings and loan portfolio. For example, there may be increases in the allowance for repayment of excess interest at our consumer finance subsidiaries. Additionally, these developments may have indirect negative financial consequences for us, such as a change in our tax circumstances or an increase in our valuation allowance for deferred tax assets as a result of a decline in the estimated future taxable income of our consumer finance subsidiaries and may negatively affect market perception of our consumer lending operations, thereby adversely affecting the future financial results.

We have recently been subject to several regulatory actions for non-compliance with legal requirements. These regulatory matters and any future regulatory matters or regulatory changes could have a negative impact on our business and results of operations.

We conduct our business subject to ongoing regulation and associated regulatory compliance risks, including the effects of changes in laws, regulations, policies, voluntary codes of practice and interpretations in Japan and other markets in which we operate. Our compliance risk management systems and programs may not be fully effective in preventing all violations of laws, regulations and rules.

The Financial Services Agency of Japan and regulatory authorities in the United States and elsewhere also have the authority to conduct, at any time, inspections to review banks accounts, including those of our banking subsidiaries. Some of our other financial services businesses, such as our securities business, are also subject to regulations set by, and inspections conducted by, various self-regulatory organizations, such as the National Securities Dealers Association in the United States. In recent years, we have been subject to several regulatory actions by, among others, the Financial Services Agency of Japan, the Securities and Exchange Surveillance Commission of Japan and various US banking regulators.

Our failure or inability to comply fully with applicable laws and regulations could lead to fines, public reprimands, damage to reputation, enforced suspension of operations or, in extreme cases, withdrawal of authorization to operate, adversely affecting our business and results of operations. Regulatory matters may also negatively affect our ability to obtain regulatory approvals for future strategic initiatives. Furthermore, failure to take necessary corrective action, or the discovery of violations of law in the process of further review of any of the matters mentioned above or in the process of implementing any corrective measures, could result in further regulatory action.

In addition, future developments or changes in laws, regulations, policies, voluntary codes of practice, fiscal or other policies and their effects are unpredictable and beyond our control. For example, new regulations to be enacted before mid-2010 are expected to require, among other things, consumer finance companies in Japan to review the repayment capabilities of borrowers before lending, thereby limiting the amount of borrowing available to individual borrowers, which in turn may negatively affect our future financial results.

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

In recent years, the Japanese financial system has been increasingly deregulated and barriers to competition have been reduced. The privatization of the Japanese postal savings system and the establishment of the Japan Post Bank Co., Ltd. in October 2007, as well as the planned privatization of certain governmental financial institutions, could also substantially increase competition within the financial services industry. In addition, there has been significant consolidation and convergence among financial institutions domestically and globally, and this trend may continue in the future and further increase competition in the market. A number of large commercial banks and other broad-based financial services firms have merged or formed strategic alliances with other financial institutions both in Japan and overseas. If we are unable to compete effectively in this more competitive and deregulated business environment, our business, results of operations and financial condition will be adversely affected. For a more detailed discussion of our competition in Japan, see Item 4.B. Information on the Company Business Overview Competition Japan.

Our information systems and other aspects of our business and operations are exposed to various system, political and social risks.

As a major financial institution, our information systems and other aspects of our business and operations are exposed to various system, political and social risks beyond our control. Incidents such as disruptions of the Internet and other information networks due to major virus outbreaks, major terrorist activity, serious political instability and major health epidemics have the potential to directly affect our business and operations by disrupting our operational infrastructure or internal systems. Such incidents may also negatively impact the economic conditions, political regimes and social infrastructure of countries and regions in which we operate, and possibly the global economy as a whole. Our risk management policies and procedures may be insufficient to address these and other large-scale unanticipated risks.

In particular, the capacity and reliability of our electronic information technology systems are critical to our day-to-day operations and a failure or disruption of these systems would adversely affect our capacity to conduct our business. In addition to our own internal information systems, we also provide our customers with access to our services and products through the Internet and ATMs. These systems as well as our hardware and software are subject to malfunction or incapacitation due to human error, accidents, power loss, sabotage, hacking, computer viruses and similar events, as well as the loss of support services from third parties such as telephone and Internet service providers.

Additionally, as with other Japanese companies, our offices and other facilities are subject to the risk of earthquakes and other natural disasters. Our redundancy and backup measures may not be sufficient to avoid a material disruption in our operations, and our contingency plans may not address all eventualities that may occur in the event of a material disruption.

These various factors, the threat of such risks or related countermeasures, or a failure to address such risks, may materially and adversely affect our business, operating results and financial condition.

We may be subject to liability and regulatory action if we are unable to protect personal and other confidential information.

There have been many cases where personal information and records in the possession of corporations and institutions were leaked or improperly accessed. 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. As an institution in possession of personal information, we are required to treat personal and other confidential information as required by the Personal Information Protection Act of Japan. We may have to provide compensation for economic loss and emotional distress arising out of a failure to protect such information in accordance with the Personal Information Protection Act. 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.

A downgrade of our credit ratings could have a negative effect on our business.

A downgrade of our credit ratings by one or more of the credit rating agencies could have a negative effect on our treasury operations and other aspects of our business. In the event of a downgrade of our credit ratings, our treasury business unit may have to accept less favorable terms in our transactions with counterparties, including capital raising activities, or may be unable to enter into some transactions. This could have a negative impact on the profitability of our treasury and other operations and adversely affect our results of operations and financial condition.

We may have to compensate for losses in our loan trusts and money in trusts.

Our trust bank subsidiary may have to compensate for losses of principal of all loan trusts and some money in trusts. Funds in those guaranteed trusts are generally invested in loans and securities. If the amount of assets and reserves held in the guaranteed trusts falls below the principal as a result of loan losses, losses in the investment portfolio or otherwise, it would adversely affect our results of operations.

Damage to our reputation could harm our business.

We are one of the largest and most influential financial institutions in Japan by virtue of our market share and the size of our operations and customer base. Our reputation is critical in maintaining our relationships with clients, investors, regulators and the general public. Our reputation could be damaged by numerous causes, including, among others, system troubles, employee misconduct, failure to properly address potential conflicts of interest, litigation, compliance failures, the activities of customers and counterparties over which we have limited or no control, and exacting scrutiny from regulatory authorities and customers regarding our trade practices and potential abuses of our dominant bargaining position in our dealings with customers. If we are unable to prevent or properly address these causes, we could lose existing or prospective customers and investors, in which case our business, financial condition and results of operations could be materially and adversely affected.

We are exposed to substantial credit and market risks in Asia, Latin America and other regions.

We are active in Asia, Latin America and other regions through a network of branches and subsidiaries and are thus exposed to a variety of credit and market risks associated with countries in these regions. A decline in the value of Asian, Latin American or other relevant currencies could adversely affect the creditworthiness of some of our borrowers in those regions. For example, the loans we have made to Asian, Latin American and other overseas borrowers and banks are often denominated in yen, US dollars or other foreign currencies. These borrowers often do not hedge the loans to protect against fluctuations in the values of local currencies. A devaluation of the local currency would make it more difficult for a borrower earning income in that currency to pay its debts to us and other foreign lenders. In addition, some countries in which we operate may attempt to support the value of their currencies by raising domestic interest rates. If this happens, the borrowers in these countries would have to devote more of their resources to repaying their domestic obligations, which may adversely affect their ability to repay their debts to us and other foreign lenders. The limited credit availability resulting from these and related conditions may adversely affect economic conditions in some countries. This could cause a further deterioration of the credit quality of borrowers and banks in those countries and cause us to incur further losses.

In addition, we are active in other regions that expose us to risks similar to the risks described above and also risks specific to those regions, which may cause us to incur losses or suffer other adverse effects.

We may incur significant additional costs for implementing effective internal controls.

In order to operate as a global financial institution, it is essential for us to have effective internal controls, corporate compliance functions, and accounting systems to manage our assets and operations. Moreover, under the US Sarbanes-Oxley Act of 2002, which applies by reason of our status as an SEC reporting company, we are

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required to establish internal control over our financial reporting, and our management is required to assess the effectiveness of our internal control over financial reporting and disclose whether such internal control is effective. Our independent auditors must also conduct an audit to evaluate and then render an opinion on the effectiveness of our internal control over financial reporting. We are also subject to regulations on internal control over financial reporting under Japanese law from the fiscal year ending March 31, 2009.

Designing and implementing an effective system of internal control capable of monitoring and managing our business and operations requires significant management and human resources and considerable costs. If we identify any material weaknesses in our internal control system, we may incur significant additional costs for remediating such weaknesses. In addition, if we adopt a new accounting system, we may be required to incur significant additional costs, which may materially adversely affect our financial condition and results of operations.

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

We, through our banking subsidiaries, engage in operations with entities in or affiliated with Iran and Syria, including transactions with entities owned or controlled by the Iranian or Syrian governments, and the banking subsidiary has a representative office in Iran. The US Department of State has designated Iran and Syria as state sponsors of terrorism, and US law generally prohibits US persons from doing business with such countries. Our activities with counterparties in or affiliated with Iran, Syria and other countries designated as state sponsors of terrorism are conducted in compliance in all material respects with both applicable Japanese and US regulations.

Our operations with entities in Iran consist primarily of loans to Iranian financial institutions in the form of financing for petroleum projects and trade financing for general commercial purposes, as well as letters of credit and foreign exchange services. In addition, our operations relating to Syria are primarily foreign exchange services. We do not believe our operations relating to Iran and Syria are material to our business, financial condition and results of operations, as the loans outstanding to borrowers in or affiliated with Iran and Syria as of March 31, 2008 were approximately $410.4 million and $0.2 million, respectively, which together represented less than 0.1% of our total assets as of March 31, 2008. In addition, we receive deposits or hold assets on behalf of several individuals resident in Japan who are citizens of countries designated as state sponsor of terrorism.

We are aware of initiatives by US governmental entities and US institutional investors, such as pension funds, to adopt or consider adopting laws, regulations or policies prohibiting transactions with or investment in, or requiring divestment from, entities doing business with Iran 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 or as investors in our shares. In addition, depending on socio-political developments our reputation may suffer due to our association with these countries. The above circumstances could have a significant adverse effect on our business and financial condition.

Risks Related to Owning Our Shares

Rights of shareholders under Japanese law may be different from those under the laws of jurisdictions within the United States and other countries.

Our articles of incorporation, the regulations of our board of directors and the Company Law of Japan, or the Company Law (also known as the Corporation Act), govern our corporate affairs. Legal principles relating to such matters as the validity of corporate procedures, directors and officers fiduciary duties and shareholders rights are different from those that would apply if we were not a Japanese corporation. Shareholders rights under Japanese law are different in some respects from shareholders rights under the laws of jurisdictions within the United States and other countries. You may have more difficulty in asserting your rights as a shareholder than you would as a shareholder of a corporation organized in a jurisdiction outside of Japan. For a detailed discussion of the relevant provisions under the Company Law and our articles of incorporation, see Item 10.B. Additional Information Memorandum and Articles of Association.

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

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

Risks Related to Owning Our ADSs

As a holder of ADSs, you have fewer rights than a shareholder and you must act through the depositary to exercise these rights.

The rights of our shareholders under Japanese law to take actions such as voting their shares, 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, a holder of ADSs may not be entitled to the same rights as a shareholder. In your capacity as an ADS holder, you are not able to bring a derivative action, examine our accounting books and records or exercise appraisal rights, except through the depositary.

Foreign exchange rate fluctuations may affect the US dollar value of our ADSs and dividends payable to holders of our ADSs.

Market prices for our ADSs may fall if the value of the yen declines against the US dollar. In addition, the US dollar amount of cash dividends and other cash payments made to holders of our ADSs would be reduced if the value of the yen declines against the US dollar.

Item 4. Information on the Company.

A. History and Development of the Company

Mitsubishi UFJ Financial Group, Inc.

MUFG is a bank holding company incorporated as a joint stock company (*kabushiki kaisha*) under the Company Law of Japan. We are the holding company for The Bank of Tokyo-Mitsubishi UFJ, Ltd., or BTMU, Mitsubishi UFJ Trust and Banking Corporation, or MUTB, and Mitsubishi UFJ Securities Co., Ltd., or MUS and Mitsubishi UFJ NICOS Co., Ltd., or Mitsubishi UFJ NICOS.

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

On April 1, 2004, we implemented a new integrated business group system, which currently integrates the operations of BTMU, MUTB and MUS into the following three areas Retail, Corporate, and Trust Assets. Although this new measure did not change the legal entities of MUFG, BTMU, MUTB and MUS, it is intended to enhance synergies by promoting more effective and efficient collaboration between our subsidiaries.

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

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

On September 30, 2007, MUS became a wholly owned subsidiary of MUFG through a share exchange transaction.

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

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

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

The Bank of Tokyo-Mitsubishi UFJ, Ltd.

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

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

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

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

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

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

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

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

Mitsubishi UFJ Trust and Banking Corporation

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

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

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

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

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

Mitsubishi UFJ Securities Co., Ltd.

MUS was formed through the merger between Mitsubishi Securities Co., Ltd. and UFJ Tsubasa Securities Co., Ltd. on October 1, 2005. As the surviving entity, Mitsubishi Securities was renamed Mitsubishi UFJ Securities Co., Ltd. MUS is a wholly owned subsidiary of MUFG. MUS s registered head office is located at 4-1, Marunouchi 2-chome, Chiyoda-ku, Tokyo 100-6317, Japan, and its telephone number is 81-3-6213-8500. MUS is a joint stock company (*kabushiki kaisha*) incorporated in Japan under the Company Law.

MUS functions as the core of our securities and investment banking business, including underwriting and brokerage of securities, mergers and acquisitions, derivatives, corporate advisory and securitization operations. In addition to its own independent branches, MUS serves individual customers of BTMU and MUTB through a network of MUFG Plazas, which provide individual customers with one-stop access to services and products offered by MUS, BTMU and MUTB.

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In the securities business, MUS offers its customers a wide range of investment products. The equity sales staff members provide services to clients ranging from individual investors to institutional investors in Japan and abroad. Through derivative products, MUS provides solutions to meet customers risk management needs. MUS also offers structured bonds utilizing various types of derivatives in response to customers investment needs. In the investment trust business, MUS provides its retail and corporate customers a wide variety of products. MUS also offers investment banking services in such areas as bond underwriting, equity underwriting, initial public offerings, support for IR activities, securitization of assets and mergers and acquisitions. MUS has research functions and provides in-depth company and strategy reports. To strengthen and enhance our global securities business network, MUS has major overseas subsidiaries in London, New York, Hong Kong, Singapore and Shanghai. In addition to these subsidiaries, MUS established a subsidiary in Mumbai and started its operations on April 1, 2008.

Mitsubishi UFJ NICOS Co., Ltd.

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

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

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

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

B. Business Overview

We are one of the world s largest and most diversified financial groups with total assets of over ¥190 trillion as of March 31, 2008. The Group is comprised of BTMU, MUTB, MUS and other subsidiaries and affiliates. Our services include commercial banking, trust banking, securities, credit cards, consumer finance, asset management, leasing and many more fields of financial services. The Group has the largest overseas network among the Japanese banks, comprised of offices and subsidiaries, including Union Bank of California, N.A., or UBOC, in more than 40 countries.

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

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

In order to further enhance our operations and increase profits, in April 2004 we introduced an integrated business group system comprising three core business areas: Retail, Corporate, and Trust Assets. These three

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businesses serve as the Group s core sources of net operating profit. In addition, MUFG s role as the holding company has expanded from strategic coordination to integrated strategic management. Group-wide strategies are determined by the holding company and executed by the banking subsidiaries and other subsidiaries.

MUFG Management Philosophy

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

- We will respond promptly and accurately to the diverse needs of our customers around the world and seek to inspire their trust and confidence.

- We will offer innovative and high-quality financial services by actively pursuing the cultivation of new business areas and developing new technologies.

- We will comply strictly with all laws and regulations and conduct our business in a fair and transparent manner to gain the public s trust and confidence.

- We will seek to inspire the trust of our shareholders by enhancing corporate value through continuous business development and appropriate risk management, and by disclosing corporate information in a timely and appropriate manner.

- We will contribute to progress toward a sustainable society by assisting with development in the areas in which we operate and conducting our business activities with consideration for the environment.

- We will provide the opportunities and work environment necessary for all employees to enhance their expertise and make full use of their abilities.

We have declared our message to the world as Quality for You, with management s emphasis on quality. Quality for You means that by providing high-quality services, we aspire to help improve the quality of the lives of individual customers, and the quality of each corporate customer. The You expresses the basic stance of MUFG that we seek to contribute not only to the development of our individual customers but also communities and society. We believe that delivering superior quality services, reliability, and global coverage will result in more profound and enduring contributions to society.

Integrated Retail Banking Business Group

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

Deposits and retail asset management services. We offer a full range of bank deposit products including a non-interest-bearing deposit account that is redeemable on demand and intended primarily for payment and settlement functions, and is fully insured without a maximum amount limitation. In July 2006, we raised interest rates on our ordinary deposits for the first time in almost four years from 0.001% per annum to 0.1% per annum and rates were increased again in February 2007 from 0.1% per annum to 0.2% per annum and have thus far remained unchanged. We raised interest rates on fixed term deposits in accordance with trends in market interest rates.

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

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

Investment trusts. We provide a varied line-up of products allowing our customers to choose products according to their investment needs through BTMU, MUTB and MUS as well as kabu.com Securities, which specializes in online financial services. In the fiscal year ended March 31, 2008, BTMU introduced a total of seven investment trusts. As of the end of March 2008, BTMU offered our clients a total of 94 investment trusts. Moreover, BTMU has placed significant importance on ensuring that aftercare is provided to all of our customers who have purchased our investment trust products.

Insurance. Since the Japanese government lifted the prohibition against sales of annuity insurance products by banks in October 2002, we have been actively offering individual annuities in an effort to meet the needs of our customers as agents of insurance companies. Our current line-up of insurance products consists of investment-type individual annuities, foreign currency denominated insurance annuities and yen denominated fixed-amount annuity insurance. Additionally, since January 2005, we have been offering single premium term insurance. BTMU has been offering life, medical and cancer insurance since December 2007 and care insurance since April 2008. Since the regulatory changes in December 2007 eliminated the restrictions on over the counter sales of life insurance products by banks, BTMU has introduced seven varieties of life insurance products (four life insurance, two medical insurance and one cancer insurance products). Between December 31, 2007 and June 30, 2008, the number of branches through which BTMU offers insurance products increased from 173 to 319. Professional insurance sales representatives, called Insurance Planners, have been assigned to each branch where these insurance products are sold in order to ensure that the branch accurately responds to our customers needs. MUTB also offers whole term life insurance and medical insurance at all of its branches.

Financial products intermediation services. Our banking subsidiaries entered the securities industry following the lifting of the ban on securities intermediation by banks in Japan on December 1, 2004. We offer stocks including public offerings, foreign and domestic investment trusts, Japanese government bonds, foreign bonds and various other products through BTMU and MUTB with MUS, Mitsubishi UFJ Merrill Lynch PB Securities Co., Ltd. and kabu.com Securities Co., Ltd. acting as agents. As of the end of March 31, 2008, BTMU employed approximately 500 employees seconded from MUS, of whom around 360 were assigned to branches in Japan as sales representatives, while 40 employees were in the capacity of Retail Money Desk representatives to assist the branch sales force, and the remaining secondees were given various other assignments in corporate management areas.

Loans. We offer housing loans, card loans, and other loans to individuals. With respect to housing loans, in addition to ultra-long term fixed rate housing loans and housing loans incorporating health insurance for seven major illnesses, we began offering the Flat 35 guaranteed housing loan in a tie-up with the Japan Housing Finance Agency. We have also started offering preferential rates on refinancing applications received via the internet as part of our efforts to develop products to meet a wide variety of customer needs in a time of rising interest rates. BTMU has been offering a Zero Guarantee Fee Campaign for customers who meet certain conditions since October 2007. BTMU also launched BANQUIC, a new card loan guaranteed by ACOM Co., Ltd., an equity-method affiliate of MUFG in the consumer finance business, in November 2007. On September 16, 2008, we commenced a tender offer to acquire additional common shares of ACOM. For more information on the tender offer, see Item 5. Operating and Financial Review and Reports Recent Developments.

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Credit cards. In October 2004, we began to issue a multi-functional IC Card , which combines ATM card, credit card and electronic money functions. BTMU currently offers credit card products that enhance customer convenience, such as an alliance credit card which contains an integrated IC commuter pass compatible with the ticketing systems of East Japan Railway Company and Kintetsu Corporation, both of them are Japanese railway companies, and VISA touch with a contact-less IC function which can be used as a credit card.

Domestic Network. We offer products and services through a wide range of channels, including branches, ATMs (including convenience store ATMs shared by multiple banks), Tokyo-Mitsubishi UFJ Direct (telephone, internet and mobile phone banking), the BTMU Telebank service video conferencing counters (counters that allow face-to-face style contact with operators through the use of broadband internet video conferencing) and mail order.

Our MUFG Plazas provide individual customers with one-stop access to our comprehensive financial product lineup by integrating commercial bank, trust bank and securities services. We operated 51 MUFG Plazas as of March 31, 2008. As an exclusive membership service for high net worth customers, private banking offices have been established since December 2006, featuring lounges and private rooms where customers can receive wealth management advice and other services in a relaxing and comfortable setting. As of March 31, 2008, we have opened 19 private banking offices in the Tokyo metropolitan area, Nagoya and Osaka.

To improve customer convenience, BTMU has ceased to charge ATM transaction fees from customers of BTMU and MUTB for certain transactions. In addition, BTMU has reduced commissions for transactions conducted through ATMs located in convenience stores.

Jibun Bank Corporation, a joint venture between BTMU and KDDI CORPORATION, started its banking business in July 2008. The bank offers comprehensive retail banking services through mobile phone networks.

Trust agency operations. As of the end of July 2007, BTMU is conducting the following eight businesses as the trust banking agent for MUTB: testamentary trusts, inheritance management, asset succession planning, inheritance management agency operations, business management financial consulting, lifetime gift trusts, share disposal trusts, and marketable securities administration trusts. In October 2006, BTMU accepted approximately 30 financial consultants (sales managers specializing in inheritance business) from MUTB. Because of Japan s increasingly aging society, customer demand for inheritance-related advice is increasing and we aim to drastically strengthen our ability to collect information from the banking market.

Strategic alliances. To strengthen the retail online securities business and enhance comprehensive Internet-based financial services, BTMU acquired approximately 20% ownership of kabu.com Securities Co., Ltd., a retail online securities company in Japan through tender offers implemented in April and December 2007. As a result of these tender offers, our ownership in kabu.com Securities increased to approximately 51% with kabu.com Securities becoming our consolidated subsidiary. Together with kabu.com Securities, BTMU have aimed to strengthen our alliance by, among other things, launching a bank agency business, jointly promoting kabu.com Securities Proprietary Trading System business and promoting kabu.com Securities financial product intermediation business.

In July 2008, BTMU acquired 49.375% of the issued shares of JALCARD, Inc., a wholly owned subsidiary of Japan Airline International Co., Ltd. As a result, JALCARD became an equity-method affiliate of MUFG.

In November 2007, we acquired newly issued shares of Mitsubishi UFJ NICOS common stock, thereby increasing our shareholding to approximately 75% of Mitsubishi UFJ NICOS total issued shares. In May 2008, we entered into a share exchange agreement with Mitsubishi UFJ NICOS. Through a share exchange that became effective on August 1, 2008, pursuant to this agreement, Mitsubishi UFJ NICOS became a wholly owned subsidiary of MUFG. On the same day, we entered into a share transfer agreement with The Norinchukin Bank, or Norinchukin, under which we transferred some of our Mitsubishi UFJ NICOS common shares to Norinchukin. As a result of this share transfer, it is expected that Mitsubishi UFJ NICOS will become an equity-method affiliate of Norinchukin.

Integrated Corporate Banking Business Group

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

CIB (Corporate and Investment Banking)

Corporate management/financial strategies. We provide advisory services to customers concerning mergers and acquisitions, inheritance-related business transfers and stock listings. We also help customers develop financial strategies to restructure their balance sheets. These strategies include the use of credit lines, factoring services and securitization of real estate.

Capital Markets. We manage the underwriting of debt and equity instruments for mainly large corporations. We also provide arrangement services relating to private placements primarily for medium-sized enterprise issuers and institutional investors.

Commercial Banking

Corporate financing and fund management. We advise on financing methods to meet various financing needs, including loans with derivatives, corporate bonds, commercial paper, asset-backed securities, securitization programs and syndicated loans. We also offer a wide range of products to meet fund management needs, such as deposits with derivatives, government bonds, debenture notes and investment funds.

Risk management. We offer swaps, options and other risk-hedge programs to customers seeking to reduce various business risks such as those relating to interest rate and exchange rate fluctuations.

Transaction Banking

Settlement services. We provide online banking services that allow customers to make domestic and overseas remittances electronically. Settlement and cash management services include global settlement services, such as Global Cash Management Services, a global pooling/netting service, and a fund management system for group companies, such as the Treasury Station system.

Trust Banking

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

Global Businesses

Overseas business support. We provide a full range of services to support customers overseas activities, including loans, deposits, assistance with mergers and acquisitions and cash management services. We also provide advisory services to help customers develop financial strategies, such as arranging the issuance of asset-backed commercial paper, providing credit commitments and securitizing real estate in Japan.

Advice on business expansion overseas. We provide advisory services to clients launching businesses overseas, particularly Japanese companies expanding into other Asian countries.

UNBC. As of March 31, 2008, BTMU owned approximately 65% of UNBC, a publicly traded company listed on the New York Stock Exchange. UNBC is a US bank holding company with UBOC being its primary subsidiary. UBOC is one of the largest commercial banks in California by both total assets and total deposits. UNBC 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. In October 2005, UBOC sold its international correspondent banking business to Wachovia Corp. for approximately US$245 million. On August 29, 2008, BTMU commenced a cash tender offer for all of the outstanding common shares of UNBC not held by us. For more information on the tender offer and the planned second-step merger, see Item 5. Operating and Financial Review and Prospects Recent Developments.

Integrated Trust Assets Business Group

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

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

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

Global Markets

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

Other

Other mainly consists of the corporate center of the holding company, BTMU, MUTB and MUS.

Competition

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

Japan

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

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The Banking Law, as amended, now permits banks to engage in the securities business by establishing or otherwise owning domestic and overseas securities subsidiaries with the approval of the Financial Services Agency, an agency of the Cabinet Office. The Banking Law is expected to be further amended in the fall of 2008 to expand the scope of permissible activities. Further increases in competition among financial institutions are expected in these new areas of permissible activities.

In terms of recent market entrants, other financial institutions, such as Orix Corporation, and non-financial companies have also begun to offer various banking services, often through non-traditional distribution channels. Also, in recent years, various large foreign financial institutions have significantly expanded their presence in the Japanese domestic market. Citigroup, for example, has expanded its banking activities and moved aggressively to provide investment banking and other financial services, including retail services and, through its recent acquisition of Nikko Cordial Corporation, securities brokerage services. The privatization of Japan Post, a government-run public services corporation that is the world s largest holder of deposits, and the establishment of Japan Post Bank Co., Ltd. that followed in October 2007, as well as the planned privatization of other governmental financial institutions, could also substantially increase competition within the financial services industry.

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

- the separation of banking and securities businesses in Japan; and
- the distinctions among the permissible activities of Japan s two principal types of private banking institutions. For a discussion of the two principal types of private banking institutions, see The Japanese Financial System.

In addition, in recent years, Japanese corporations are increasingly raising funds by accessing the capital markets, both within Japan and overseas, resulting in a decline in demand for loan financing. Furthermore, as foreign exchange controls have been generally eliminated, customers can now have direct access to foreign financial institutions, with which we must also compete.

In the consumer banking sector, deregulation has enabled banks to offer customers an increasingly attractive and diversified range of products. For example, banks may now sell investment trusts and, since December 2007, all types of insurance products. We face competition in this sector from other private financial institutions, including Japan Post Group companies. Recently, competition has also increased due to the development of new products and distribution channels. For example, Japanese banks have started competing with one another by developing innovative proprietary computer technologies that allow them to deliver basic banking services in a more efficient manner and to create sophisticated new products in response to customer demand.

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

Integration. Another major reason for heightened competition in Japan is the integration and reorganization of Japanese financial institutions. In 1998, amendments were made to the Banking Law to allow the establishment of bank holding companies, and this development together with various factors, such as the decline of institutional strength caused by the bad loan crisis and intensifying global competition, resulted in a number of integrations involving major banks in recent years. In September 2000, The Dai-Ichi Kangyo Bank, Ltd., The Fuji Bank, Ltd. and The Industrial Bank of Japan, Limited jointly established a holding company, Mizuho Holdings, Inc., to own the three banks. In April 2002, these three banks were reorganized into two banks Mizuho Bank, Ltd. and Mizuho Corporate Bank, Ltd. In April 2001, The Sumitomo Bank, Limited and The Sakura Bank, Limited were merged into Sumitomo Mitsui Banking Corporation. In December 2001, The Daiwa Bank, Ltd. and two regional banks established Daiwa Bank Holdings Inc., which in March 2002 consolidated with The Asahi Bank, Ltd. and changed its corporate name to Resona Holdings, Inc. in October 2002.

Foreign

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

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

The Japanese Financial System

Japanese financial institutions may be categorized into three types:

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

The Bank of Japan

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

Private Banking Institutions

Private banking institutions in Japan are commonly classified into two categories (the following numbers are based on currently available information published by the Financial Services Agency) as of August 11, 2008:

- ordinary banks (130 ordinary banks and 63 foreign commercial banks with ordinary banking operations); and

- trust banks (20 trust banks, including four Japanese subsidiaries of foreign financial institutions).

Ordinary banks in turn are classified as city banks, of which there are five, including BTMU, and regional banks, of which there are 110 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, Osaka and Nagoya, and operate nationally through networks of branch offices. City banks have traditionally emphasized their business with large corporate clients, including the major industrial companies in Japan. However, in light of deregulation and other competitive factors, many of these banks, including BTMU, in recent years have increased their emphasis on other markets, such as small and medium-sized companies and retail banking.

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

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

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

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

Government Financial Institutions

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

Among them are the following:

- The Development Bank of Japan, whose purpose is to contribute to the economic development of Japan by extending long-term loans, mainly to primary and secondary sector industries;
- Japan Bank for International Cooperation, whose purpose is to supplement and encourage the private financing of exports, imports, overseas investments and overseas economic cooperation;
- Japan Finance Corporation for Small and Medium Enterprise, Japan Housing Finance Agency and The Agriculture, Forestry and Fisheries Finance Corporation, the purpose of each of which is to supplement private financing in its relevant field of activity; and

The Postal Service Agency, which was reorganized in April 2003 into Japan Post, a government-run public services corporation, which was privatized into the Japan Post Group companies in October 2007.

Supervision and Regulation

Japan

Supervision. The Financial Services Agency, or FSA, is responsible for supervising and overseeing financial institutions, making policy for the overall Japanese financial system and conducting insolvency proceedings with respect to financial institutions. The Bank of Japan, as the central bank for financial institutions, conducts on-site inspections, in which its staff visits financial institutions and inspects the assets and risk management systems of those institutions.

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The Banking Law. Among the various laws that regulate financial institutions, the Banking Law and its subordinated orders and ordinances are regarded as the fundamental law for ordinary banks and other private financial institutions. The Banking Law addresses bank holding companies, capital adequacy, inspections and reporting, as well as the scope of business activities, disclosure, accounting, limitation on granting credit and standards for arm s length transactions. In addition, the amendment to the Banking Law which came into effect in April 2006 relaxed the standards relating to bank-agent eligibility, which encourages banks to expand their operations through the use of bank agents. Banks and other financial institutions will be required to establish an internal control system to cope with conflicts of interest as a result of the recent amendments to the Financial Instruments and Exchange Law, Banking Law and Insurance Business Law which are to take effect by June 2009.

Bank holding company regulations. A bank holding company is prohibited from carrying on any business other than the management of its subsidiaries and other incidental businesses. A bank holding company may have any of the following as a subsidiary: a bank, a securities company, an insurance company and a foreign subsidiary that is engaged in the banking, securities or insurance business. In addition, a bank holding company may have as a subsidiary any company that is engaged in a finance-related business, such as a credit card company, a leasing company or an investment advisory company. Certain companies that are designated by a ministerial ordinance as those that cultivate new business fields may also become the subsidiary of a bank holding company. The recent amendment to the Banking Law which is to take effect by June 2009 will expand a range of permitted subsidiaries. Particularly this amendment will permit a bank holding company which satisfies certain requirement on financial soundness and appropriate risk control to have a subsidiary engaging in commodity transactions.

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

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

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

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Capital is classified into three tiers, referred to as Tier I, Tier II and Tier III. Tier I capital generally consists of stockholders equity items, including common stock, preferred stock, capital surplus, retained earnings (which includes deferred tax assets) and minority interests, but recorded goodwill and other items, such as treasury stock, are deducted from Tier I capital. Tier II capital generally consists of:

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

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

Amendments to the capital adequacy guidelines limiting the portion of Tier I capital consisting of deferred tax assets became effective on March 31, 2006. The restrictions are targeted at major Japanese banks and their holding companies, which include MUFG and its banking subsidiaries. The cap was initially set at 40% for the fiscal year ended March 31, 2006 and 30% for the fiscal year ended March 31, 2007. It has been lowered to 20% for the fiscal year ending March 31, 2008. The banks subject to the restrictions will not be able to reflect in their capital adequacy ratios any deferred tax assets that exceed the relevant limit.

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

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

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

Laws limiting shareholdings of banks. The provisions of the Anti-Monopoly Law that prohibit a bank from holding more than 5% of another company s voting rights do not apply to a bank holding company.

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However, the Banking Law prohibits a bank holding company and its subsidiaries from holding, on an aggregated basis, more than 15% of the voting rights of companies other than those which can legally become subsidiaries of bank holding companies.

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

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

Article 33 of the Financial Instruments and Exchange Law generally prohibits banks from engaging in the securities business, as it was provided in Article 65 of the Securities and Exchange Law. Under certain circumstances, registered banks are allowed to provide securities intermediation services and certain types of securities business.

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

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

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

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

Under the Deposit Insurance Law, the maximum amount of protection is ¥10 million per customer within one bank. Since April 1, 2005, all deposits are subject to the ¥10 million maximum, except for non-interest bearing deposits that are redeemable on demand and used by the depositor primarily for payment and settlement functions (the settlement accounts). Such deposit accounts are fully protected without a maximum amount limitation. Currently, the Deposit Insurance Corporation charges insurance premiums equal to 0.108% on the deposits in the settlement accounts, which are fully protected as mentioned above, and premiums equal to 0.081% on the deposits in other accounts.

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

The Law Concerning Emergency Measures for Early Strengthening of Financial Function, or the Financial Function Early Strengthening Law, enacted in October 1998, provided for government funds to be made available to financial institutions prior to failure as well as to financial institutions with sound management, to increase the capital ratio of such financial institutions and to strengthen their function as financial market intermediaries. The availability of new funds for this purpose ended in March 2001.

Banks and bank holding companies that have received investments from the Resolution and Collection Corporation under the framework that previously existed under the Financial Function Early Strengthening Law are required to submit and, if necessary, update their restructuring plans relating to their management, finances and other activities. If a bank or bank holding company materially fails to meet the operating targets set in its restructuring plan, the FSA can require it to report on alternative measures to achieve the targets, and also issue a business improvement order requiring it to submit a business improvement plan that indicates concrete measures to achieve the targets. The preferred shares that were previously issued by UFJ Holdings to the Resolution and Collection Corporation were exchanged for our newly issued preferred shares in the merger with UFJ Holdings and, as a result, we were required to submit restructuring plans until those preferred shares were redeemed. As we completed the repayment of the public funds that UFJ Holdings received from the Resolution and Collection Corporation on June 9, 2006, we are no longer required to submit such restructuring plans.

Starting in April 2001, amendments to the Deposit Insurance Law established a new framework which enables the Deposit Insurance Corporation to inject capital into a bank if the Commissioner of the FSA recognizes that it must do so to guard against financial systemic risk.

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

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

Recent Regulatory Actions. In February 2007, BTMU received an administrative order from the FSA in respect of compliance management at certain of its operations regarding the occurrence of certain inappropriate transactions. The administrative order required, among other things, temporary suspensions of credit extensions to new corporate customers, training of all staff and directors regarding compliance, temporary suspension of the establishment of new domestic corporate business locations, strengthening of the management and internal control framework, presentation and implementation of a business improvement plan, and reports on the progress of such business improvement plan. Further, in June 2007, BTMU received a separate administrative order from the FSA in respect of its overseas business and its investment trust sales and related business. The administrative order required, among other things, BTMU to make improvements of its compliance structure and related internal control functions in its overseas business and its domestic investment trust sales and related business, presentation and implementation of a business improvement plan, and reports on the progress of such business improvement plan.

Also, in January 2007, MUS received a business improvement order from the FSA following a recommendation by the Securities and Exchange Surveillance Commission of Japan regarding securities transactions conducted by MUS for its proprietary account.

Proposed government reforms to restrict maximum interest rates on consumer lending business. In December 2006, the Diet passed legislation to reduce the maximum permissible interest rate under the Law Concerning Acceptance of Investment, Cash Deposit and Interest Rate etc., which is currently 29.2% per annum, to 20% per annum. Currently, consumer finance companies are able to charge interest rates exceeding the limits stipulated by the Interest Rate Restriction Law provided that they satisfy certain conditions set forth in the Law Concerning Lending Business. Accordingly, MUFG s consumer finance subsidiaries and equity-method investees offer loans at interest rates above the Interest Rate Restriction Law. This so-called gray-zone interest will be abolished as well. Such reduction in the maximum permissible interest rate will be implemented before 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, or has already compelled, lending institutions to lower the interest rates they charge borrowers.

In addition, the Supreme Court of Japan recently passed decisions concerning interest exceeding the limits stipulated by the Interest Rate Restriction Law, and the business environment for consumer finance companies in Japan has been altered in favor of borrowers. Due to such changes, borrowers demands for reimbursement of such excess interest that they have paid to the consumer finance companies have significantly increased and is still holding at high levels.

Furthermore, new regulations that are scheduled to be effective before mid-2010 are expected to require, among other things, consumer finance companies to review the repayment capability of borrowers before lending, thereby limiting the amount of borrowing available to individual borrowers.

United States

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

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

- prohibited further expansion of the types of activities in which bank holding companies, acting directly or through nonbank subsidiaries, may engage;

- authorized qualifying bank holding companies to opt to become financial holding companies, and thereby acquire the authority to engage in an expanded list of activities, including merchant banking, insurance underwriting and a full range of securities activities; and

- modified the role of the Federal Reserve Board by specifying new relationships between the Federal Reserve Board and the functional regulators of nonbank subsidiaries of both bank holding companies and financial holding companies.

We have not elected to become a financial holding company.

The BHCA generally prohibits each of a bank holding company and a foreign banking organization that maintains branches or agencies in the United States from, directly or indirectly, acquiring more than 5% of the voting shares of any company engaged in nonbanking activities in the United States unless the bank holding company or foreign banking organization has elected to become a financial holding company, as discussed above, or the Federal Reserve Board has determined, by order or regulation, that such activities are so closely related to banking as to be a proper incident thereto and has granted its approval to the bank holding company or foreign banking organization for such an acquisition. The BHCA also requires a bank holding company or foreign banking organization that maintains branches or agencies in the United States to obtain the prior approval of an appropriate federal banking authority before acquiring, directly or indirectly, the ownership of more than 5% of the voting shares or control of any US bank or bank holding company. In addition, under the BHCA, a US bank or a US branch or agency of a foreign bank is prohibited from engaging in various tying arrangements involving it or its affiliates in connection with any extension of credit, sale or lease of any property or provision of any services.

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

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

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

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

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

Bank of Tokyo-Mitsubishi UFJ Trust Company, New York, New York (through BTMU, a registered bank holding company),

Mitsubishi UFJ Trust & Banking Corporation (U.S.A.), New York, New York (through MUTB, a registered bank holding company), and

UBOC (through BTMU and its subsidiary, UNBC, a registered bank holding company).

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

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

Bank capital requirements and capital distributions. Our US banking subsidiaries and UNBC, our US subsidiary bank holding company, are subject to applicable risk-based and leverage capital guidelines issued by US regulators for banks and bank holding companies. All of our US banking subsidiaries are well capitalized under those guidelines as they apply to banks, and our US subsidiary bank holding company exceeds all minimum regulatory capital requirements applicable to domestic bank holding companies. The Federal Deposit Insurance Corporation Improvement Act of 1991, or FDICIA, provides, among other things, for expanded regulation of insured depository institutions, including banks, and their parent holding companies. As required by FDICIA, the federal banking agencies have established five capital tiers ranging from well capitalized to critically undercapitalized for insured depository institutions. As an institution s capital position deteriorates, the federal banking regulators may take progressively stronger actions, such as further restricting affiliate transactions, activities, asset growth or interest payments. In addition, FDICIA generally prohibits an insured depository institution from making capital distributions, including the payment of dividends, or the payment of any management fee to its holding company, if the insured depository institution would subsequently become undercapitalized.

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

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

The Gramm-Leach-Bliley Act removed almost all of the pre-existing statutory barriers to affiliations between commercial banks and securities firms by repealing Sections 20 and 32 of the Glass-Steagall Act. At the same time, however, the so-called push-out provisions of the Gramm-Leach-Bliley Act narrowed the exclusion of banks, including the US branches of foreign banks, from the definitions of broker and dealer under the Securities Exchange Act of 1934, potentially requiring all such banks to transfer some activities to affiliated

broker-dealers. The SEC has issued rules regarding the push-out of dealer functions that became effective on September 30, 2003, and issued rules regarding the push-out requirements for broker functions that became effective on September 28, 2007. The rules must be complied with on the first day of each bank s fiscal year commencing after September 30, 2008. At this time, we do not believe that these push-out rules as adopted will have a significant impact on our business as currently conducted in the United States.

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

Recent Regulatory Actions. In December 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, 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, the New York Branch of BTMU and BTMUT, respectively, for preventing money laundering. As a result of the written agreement and the consent to the Order to Cease and Desist, we are required, among other things, to implement corrective measures and submit periodic progress reports to the authorities.

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 US Office of the Comptroller of the Currency, or OCC, and the US 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 US Department of Justice under which 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.

In October 2004, Union Bank of California International, or UBOCI, a subsidiary of UNBC, entered into a written agreement with the Federal Reserve Bank of New York relating to its anti-money laundering controls and processes. With the liquidation of UBOCI in March 2007, the written agreement is no longer effective.

The SEC is also currently conducting an inquiry regarding marketing and distribution practices of mutual funds managed by a subsidiary of Union Bank of California. Neither we nor UNBC can be certain at this time as to the final results of that inquiry.

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C. Organizational Structure

The following chart presents our corporate structure summary as at March 31, 2008:

Set forth below is a list of our principal consolidated subsidiaries at March 31, 2008:

Name	Country of Incorporation	Proportion of Ownership Interest (%)	Proportion of Voting Interest (%)
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	Japan	100.00%	100.00%
The Senshu Bank, Ltd.	Japan	67.96%	68.13%
Mitsubishi UFJ Trust and Banking Corporation	Japan	100.00%	100.00%
The Master Trust Bank of Japan, Ltd.	Japan	46.50%	46.50%
Mitsubishi UFJ Securities Co., Ltd.	Japan	100.00%	100.00%
kabu.com Securities Co., Ltd.	Japan	52.01%	52.01%
Mitsubishi UFJ Wealth Management Securities, Ltd.	Japan	100.00%	100.00%
Mitsubishi UFJ NICOS Co., Ltd[(1).]	Japan	75.71%	75.77%
Tokyo Credit Services, Ltd.	Japan	74.00%	74.00%
Ryoshin DC Card Company, Ltd.	Japan	75.20%	75.20%
NBL Co., Ltd.	Japan	89.74%	89.74%
Tokyo Associates Finance Corp.	Japan	100.00%	100.00%
Mitsubishi UFJ Factors Limited	Japan	100.00%	100.00%
MU Frontier Servicer Co., Ltd.	Japan	94.44%	94.44%
Mitsubishi UFJ Capital Co.,Ltd	Japan	40.26%	40.26%
MU Hands-on Capital Co., Ltd.	Japan	50.00%	50.00%
Defined Contribution Plan Consulting of Japan Co., Ltd.	Japan	77.49%	77.49%
Kokusai Asset Management Co., Ltd.	Japan	53.08%	53.14%
Mitsubishi UFJ Asset Management Co., Ltd.	Japan	100.00%	100.00%
MU Investments Co.,Ltd.	Japan	100.00%	100.00%
Mitsubishi UFJ Real Estate Services Co., Ltd.	Japan	100.00%	100.00%
Mitsubishi UFJ Personal Financial Advisers Co., Ltd.	Japan	73.69%	73.69%
Mitsubishi UFJ Research and Consulting Ltd.	Japan	69.45%	69.45%
MU Business Engineering, Ltd.	Japan	100.00%	100.00%
BOT Lease Co., Ltd.	Japan	22.57%	22.57%
UnionBanCal Corporation[(2)]	USA	65.40%	65.40%
Mitsubishi UFJ Trust & Banking Corporation (U.S.A.)	USA	100.00%	100.00%
Mitsubishi UFJ Global Custody S.A.	Luxembourg	100.00%	100.00%
Mitsubishi UFJ Wealth Management Bank (Switzerland), Ltd.	Switzerland	100.00%	100.00%
Mitsubishi UFJ Securities International plc	UK	100.00%	100.00%
Mitsubishi UFJ Securities (USA), Inc.	USA	100.00%	100.00%
Mitsubishi UFJ Trust International Limited	UK	100.00%	100.00%
Mitsubishi UFJ Securities (HK) Holdings, Limited	Peoples Republic of China	100.00%	100.00%
Mitsubishi UFJ Securities (Singapore), Limited.	USA	100.00%	100.00%
BTMU Capital Corporation	USA	100.00%	100.00%
BTMU Leasing & Finance, Inc.	USA	100.00%	100.00%
PT U Finance Indonesia	Indonesia	95.00%	95.00%
PT BTMU-BRI Finance	Indonesia	55.00%	55.00%
BTMU Lease (Deutschland) GmbH	Germany	100.00%	100.00%
BTMU Participation (Thailand) Co., Ltd.	Thailand	24.49%	24.49%
Mitsubishi UFJ Baillie Gifford Asset Management Limited	UK	51.00%	51.00%
MU Trust Consulting (Shanghai) Co., Ltd.	Peoples Republic of China	100.00%	100.00%

Notes:

(1) Through a share exchange that became effective on August 1, 2008, Mitsubishi UFJ NICOS Co., Ltd. became a wholly owned subsidiary of MUFG. On the same day, we entered into a share transfer agreement with The Norinchukin Bank, or Norinchukin, under which we sold some of our Mitsubishi UFJ NICOS common shares to Norinchukin.

(2) On August 29, 2008, BTMU commenced a cash tender offer for all of the outstanding common stock of UnionBanCal Corporation not held by us. For further information, see Item 5. Operating and Financial Review and Prospectus Recent Developments.

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D. Property, Plants and Equipment

Premises and equipment at March 31, 2007 and 2008 consisted of the following:

	2007	2008
	(in millions)	
Land	¥ 449,283	¥ 430,968
Buildings	551,188	585,196
Equipment and furniture	618,513	639,228
Leasehold improvements	346,254	355,484
Construction in progress	12,556	6,679
Total	1,977,794	2,017,555
Less accumulated depreciation	830,283	941,749
Premises and equipment net	¥ 1,147,511	¥ 1,075,806

Our registered address is 7-1, Marunouchi 2-chome, Chiyoda-ku, Tokyo. At March 31, 2008, we and our subsidiaries conducted our operations either in our owned premises or in leased properties.

The following table presents the areas and book values of our material offices and other properties at March 31, 2008:

	Area (in thousands of square feet)	Book value (in millions)
Owned land	65,901	¥ 430,968
Leased land	13,661	
Owned buildings.	29,167	253,719
Leased buildings	15,106	

Our owned buildings and land are primarily used by us and our subsidiaries. The above figures include 44,736 thousands of square feet of owned land and 11,731 thousands of square feet of leased land held through a variable interest entity, which property is not directly used for our operations. Most of the buildings and land owned by us are free from material encumbrances.

During the fiscal year ended March 31, 2008, we invested approximately ¥187.7 billion in our subsidiaries primarily for office renovations and relocation.

Item 4A. Unresolved Staff Comments.

None.

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Item 5. Operating and Financial Review and Prospects.

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

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Introduction

We are a holding company for The Bank of Tokyo-Mitsubishi UFJ, Ltd., or BTMU, Mitsubishi UFJ Trust and Banking Corporation, or MUTB, Mitsubishi UFJ 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, securities businesses, and credit card businesses, and provide related services to individual and corporate customers.

Key Financial Figures

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

The results for the fiscal year ended March 31, 2006 reflect the pre-merger results of Mitsubishi Tokyo Financial Group, Inc., or MTFG, for the six months ended September 30, 2005 and the post-merger results of MUFG for the six months ended March 31, 2006 as our merger with UFJ Holdings, Inc. completed on October 1, 2005.

	Fiscal years ended March 31,		
	2006	2007	2008
		(in billions)	
Net interest income	¥ 1,648.6	¥ 2,329.8	¥ 2,279.7
Provision for credit losses	110.2	358.6	385.7
Non-interest income	1,067.4	1,947.9	1,778.1
Non-interest expense	2,076.1	2,784.2	3,659.7
Net income (loss)	363.5	581.3	(542.4)
Total assets (at end of period)	186,219.4	186,202.9	190,731.8

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 general level of interest rates,

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

Non-interest income consists of:

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

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

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

- investment securities gains (losses) net, which primarily include net gains on sales and impairment losses on securities available for sale;

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

- gains on sales of loans; and

- other non-interest income.

Provision for credit losses is 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 consolidated financial statements prepared in accordance with US GAAP. The following chart illustrates the relative contributions to operating profit for the fiscal year ended March 31, 2008 of the three core business areas and the other business areas based on our segment information:

Establishment of Mitsubishi UFJ Financial Group

In October 2005, MTFG merged with UFJ Holdings to form MUFG. At the same time, our respective trust banking and securities companies merged to form MUTB and MUS. Subsequently, our subsidiary commercial banks merged to form BTMU in January 2006, and our credit card subsidiaries merged to form Mitsubishi UFJ NICOS in April 2007.

The merger marked the creation of a comprehensive financial group with a broad and balanced domestic and international network, and a diverse range of services provided by group companies, complemented by one of the largest customer bases in Japan.

As part of our integration process, we are currently undertaking a significant project to fully integrate the IT systems of the merged commercial bank subsidiaries and the merged trust bank subsidiaries respectively.

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The merger of MTFG and UFJ Holdings was accounted for under the purchase method of accounting, and the assets and liabilities of UFJ Holdings and its subsidiaries were recorded at fair value as of October 1, 2005. The purchase price of UFJ Holdings amounted to ¥4,406.1 billion, of which ¥4,403.2 billion was recorded in capital surplus relating to the merger with UFJ Holdings and the direct acquisition costs of ¥2.9 billion were included in the purchase price. The total fair value of UFJ Holdings net assets acquired was ¥2,673.0 billion and the goodwill relating to the merger with UFJ Holdings was ¥1,733.1 billion.

In the fiscal year ended March 31, 2008, we recorded an impairment of goodwill of ¥893.7 billion due to the recent global financial market instability that negatively affected the fair value of our reporting units for the purposes of our impairment testing. For further information, see Notes 2 and 10 to our consolidated financial statements included elsewhere in this Annual Report.

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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 subsequent to the effectiveness of the stock split of MUFG shares as described in Investment Unit Reduction below.

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.

Share Exchange Transaction to Make Mitsubishi UFJ NICOS a Wholly Owned Subsidiary

In November 2007, we acquired ¥120 billion of newly issued shares of Mitsubishi UFJ NICOS common stock, thereby increasing our shareholding to approximately 76% of Mitsubishi UFJ NICOS total issued shares. In addition, on May 28, 2008, we and Mitsubishi UFJ NICOS entered into a share exchange agreement. Through a share exchange that became effective on August 1, 2008, pursuant to this agreement, Mitsubishi UFJ NICOS became a wholly owned subsidiary of MUFG. The share exchange ratios were set at 0.37 shares of MUFG common stock to one share of Mitsubishi UFJ NICOS common stock and at 1.39 shares of MUFG common stock to one share of Mitsubishi UFJ NICOS Class 1 Stock. The objective of the investment and share exchange is to strengthen the financial foundation of Mitsubishi UFJ NICOS, to further enhance the strategic integrity and flexibility of MUFG, including Mitsubishi UFJ NICOS, and to strive for effective utilization of managerial resources within the MUFG Group, to position Mitsubishi UFJ NICOS on par with banks, trusts, and securities companies as a core business entity of the MUFG Group, and to further strengthen and nurture the card business operated by Mitsubishi UFJ NICOS as a strategic focus of our consumer finance business.

Mitsubishi UFJ NICOS Entered into a Capital Alliance with Norinchukin

In May 2008, we entered into a basic agreement with The Norinchukin Bank, or Norinchukin, in which we agreed to make Mitsubishi UFJ NICOS a wholly owned subsidiary and then sell a portion of its shares of Mitsubishi UFJ NICOS common stock to Norinchukin in accordance with detailed terms to be set forth in a share purchase agreement. On August 1, 2008, in accordance with that basic agreement, we entered into a share purchase agreement with Norinchukin, pursuant to which we sold 244 million of Mitsubishi UFJ NICOS common shares to Norinchukin for ¥84,424 million on August 8, 2008.

Business and Capital Alliance with JACCS

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 transferred 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 transferred approximately 340 personnel and five business offices to JACCS. At the same time, we, together with BTMU and Mitsubishi UFJ NICOS, formed 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 acquired approximately ¥9.0 billion of newly issued common shares of JACCS on March 17,

2008. As a result of the acquisition of the additional JACCS shares, BTMU owns approximately 20% of the voting rights in JACCS and, accordingly, JACCS became our equity method investee.

JALCARD Share Transfer and Business Partnership

In May 2008, BTMU reached an agreement with Japan Airline International Co., Ltd., or JALI, a subsidiary of Japan Airlines Corporation, on the transfer to BTMU of 49.375% of the issued shares of JALCARD Inc., a wholly owned subsidiary of JALI, effective on July 1, 2008. As part of the agreement, JALI, JALCARD, BTMU, Mitsubishi UFJ NICOS and JCB Co., Ltd. agreed on a business partnership relating to their credit card operations.

kabu.com Securities Became a Consolidated Subsidiary

To strengthen the retail online securities business and enhance comprehensive Internet-based financial services, BTMU acquired approximately 20% ownership of kabu.com Securities Co., Ltd., a retail online securities company in Japan through tender offers implemented in April and December 2007. As a result of these tender offers, our ownership in kabu.com Securities increased to approximately 51% with kabu.com Securities becoming our consolidated subsidiary.

Merger of Leasing Affiliates

In April 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. As a result of these acquisitions, our holding of voting shares in Mitsubishi UFJ Lease & Finance increased to approximately 25.9%.

Basic Agreement on Integration between Bank of Ikeda and Senshu Bank

On May 30, 2008, BTMU signed a basic agreement with the Senshu Bank Ltd., a regional bank subsidiary of BTMU headquartered in Osaka and The Bank of Ikeda Ltd., another regional bank headquartered in Osaka, concerning the planned business integration between the two regional banks. Senshu Bank and Bank of Ikeda are planning to establish a new company on April 1, 2009 after the execution of a definitive agreement, which is expected to occur by November 28, 2008. As of March 31, 2008, BTMU owned 3.43% of the outstanding common shares and ¥30.0 billion of non-convertible preferred shares of Bank of Ikeda.

Commencement of a Cash Tender Offer to Acquire All Publicly Held Shares of UNBC

On August 18, 2008, we entered into a merger agreement with UnionBanCal Corporation, or UNBC, in which we hold approximately 65% of the outstanding common shares. In accordance with the merger agreement, on August 29, 2008, BTMU commenced a tender offer to acquire all of the shares of UNBC s common stock not owned by us for US$73.50 per share in cash. The tender offer will expire on September 26, 2008, unless it is extended. Under the merger agreement, the consummation of the tender offer is expected to be followed by a merger in which any share of UNBC not tendered through the tender offer will be acquired at the same price in cash, subject to customary appraisal rights. The tender offer and the subsequent merger are not subject to a financing condition and do not require Japanese or US bank regulatory or antitrust approval. Upon completion of the merger, UNBC will become our wholly owned subsidiary.

We estimate the total funds required to complete the acquisition of UNBC to be approximately US$3.5 billion. We intend to use cash on hand to fund the acquisition.

Commencement of a Cash Tender Offer to Acquire Additional Shares of ACOM

On September 16, 2008, we commenced a tender offer to acquire, for ¥4,000 per share in cash, up to 38,140,000 shares of common stock of ACOM Co., Ltd., an equity method investee in which we hold approximately 15% of the voting rights. The tender offer will expire on October 21, 2008, unless extended. Pursuant to a subscription agreement entered into between us and ACOM on September 8, 2008, we may purchase up to 18,000,000 newly issued shares of ACOM common stock subsequent to the expiration of the tender offer, allowing us to acquire additional shares to the extent we choose to increase our voting rights to approximately 40%.

Effects of Recent Global Financial Market Instability

The recent global market instability since the second half of 2007 originating primarily from disruptions in the US residential mortgage market has negatively affected our investment portfolio. 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 March 31, 2008, the estimated fair value of our securities available for sale was ¥32.4 trillion for debt securities and ¥6.3 trillion for marketable equity securities. Net investment securities losses for the fiscal year ended March 31, 2008 was ¥1.37 trillion, compared to ¥0.24 trillion in net investment securities gains for the previous fiscal year. This change mainly reflected the impairment losses of ¥0.33 trillion on marketable equity securities available for sale and ¥1.17 trillion on debt securities available for sale. The impairment losses on debt securities were mainly due to the effect of changes in exchange rates on foreign currency transactions amounting to ¥0.86 trillion. For a detailed discussion of our investment portfolio as of March 31, 2008, see A. Operating Results Results of Operations Net investment securities gains (losses) and B. Financial Condition Investment Portfolio below.

The recent global financial market instability has also negatively affected our goodwill. In the fiscal year ended March 31, 2008, we recorded an impairment of goodwill of ¥893.7 billion. This impairment in goodwill was due to, among other factors, the recent global financial market instability which negatively impacted the fair value of our reporting units for purposes of our periodic testing of goodwill for impairment. For a more detailed discussion of our goodwill as of March 31, 2008, see Critical Accounting Estimates Accounting for Goodwill and Intangible Assets and A. Operating Results Results of Operations Non-Interest Expense below.

Filing of a Bankruptcy Petition by Lehman Brothers Holdings

On September 15, 2008, Lehman Brothers Holdings Inc., or LBHI, filed a petition under Chapter 11 of the US Bankruptcy Code with the US Bankruptcy Court for the Southern District of New York. We determined that the filing by LBHI was attributable to the deterioration of the asset-backed securitization products market and residential mortgage market in the United States subsequent to March 31, 2008, and did not reflect the impact of LBHI s bankruptcy on the accompanying consolidated financial statements for the fiscal year ended March 31, 2008. Although the impact of these developments is currently being reviewed, we estimate that these developments will adversely affect income from continuing operations before income tax expense for the fiscal year ending March 31, 2009 by approximately ¥20 to ¥30 billion.

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:

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

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

As a result, our share numbers and per share information in this report have been retroactively adjusted.

Stock-Based Compensation Plans

As part of our compensation structure, in December 2007, we allotted an aggregate of 10,699 stock acquisition rights to our directors, corporate auditors and officers for their respective services to MUFG and its subsidiaries. Each stock acquisition right represents a right to purchase 100 shares of MUFG common stock at ¥1 per common share. The stock acquisition rights were subject to a one-year vesting period. The rights are exercisable until December 5, 2037, but only after the date on which a grantee s service as a director, corporate auditor or officer terminates. The fair value of each stock acquisition right was ¥103,200.

As part of our compensation structure, in July 2008, we allotted an aggregate of 13,681 stock acquisition rights to our directors, corporate auditors and officers for their respective services to MUFG and its subsidiaries. Each stock acquisition right represents a right to purchase 100 shares of MUFG common stock at ¥1 per common share. The stock acquisition rights are subject to a one-year vesting period. The rights are exercisable until July 14, 2038, but only after the date on which a grantee s service as a director, corporate auditor or officer terminates. The fair value of each stock acquisition right was ¥92,300.

For more information on the stock-based compensation plans, see Item 6.B. Compensation and Note 32 to our consolidated financial statements included elsewhere in this Annual Report.

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 response to changes in the business environment.

Issuance of Preferred Securities by Special Purpose Companies

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 were reflected in our Tier I capital as of March 31, 2008 under the BIS capital adequacy requirements, which is calculated primarily from our Japanese GAAP financial information. However, for accounting purposes under US GAAP, because those special purpose companies are not consolidated entities, the loans, which are made to us from the proceeds from the preferred securities issued by the special purpose company, are presented as long-term debt on our consolidated balance sheet as of March 31, 2008.

Also, in September 2008, MUFG Capital Finance 7 Limited, a special purpose company established in the Cayman Islands, issued ¥222 billion in non-cumulative and non-dilutive perpetual preferred securities in an offering targeting Japanese institutional investors. These securities are also accounted for as part of our Tier I capital.

Redemption of Preferred Securities issued by Special Purpose Companies

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.

In June 2008, Tokai Preferred Capital Company L.L.C., a special purpose company established in Delaware, redeemed in total US$1 billion of non-cumulative and non-dilutive perpetual preferred securities. These securities were previously accounted for as part of our Tier I capital.

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Business Environment

We engage, through our subsidiaries and affiliated companies, 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 provide related services to individuals primarily in Japan and the United States, and to corporate customers around the world. Our results of operations and financial condition are exposed to changes in various external economic factors, including:

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

Economic Environment in Japan

The Japanese economy showed a moderate slowdown, partly offset by Japan s continuous strong exports to emerging countries. However, private consumption grew at a sluggish pace due to the weakness of wage growth. Towards the end of the fiscal year ended March 31, 2008, business confidence rapidly worsened and uncertainty increased about a corporate performance downturn because of a slowdown in overseas economies as well as a steep rise in the price of raw materials and oil prices. The rate of increase in the consumer price index accelerated towards the end of the fiscal year ended March 31, 2008 mainly due to soaring oil prices.

The Bank of Japan kept its uncollateralized overnight call rate target unchanged at 0.5% from the prior year. Although long-term interest rates rose in June, they have been on a downward trend with some fluctuations. As of mid-September 2008, the uncollateralized overnight call rate target was around 0.5% and the yield on ten-year Japanese government bonds was around 1.5%. The following chart shows the interest rate trends in Japan since April 2006:

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Regarding the Japanese stock market, the Nikkei Stock Average, which is an average of 225 blue chip stocks listed on the Tokyo Stock Exchange, declined from ¥17,287.65 at March 30, 2007 to ¥12,525.54 at March 31, 2008. As for the Tokyo Stock Price Index, or TOPIX, a composite index of all stocks listed on the First Section of the Tokyo Stock Exchange, the index declined from 1,713.61 at March 30, 2007 to 1,212.96 at March 31, 2008, mainly due to a slowdown of the Japanese economy and the uncertainty of the overseas economies. As of mid-September 2008, the Nikkei Stock Average was around ¥11,700 and TOPIX was around 1,120. The following chart shows the daily closing price of the Nikkei Stock Average since April 2006.

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In the foreign exchange markets, the Japanese yen/US dollar foreign exchange rate was around ¥118 to US$1 at the beginning of April 2007, and the yen generally continued to appreciate during the year and broke ¥100 to US$1 in March 2008. Thereafter, the Japanese yen depreciated slightly to around ¥100 to ¥110 to US$1 and, as of mid-September 2008, the Japanese yen/US dollar foreign exchange rate was around ¥105 to US$1. Against the Euro, the Japanese yen was traded in a range of approximately between ¥157 and ¥168 during the fiscal year ended March 31, 2008, and finished around ¥157 to the Euro at the end of March 2008. As of mid-September 2008, the Japanese yen/Euro foreign exchange rate was around ¥150 to the Euro. The following chart shows the foreign exchange rates expressed in Japanese yen per US dollar since April 2006:

Based on the average official land prices set by the government, average land prices in Japan as of January 1, 2008 increased for two years in a row after a consecutive 16-year decline that ended in 2006. Nationwide residential land prices and land prices for commercial properties as of January 1, 2008 rose by 1.3% and 3.8%, respectively, compared to January 1, 2007. In the three major metropolitan areas, Tokyo, Osaka and Nagoya, residential land prices on average rose by 4.3% over the last two years starting in January 1, 2006, and commercial properties rose by 10.4% over the last three years starting in January 1, 2005. On the other hand, in the local regions of Japan, which consist of regions other than the major metropolitan areas, residential land prices on average declined by 1.8%, and commercial properties declined by 1.4%, for four years in a row after January 1, 2004.

According to Teikoku Databank, a Japanese research institution, the number of companies who filed for legal bankruptcy in Japan between April 2007 and March 2008 was approximately 11,300, an increase of approximately 18% from the previous fiscal year, mainly due to an increase in legal bankruptcies of small sized companies, especially in construction, retail, and service sectors. Similarly, the aggregate amount of liabilities subject to bankruptcy filings for the same period was approximately ¥5.5 trillion, an increase of approximately 5% from the previous fiscal year, owing to an increase in the number of bankruptcy filings and a large-scale real estate related bankruptcy.

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International Financial Markets

With respect to the international financial and economic environment for the fiscal year ended March 31, 2008, uncertainty about the outlook for overseas economies, especially the United States economy, significantly increased. The US economy has further decelerated since the beginning of 2008 due to the turmoil in the financial markets triggered by the collapse of the residential mortgage market which has resulted in reduced liquidity, greater volatility, widening of credit spreads and a lack of price transparency in the United States. Meanwhile, the European economy has shown clear signs of slowdown. In contrast, economies of the emerging countries, such as the Chinese economy, sustained high growth.

In the United States, the target for the federal funds rate has been lowered by 3.0 percentage points to 2.25% in total since last fall in response to the deteriorating market conditions until March 2008, and was further lowered to 2.00% in April 2008. In the EU, the European Central Bank kept its key interest rate unchanged at 4.0% due to the strong concern about inflation in Europe until March 2008, and raised it 0.25 percentage points to 4.25% in July 2008.

Critical Accounting Estimates

Our consolidated 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 liabilities. The accounting policies are fundamental to understanding our operating and financial review and prospects. The notes to our consolidated financial statements included elsewhere in this Annual Report provide a summary of our significant accounting policies. The following is a summary of the critical accounting estimates:

Allowance for Credit Losses

The allowance for credit losses represents management s estimate of probable losses in our loan portfolio. The evaluation process, including credit-ratings and self-assessments, involves a number of estimates and judgments. The allowance is based on two principles of accounting: (1) SFAS No. 5, Accounting for Contingencies, which requires that losses be accrued when they are probable of occurring and can be estimated; and (2) SFAS No. 114, Accounting by Creditors for Impairment of a Loan and SFAS No. 118, Accounting by Creditors for Impairment of a Loan Income Recognition and Disclosures, which require that losses be accrued based on the difference between the loan balance, on the one hand, and the present value of expected future cash flows discounted at the loan s effective interest rate and the fair value of collateral or the loan s observable market value, on the other hand.

Our allowance for credit losses consists of an allocated allowance and an unallocated allowance. The allocated allowance comprises (a) the allowance for specifically identified problem loans, (b) the allowance for large groups of smaller balance homogeneous loans, (c) the allowance for loans exposed to specific country risk and (d) the formula allowance. Both the allowance for loans exposed to specific country risk and the formula allowance are provided for performing loans that are not subject to either the allowance for specifically identified problem loans or the allowance for large groups of smaller balance homogeneous loans. The allowance for loans exposed to specific country risk covers transfer risk which is not specifically covered by other types of allowance. Each of these components is determined based upon estimates that can and do change when actual events occur.

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

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

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

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

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

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

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

Impairment of Investment Securities

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

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

Certain securities held by BTMU, MUTB and certain other subsidiaries, which primarily consist of debt securities issued by the Japanese national government and generally considered to be of minimal credit risk, were determined not to be impaired in some cases, on the basis of the respective subsidiary s ability and positive intent to hold such securities to maturity.

The determination of other than temporary impairment for certain securities held by UNBC, our US subsidiary, which primarily consist of securities backed by the full faith and credit of the US government and corporate asset-backed and debt securities, are made on the basis of a cash flow analysis of securities and/or the ability of UNBC to hold such securities to maturity.

Nonmarketable equity securities. Nonmarketable equity securities are equity securities of companies that are not publicly traded or are thinly traded. Such securities are primarily held at cost less other than temporary impairment if applicable. For the securities carried at cost, we consider factors such as the credit standing of issuers and the extent of decline in net assets of issuers to determine whether the decline is other than temporary. When we determine that the decline is other than temporary, nonmarketable equity securities are written down to the estimated fair value, determined based on such factors as the ratio of our investment in the issuer to the issuer s net assets and the latest transaction price if applicable. When the decline is other than temporary, certain nonmarketable equity securities issued by public companies, such as preferred stock convertible to marketable

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common stock in the future, are written down to fair value estimated by commonly accepted valuation models, such as option pricing models based on a number of factors, including the quoted market price of the underlying marketable common stock, volatility and dividend payments as appropriate.

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

For further information on the amount of the impairment losses and the aggregate amount of unrealized gross losses on investment securities, see Note 6 to our consolidated financial statements included elsewhere in this Annual Report.

Income Taxes

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

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

Among other factors, forecasted operating results, which serve as the basis of our estimation of future taxable income, have a significant effect on the amount of the valuation allowance. In developing forecasted operating results, we assume that our operating performance is stable for certain entities where strong positive evidence exists, including core earnings based on past performance over a certain period of time. The actual results may be adversely affected by unexpected or sudden changes in interest rates as well as an increase in credit-related expenses due to the deterioration of economic conditions in Japan and material declines in the Japanese stock market to the extent that such impacts exceed our original forecast. In addition, near-term taxable income is also influential on the amount of the expiration of unused operating loss carryforwards since the Japanese corporate tax law permits operating losses to be deducted for a predetermined period generally no longer than seven years. For further information on the amount of operating loss carryforwards and the expiration dates, see Note 11 to our consolidated financial statements included elsewhere in this Annual Report.

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

Tax reserves. We provide reserves for unrecognized tax benefits as required under FASB Interpretation, or FIN, No. 48, Accounting for Uncertainty in Income Taxes An Interpretation of FASB Statement No. 109. In applying the standards of the Interpretation, we consider the relative risks and merits of positions taken in tax returns filed and to be filed, considering statutory, judicial, and regulatory guidance applicable to those positions.

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The Interpretation requires us to make assumptions and judgments about potential outcomes that lie outside management s control. To the extent the tax authorities disagree with our conclusions, and depending on the final resolution of those disagreements, our effective tax rate may be materially affected in the period of final settlement with tax authorities.

Accounting for Goodwill and Intangible Assets

US GAAP requires us to test goodwill for impairment at least annually, or more frequently if events or changes in circumstances indicate that goodwill may be impaired, using a two-step process that begins with an estimation of the fair value of a reporting unit of our business, which is to be compared with the carrying amount of the unit, to identify potential impairment of goodwill. A reporting unit is an operating segment or component of an operating segment that constitutes a business for which discrete financial information is available and is regularly reviewed by management. The fair value of a reporting unit is defined as the amount at which the unit as a whole could be bought or sold in a current transaction between willing parties. For a reporting unit for which an observable quoted market price is available, the price is used for the fair value and control premium is also considered. For a reporting unit which an observable quoted market price is not available, the fair value is determined using an income approach. In the income approach, discounted cash flows are calculated by taking the net present value based on each reporting unit s internal forecasts. Cash flows are discounted using a discount rate approximating the weighted average cost of capital, and the discount rate reflects current market capitalization. A control premium factor is considered for the market capitalization as well. If the carrying amount of a reporting unit exceeds its estimated fair value, the second step of the goodwill impairment test is performed to measure the amount of impairment loss recorded in income. This test requires comparison of the implied fair value of the unit s goodwill with the carrying amount of that goodwill. The estimate of the implied fair value of the reporting unit s goodwill requires us to allocate the fair value of a reporting unit to all of the assets and liabilities of that reporting unit, including unrecognized intangible assets, if any, since the implied fair value is determined as the excess of the fair value of a reporting unit over the net amounts assigned to its assets and liabilities in the allocation. Accordingly, the second step of the impairment test also requires an estimate of the fair value of individual assets and liabilities, including any unrecognized intangible assets that belong to that unit. A change in the estimation could have an impact on impairment recognition since it is driven by hypothetical assumptions, such as customer behavior and interest rate forecasts. The estimation is based on information available to management at the time the estimation is made.

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

Accrued Severance Indemnities and Pension Liabilities

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

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

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

We adopted the recognition provisions of SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R) as of March 31, 2007. See Accounting Changes Defined Benefit Pension and Other Postretirement Plans in Note 1 and Note 17 to our consolidated financial statements included elsewhere in this Annual Report for further information.

Valuation of Financial Instruments with No Available Market Prices

Fair values for the substantial majority of our portfolio of financial instruments, including available-for-sale and held-to-maturity securities, trading accounts and derivatives, with no available market prices are determined based upon externally verifiable model inputs and quoted prices. All financial models, which are used for independent risk monitoring, must be validated and periodically reviewed by qualified personnel independent of the area that created the model. The fair value of derivatives is determined based upon liquid market prices evidenced by exchange-traded prices, broker-dealer quotations or prices of other transactions with similarly rated counterparties. If available, quoted market prices provide the best indication of value. If quoted market prices are not available for fixed maturity securities and derivatives, we discount expected cash flows using market interest rates commensurate with the credit quality and maturity of the investment. Alternatively, we may use matrix or model pricing to determine an appropriate fair value. In determining fair values, we consider various factors, including time value, volatility factors and underlying options, warrants and derivatives.

The estimated fair values of financial instruments without quoted market prices were as follows:

	At March 31, 2007	At March 31, 2008
	(in billions)	
Financial assets:		
Trading account assets, excluding derivatives	¥ 6,927	¥ 8,381
Investment securities	40,556	35,819
Derivative financial instruments, net		834
Financial liabilities:		
Trading account liabilities, excluding derivatives	797	215
Obligations to return securities received as collateral	3,649	5,084
Derivative financial instruments, net	67	

A significant portion of trading account assets and liabilities, excluding derivatives, investment securities and obligations to return securities received as collateral consists of Japanese national government and agency bonds, and foreign government and official institutions bonds, for which prices are actively quoted among brokers and are readily available but are not publicly reported and therefore are not considered quoted market prices. Additionally, a substantial portion of derivative financial instruments are comprised of over-the-counter interest rate and currency swaps and options. Estimates of fair value of these derivative transactions are determined using quantitative models with multiple market inputs, which can be validated through external sources, including brokers and market transactions with third parties.

Accounting Changes and Recently Issued Accounting Pronouncements

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

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A. Operating Results

Results of Operations

The following table sets forth a summary of our results of operations for the fiscal years ended March 31, 2006, 2007 and 2008:

	Fiscal years ended March 31,		
	2006	2007 (in billions)	2008
Interest income	¥ 2,530.7	¥ 3,915.7	¥ 4,366.8
Interest expense	882.1	1,585.9	2,087.1
Net interest income	1,648.6	2,329.8	2,279.7
Provision for credit losses	110.2	358.6	385.7
Non-interest income	1,067.4	1,947.9	1,778.1
Non-interest expense	2,076.1	2,784.2	3,659.7
Income from continuing operations before income tax expense and cumulative effect of a change in accounting principle	529.7	1,134.9	12.4
Income tax expense	165.5	552.8	553.1
Income (loss) from continuing operations before cumulative effect of a change in accounting principle	364.2	582.1	(540.7)
Income (loss) from discontinued operations net	9.0	(0.8)	(1.7)
Cumulative effect of a change in accounting principle, net of tax	(9.7)		
Net income (loss)	¥ 363.5	¥ 581.3	¥ (542.4)

We reported a net loss of ¥542.4 billion for the fiscal year ended March 31, 2008, compared to a net income of ¥581.3 billion for the fiscal year ended March 31, 2007. Our basic loss per common share (net loss available to common shareholders) for the fiscal year ended March 31, 2008 was ¥54.05, compared with our basic earnings per common share of ¥29.86 for the fiscal year ended March 31, 2007. Income from continuing operations before income tax expense and cumulative effect of a change in accounting principle for the fiscal year ended March 31, 2008 was ¥12.4 billion, compared with ¥1,134.9 billion for the fiscal year ended March 31, 2007.

Our merger with UFJ Holdings completed on October 1, 2005 was the major factor in many of the changes in our consolidated statements of operations between the two fiscal years ended March 31, 2006 and 2007. The results for the fiscal year ended March 31, 2006 reflect the pre-merger results of MTFG for the six months ended September 30, 2005 and the post-merger results of MUFG for the six months ended March 31, 2006. The results for the fiscal years ended March 31, 2007 and 2008 reflect the post-merger results of MUFG for the full twelve-month period.

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Net Interest Income

The following is a summary of the interest rate spread for the fiscal years ended March 31, 2006, 2007 and 2008:

	Fiscal years ended March 31, 2006		2007		2008	
	Average balance	Average rate	Average balance	Average rate	Average balance	Average rate
	(in billions, except percentages)					
Interest-earning assets:						
Domestic	¥ 104,942.8	1.30%	¥ 130,196.1	1.63%	¥ 123,196.2	1.78%
Foreign	30,442.5	3.85	38,571.2	4.65	49,271.1	4.41
Total	¥ 135,385.3	1.87%	¥ 168,767.3	2.32%	¥ 172,467.3	2.53%
Financed by:						
Interest-bearing funds:						
Domestic	¥ 98,788.9	0.37%	¥ 122,332.7	0.54%	¥ 123,231.9	0.69%
Foreign	19,331.3	2.65	24,463.3	3.78	32,920.1	3.74
Total	118,120.2	0.75	146,796.0	1.08	156,152.0	1.34
Non-interest-bearing funds	17,265.1		21,971.3		16,315.3	
Total	¥ 135,385.3	0.65%	¥ 168,767.3	0.94%	¥ 172,467.3	1.21%
Spread on:						
Interest-bearing funds		1.12%		1.24%		1.19%
Total funds		1.22%		1.38%		1.32%

We use interest rate and other derivative contracts for hedging the risks affecting the values of our financial assets and liabilities. Although these contracts are generally entered into for risk management purposes, a majority of them do not meet the specific conditions to qualify for hedge accounting under US GAAP and thus are accounted for as trading positions. Therefore, our net interest income for each of the fiscal years ended March 31, 2006, 2007 and 2008 was not materially affected by gains or losses resulting from such derivative instruments.

For a detailed discussion of our risk management systems, refer to Item 11. Quantitative and Qualitative Disclosures about Credit, Market and Other Risk.

Fiscal Year Ended March 31, 2008 Compared to Fiscal Year Ended March 31, 2007

Net interest income for the fiscal year ended March 31, 2008 was ¥2,279.7 billion, a decrease of ¥50.1 billion, from ¥2,329.8 billion for the fiscal year ended March 31, 2007. This decrease was mainly due to an increase in the average interest rate on domestic interest-bearing funds and an increase in the average balance of foreign interest-bearing funds. These increases offset the effect of the increase in the average balance of foreign interest-earning assets.

The average interest rate spread on interest-bearing funds decreased five basis points from 1.24% for the fiscal year ended March 31, 2007 to 1.19% for the fiscal year ended March 31, 2008. For the fiscal year ended March 31, 2007, the average rate on interest-earning assets increased partly due to an increase in the expected cash flows from impaired loans acquired in the merger with UFJ Holdings, which cash flows are accounted for as adjustments to accretable yields under Statement of Position 03-3, Accounting for Certain Loans or Debt Securities Acquired in a Transfer. For the fiscal year ended March 31, 2008, the increase in the expected cash flows from such impaired loans was smaller than that for the previous fiscal year. The average interest rate spread on total funds decreased, showing a decrease of six basis points from 1.38% for the fiscal year ended March 31, 2007 to 1.32% for the fiscal year ended March 31, 2008.

Average interest-earning assets for the fiscal year ended March 31, 2008 were ¥172,467.3 billion, an increase of ¥3,700.0 billion, from ¥168,767.3 billion for the fiscal year ended March 31, 2007. The increase was primarily attributable to an increase of ¥3,494.3 billion in foreign call loans, funds sold, and receivables under resale agreements and securities borrowing transactions, an increase of ¥3,493.3 billion in foreign loans, an increase of ¥1,600.7 billion in foreign interest-earning deposits in other banks and an increase of ¥1,538.8 billion in foreign investment securities. These increases were partially offset by a decrease of ¥4,718.6 billion in domestic investment securities and a decrease of ¥2,016.9 billion in domestic loans. The increase in foreign loans was mainly due to the growth of the lending to Japanese and non-Japanese customers in Asia, the United States and Europe.

Average interest-bearing funds for the fiscal year ended March 31, 2008 were ¥156,152.0 billion, an increase of ¥9,356.0 billion, from ¥146,796.0 billion for the fiscal year ended March 31, 2007. The increase was primarily attributable to an increase of ¥3,779.3 billion in foreign interest-bearing deposits, an increase of ¥3,494.3 billion in foreign call money, funds purchased, and payables under repurchase agreements and securities lending transactions and an increase of ¥2,183.3 billion in domestic deposits. The increase in foreign interest-bearing deposits was mainly due to the fact that large deposits from foreign central banks and government sponsored investment corporations increased in response to the recent difficult market conditions.

Fiscal Year Ended March 31, 2007 Compared to Fiscal Year Ended March 31, 2006

Net interest income for the fiscal year ended March 31, 2007 was ¥2,329.8 billion, an increase of ¥681.2 billion, from ¥1,648.6 billion for the fiscal year ended March 31, 2006. This increase was mainly due to the fact that net interest income for the fiscal year ended March 31, 2006 reflected only that of the post-merger MUFG for six months (with the first half of the fiscal year reflecting that of the pre-merger MTFG only), while net interest income for the fiscal year ended March 31, 2007 reflected that of the post-merger MUFG for the full twelve-month period. For the fiscal year ended March 31, 2007, interest rates in Japan, the United States and Europe generally increased. In the rising interest rate environment in Japan during the fiscal year ended March 31, 2007, the increase in average rates on domestic interest-earning assets, such as loans, was larger than the increase in average rates on domestic interest-bearing funds, such as deposits. This increase in interest rate spread contributed to the increase in our net interest income.

The average interest rate spread on interest-bearing funds increased, showing an increase of 12 basis points from 1.12% for the fiscal year ended March 31, 2006 to 1.24% for the fiscal year ended March 31, 2007. The average interest rate spread on total funds also increased, showing an increase of 16 basis points from 1.22% for the fiscal year ended March 31, 2006 to 1.38% for the fiscal year ended March 31, 2007.

Average interest-earning assets for the fiscal year ended March 31, 2007 were ¥168,767.3 billion, an increase of ¥33,382.0 billion, from ¥135,385.3 billion for the fiscal year ended March 31, 2006. The increase was primarily attributable to an increase in domestic interest-earning assets, as the average balance for the fiscal year ended March 31, 2007 reflected that of the post-merger results of MUFG for the full twelve-month period compared to the average balance for the previous fiscal year, which reflected only that of the post-merger MUFG for six months (with the first half of the fiscal year reflecting that of the pre-merger MTFG only).

Average interest-bearing funds for the fiscal year ended March 31, 2007 were ¥146,796.0 billion, an increase of ¥28,675.8 billion, from ¥118,120.2 billion for the fiscal year ended March 31, 2006. The increase was primarily attributable to an increase in domestic interest-bearing deposits. The increase in domestic interest-bearing deposits was mainly due to the fact that the fiscal year ended March 31, 2006 reflected only six months of the post-merger MUFG (with the first half of the fiscal year reflecting the pre-merger MTFG only), while the fiscal year ended March 31, 2007 reflected the post-merger MUFG for the full twelve-month period.

Provision for Credit Losses

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

Fiscal Year Ended March 31, 2008 Compared to Fiscal Year Ended March 31, 2007

Provision for credit losses for the fiscal year ended March 31, 2008 was ¥385.7 billion, an increase of ¥27.1 billion from ¥358.6 billion for the fiscal year ended March 31, 2007. The increase in provision for credit losses was mainly due to the downgrade in credit rating of certain overseas borrowers.

Fiscal Year Ended March 31, 2007 Compared to Fiscal Year Ended March 31, 2006

Provision for credit losses for the fiscal year ended March 31, 2007 was ¥358.6 billion, an increase of ¥248.4 billion from ¥110.2 billion for the fiscal year ended March 31, 2006. The increase in provision for credit losses was mainly due to the downgrade in credit rating of a large borrower in the transportation industry. Additionally, provision for credit losses increased in the consumer finance industry.

Non-Interest Income

The following table is a summary of our non-interest income for the fiscal years ended March 31, 2006, 2007 and 2008:

	Fiscal years ended March 31, 2006	2007 (in billions)	2008
Fees and commissions:			
Trust fees	¥ 121.4	¥ 146.0	¥ 156.3
Fees on funds transfer and service charges for collections	105.5	151.3	152.9
Fees and commissions on international business	62.2	70.2	69.7
Fees and commissions on credit card business	110.1	164.2	138.0
Service charges on deposits	35.9	37.5	36.1
Fees and commissions on securities business	145.2	136.6	130.7
Fees on real estate business	45.8	60.2	44.5
Insurance commissions	48.5	52.2	43.0
Fees and commissions on stock transfer agency services	39.4	73.7	72.3
Guarantee fees	53.1	88.3	86.3
Fees on investment funds business	79.7	152.8	161.5
Other fees and commissions	186.5	274.2	225.8
Total	1,033.3	1,407.2	1,317.1
Foreign exchange gains (losses) net	(322.4)	(162.0)	1,295.9
Trading account profits net:			
Net profits (losses) on interest rate and other derivative contracts	(347.1)	212.8	520.6
Net profits (losses) on trading account securities, excluding derivatives	363.5	192.0	(122.2)

Total	16.4	404.8	398.4
Investment securities gains (losses) net:			
Net gains on sales of securities available for sale:			
Debt securities	155.7	188.5	1.2
Marketable equity securities	196.7	105.7	83.8
Impairment losses on securities available for sale:			
Debt securities	(275.9)	(38.1)	(1,169.1)
Marketable equity securities	(5.2)	(71.3)	(331.3)
Other	18.6	53.5	42.3
Total	89.9	238.3	(1,373.1)
Equity in earnings (losses) of equity method investees	22.3	(56.9)	(34.5)
Government grant for transfer of substitutional portion of Employees Pension Fund Plans	103.0		
Gains on sales of loans	34.8	23.1	11.8
Other non-interest income	90.1	93.4	162.5
Total non-interest income	¥ 1,067.4	¥ 1,947.9	¥ 1,778.1

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

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

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

Fiscal Year Ended March 31, 2008 Compared to Fiscal Year Ended March 31, 2007

Non-interest income for the fiscal year ended March 31, 2008 was ¥1,778.1 billion, a decrease of ¥169.8 billion, from ¥1,947.9 billion for the fiscal year ended March 31, 2007. This decrease was primarily due to a decrease of ¥1,611.4 billion in net investment securities gains and a decrease of ¥90.1 billion in fees and commissions. These decreases were offset by an increase of ¥1,457.9 billion in net foreign exchange gains and an increase of ¥69.1 billion in other non-interest income.

Fees and commissions

Fees and commissions for the fiscal year ended March 31, 2008 were ¥1,317.1 billion, a decrease of ¥90.1 billion, from ¥1,407.2 billion for the fiscal year ended March 31, 2007. This decrease was primarily attributable to a decrease of ¥48.4 billion in other fees and commissions, a decrease of ¥26.2 billion in fees and commissions on credit card business, and a decrease of ¥15.7 billion in fees on real estate business due to a decrease of business volume.

Net foreign exchange gains (losses)

Net foreign exchange gains for the fiscal year ended March 31, 2008 were ¥1,295.9 billion, compared to net foreign exchange losses of ¥162.0 billion for the fiscal year ended March 31, 2007. The improvement in foreign exchange gains (losses) was due mainly to the larger appreciation of the Japanese yen against the US dollar in the fiscal year ended March 31, 2008, compared to the fiscal year ended March 31, 2007. For reference, the foreign exchange rate expressed in Japanese yen per US$1.00 by BTMU was ¥117.47 at March 31, 2006, ¥118.05 at March 30, 2007 and ¥100.19 at March 31, 2008. All transaction gains or losses on translation of monetary liabilities denominated in foreign currencies are included in current earnings. 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 Japanese yen.

Net trading account profits

Net trading account profits of ¥398.4 billion were recorded for the fiscal year ended March 31, 2008, compared to net trading account profits of ¥404.8 billion for the fiscal year ended March 31, 2007.

Net profits (losses) on interest rate and other derivative contracts were largely affected by the impact of the decrease (increase) in Japanese long-term interest rates on interest rate swaps principally held for risk management purposes. Although such contracts are generally entered into for risk management purposes, a majority of them did not meet the conditions to qualify for hedge accounting under US GAAP and thus are accounted for as trading positions.

Though Japanese yen short-term interest rates generally rose during the fiscal year ended March 31, 2008 compared to the previous fiscal year, long-term interest rates generally declined. This decline in long-term interest rates had a favorable impact on our interest rate swap portfolios, in which we generally maintained net receive-fix and pay-variable positions, for managing interest rate risks on domestic deposits. The increase in net profits on interest rate and other derivative contracts of ¥307.8 billion was offset by a decrease in net profits on trading account securities, excluding derivatives of ¥314.2 billion, primarily reflecting the increase in loss on sales and revaluation from trading in debt and equity securities primarily due to unfavorable market conditions.

Net investment securities gains (losses)

Net investment securities losses for the fiscal year ended March 31, 2008 were ¥1,373.1 billion, compared to net investment securities gains of ¥238.3 billion for the fiscal year ended March 31, 2007.

The net investment securities losses for the fiscal year ended March 31, 2008 mainly reflected the impairment losses of ¥1,169.1 billion on debt securities available for sale and of ¥331.3 billion on marketable equity securities available for sale. The increase in impairment losses on debt securities was mainly due to the appreciation of the Japanese yen against US dollar in the fiscal year ended March 31, 2008, compared to the fiscal year ended March 31, 2007. The amount of impairment losses attributable to the appreciation of the Japanese yen against foreign currencies was ¥863.2 billion. The increase in impairment losses on marketable equity securities was due to a decline in Japanese stock prices in the fiscal year 2008. The Nikkei Stock Average, which is an average of 225 blue chip stocks listed on the Tokyo Stock Exchange, was ¥17,287.65 at March 30, 2007 and ¥12,525.54 at March 31, 2008.

Equity in earnings (losses) of equity method investees

We recorded equity in losses of equity method investees of ¥34.5 billion for the fiscal year ended March 31, 2008, compared to equity in losses of equity method investees of ¥56.9 billion for the fiscal year ended March 31, 2007. The decrease in losses in the fiscal year ended March 31, 2008 was mainly due to reduced losses of an equity method investee in the consumer finance business.

Fiscal Year Ended March 31, 2007 Compared to Fiscal Year Ended March 31, 2006

Non-interest income for the fiscal year ended March 31, 2007 was ¥1,947.9 billion, an increase of ¥880.5 billion, from ¥1,067.4 billion for the fiscal year ended March 31, 2006. This increase was primarily due to an increase of ¥388.4 billion in net trading account profits, an increase of ¥373.9 billion in fees and commissions and an increase of ¥148.4 billion in net investment securities gains. These increases were partially offset by a decrease of ¥103.0 billion in government grant for the transfer of the substitutional portion of employees pension fund plans, as there were no such transfers for the fiscal year ended March 31, 2007.

Fees and commissions

Fees and commissions for the fiscal year ended March 31, 2007 were ¥1,407.2 billion, an increase of ¥373.9 billion, from ¥1,033.3 billion for the fiscal year ended March 31, 2006. This increase was mainly due to the fact

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that the fiscal year ended March 31, 2006 reflected only six months of the post-merger MUFG (with the first half of the fiscal year reflecting the pre-merger MTFG only), while the results for the fiscal year ended March 31, 2007 reflected the post-merger MUFG for the full twelve-month period.

Net foreign exchange gains (losses)

Net foreign exchange losses for the fiscal year ended March 31, 2007 were ¥162.0 billion, compared to net foreign exchange losses of ¥322.4 billion for the fiscal year ended March 31, 2006. The improvement in foreign exchange losses was due mainly to the smaller depreciation of the Japanese yen against foreign currencies in the fiscal year ended March 31, 2007, compared to the fiscal year ended March 31, 2006. For reference, the foreign exchange rate expressed in Japanese yen per US$1.00 by BTMU was ¥107.39 at March 31, 2005, ¥117.47 at March 31, 2006 and ¥118.05 at March 30, 2007. The foreign exchange rate expressed in Japanese yen per 1.00 by BTMU was ¥138.87 at March 31, 2005, ¥142.81 at March 31, 2006 and ¥157.33 at March 30, 2007. 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 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 Japanese yen.

Net trading account profits (losses)

Net trading account profits of ¥404.8 billion were recorded for the fiscal year ended March 31, 2007, compared to net trading account profits of ¥16.4 billion for the fiscal year ended March 31, 2006.

Net profits (losses) on interest rate and other derivative contracts were largely affected by the impact of the increase (decrease) in Japanese long-term interest rates on interest rate swaps principally held for risk management purposes. Although such contracts are generally entered into for risk management purposes, a majority of them did not meet the conditions to qualify for hedge accounting under US GAAP and thus are accounted for as trading positions.

Though Japanese yen short-term interest rates generally rose during the fiscal year ended March 31, 2007 compared to the previous fiscal year, long-term interest rates generally declined. This decline in long-term interest rates had a favorable impact on our interest rate swap portfolios, in which we generally maintained net receive-fix and pay-variable positions, for managing interest rate risks on domestic deposits. The increase in net profits on interest rate and other derivative contracts of ¥559.9 billion was partially offset by a decrease in net profits on trading account securities, excluding derivatives of ¥171.5 billion, primarily reflecting the decline in profits from trading in debt and equity securities at MUS primarily due to unfavorable market conditions.

Net investment securities gains (losses)

Net investment securities gains for the fiscal year ended March 31, 2007 were ¥238.3 billion, an increase of ¥148.4 billion, from ¥89.9 billion for the fiscal year ended March 31, 2006.

The increase in net investment securities gains for the fiscal year ended March 31, 2007 mainly reflected the fact that net gains on sales of Japanese government bonds increased as the book value of such bonds declined due to impairment losses recorded during the fiscal year ended March 31, 2006. The increase was partially offset by a decrease in net gains on sales of marketable equity securities and an increase in impairment losses on marketable equity securities. The decrease in net gains on sales of marketable equity securities for the fiscal year ended March 31, 2007 was partly due to a one-time adjustment to the book value of some of our marketable equity securities in connection with the merger with UFJ Holdings. The increase in impairment losses on marketable equity securities was due to the fact that a larger number of our marketable equity securities were trading at depressed prices in a stagnant Japanese stock market in the fiscal year 2007, compared to a generally rising stock market in the previous fiscal year. The Nikkei Stock Average, which is an average of 225 blue chip stocks listed on the Tokyo Stock Exchange, was ¥11,668.95 at March 31, 2005, ¥17,059.66 at March 31, 2006 and ¥17,287.65 at March 30, 2007.

Equity in earnings (losses) of equity method investees

We recorded equity in losses of equity method investees for the fiscal year ended March 31, 2007 of ¥56.9 billion, compared to equity in earnings of equity method investees of ¥22.3 billion for the fiscal year ended March 31, 2006. The negative change in the fiscal year ended March 31, 2007 was mainly due to losses in an equity method investee in the consumer finance business.

Non-Interest Expense

The following table shows a summary of our non-interest expense for the fiscal years ended March 31, 2006, 2007 and 2008:

	Fiscal years ended March 31,		
	2006	2007	2008
		(in billions)	
Salaries and employee benefits	¥ 746.4	¥ 862.4	¥ 909.8
Occupancy expenses net	146.9	179.4	173.2
Fees and commission expenses	218.4	238.0	218.1
Outsourcing expenses, including data processing	168.0	267.9	248.2
Depreciation of premises and equipment	81.3	118.9	179.6
Amortization of intangible assets	179.5	264.9	252.9
Impairment of intangible assets	0.3	184.8	78.7
Insurance premiums, including deposit insurance	89.7	112.8	112.4
Minority interest in income of consolidated subsidiaries	157.2	16.9	39.4
Communications	44.4	62.2	65.3
Taxes and public charges	58.3	79.7	83.4
Provision for repayment of excess interest	12.9	106.2	2.8
Impairment of goodwill			893.7
Other non-interest expenses	172.8	290.1	402.2
Total non-interest expense	¥ 2,076.1	¥ 2,784.2	¥ 3,659.7

Fiscal Year Ended March 31, 2008 Compared to Fiscal Year Ended March 31, 2007

Non-interest expense for the fiscal year ended March 31, 2008 was ¥3,659.7 billion, an increase of ¥875.5 billion from the previous fiscal year. This increase was primarily due to the impairment of goodwill which we recorded during the fiscal year ended March 31, 2008 in the amount of ¥893.7 billion, but for which we did not record any amount for the previous fiscal year. The increase in non-interest expenses was partially offset by decreases in impairment of intangible assets and provision for repayment of excess interest.

Salaries and employee benefits

Salaries and employee benefits for the fiscal year ended March 31, 2008 were ¥909.8 billion, an increase of ¥47.4 billion from ¥862.4 billion for the previous fiscal year. This increase was mainly due to an increase in the one-time severance payments related to an early retirement program, totaling approximately ¥37 billion, made by a consumer finance subsidiary.

Depreciation of premises and equipment

Depreciation of premises and equipment for the fiscal year ended March 31, 2008 was ¥179.6 billion, an increase of ¥60.7 billion from ¥118.9 billion for the previous fiscal year. This increase primarily reflected the fact

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that we reviewed the salvage values of premises and equipment and decided to change the estimated salvage values of these assets to ¥1 during the fiscal year ended March 31, 2008. This change had an adverse impact on our income from continuing operations before income tax expense and net loss of ¥53 billion and ¥31 billion, respectively, for the fiscal year ended March 31, 2008. For further information, see Note 1 to our consolidated financial statements included elsewhere in this Annual Report.

Impairment of intangible assets

Impairment of intangible assets for the fiscal year ended March 31, 2008 was ¥78.7 billion, a decrease of ¥106.1 billion, from ¥184.8 billion for the previous fiscal year. The decrease was mainly due to our having no impairment of intangible assets related to a subsidiary in the consumer finance business whereas a significant amount was provided during the previous fiscal year.

Provision for repayment of excess interest

Provision for repayment of excess interest for the fiscal year ended March 31, 2008 was ¥2.8 billion, a decrease of ¥103.4 billion from ¥106.2 billion for the previous fiscal year. The decrease was mainly due to a decrease in the provision for repayment of excess interest at our consumer finance subsidiaries.

Impairment of goodwill

In the fiscal year ended March 31, 2008, we recorded an impairment of goodwill of ¥893.7 billion. We recorded an impairment in goodwill due to, among other factors, the recent global financial market instability which negatively impacted the fair value of our reporting units for purposes of our periodic testing of goodwill for impairment. We did not record an impairment of goodwill for the fiscal year ended March 31, 2007. For further information, see Note 10 to our consolidated financial statements included elsewhere in this Annual Report.

Fiscal Year Ended March 31, 2007 Compared to Fiscal Year Ended March 31, 2006

Non-interest expense for the fiscal year ended March 31, 2007 was ¥2,784.2 billion, an increase of ¥708.1 billion from the previous fiscal year. This increase was primarily due to increases in most types of expenses, especially salaries and employee benefits and other non-interest expenses. These increases reflected the fact that the fiscal year ended March 31, 2006 reflected only six months of the post-merger MUFG (with the first half of the fiscal year reflecting the pre-merger MTFG only), while the results for the fiscal year ended March 31, 2007 reflected the post-merger MUFG for the full twelve-month period.

Outsourcing expenses, including data processing

Outsourcing expenses, including data processing, for the fiscal year ended March 31, 2007 was ¥267.9 billion, an increase of ¥99.9 billion, from ¥168.0 billion for the previous fiscal year. The increase was mainly due to increased expenses related to the merger with UFJ Holdings.

Amortization of intangible assets

Amortization of intangible assets for the fiscal year ended March 31, 2007 was ¥264.9 billion, an increase of ¥85.4 billion, from ¥179.5 billion for the previous fiscal year. This increase was mainly due to the amortization of core deposit intangibles recognized in the merger with UFJ Holdings, as well as the amortization of IT systems-related software, which also increased due to the merger.

Impairment of intangible assets

Impairment of intangible assets for the fiscal year ended March 31, 2007 was ¥184.8 billion, an increase of ¥184.5 billion, from ¥0.3 billion for the previous fiscal year. The increase was mainly due to the impairment of intangible assets related to our subsidiary in the consumer finance business caused by the downward revision of projected earnings of the subsidiary due to adverse changes in the consumer finance business environment.

Minority interest in income of consolidated subsidiaries

Minority interest in income of consolidated subsidiaries for the fiscal year ended March 31, 2007 was ¥16.9 billion, a decrease of ¥140.3 billion, from ¥157.2 billion for the previous fiscal year. The decrease mainly reflects a decrease in income from our consolidated subsidiaries and variable interest entities, including, in particular, losses recorded at a consumer finance subsidiary.

Provision for repayment of excess interest

Provision for repayment of excess interest for the fiscal year ended March 31, 2007 was ¥106.2 billion, an increase of ¥93.3 billion from ¥12.9 billion for the previous fiscal year. The increase was mainly due to an increase in allowance for repayment at our consumer finance subsidiaries which reflected a rise in borrowers claims for reimbursement of excess interest payments.

Income Tax Expense

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

	Fiscal years ended March 31,		
	2006	**2007**	**2008**
	(in billions, except percentages)		
Income from continuing operations before income tax expense and cumulative effect of a change in accounting principle	¥ 529.7	¥ 1,134.9	¥ 12.4
Income tax expense	¥ 165.5	¥ 552.8	¥ 553.1
Effective income tax rate	31.2%	48.7%	4,476.3%
Combined normal effective statutory tax rate	40.6%	40.6%	40.6%

Reconciling items between the combined normal effective statutory tax rates and the effective income tax rates for the fiscal years ended March 31, 2006, 2007 and 2008 are summarized as follows:

	Fiscal years ended March 31,		
	2006	**2007**	**2008**
Combined normal effective statutory tax rate	40.6%	40.6%	40.6%
Increase (decrease) in taxes resulting from:			
Nondeductible expenses	0.7	0.2	24.9
Dividends from foreign subsidiaries	1.6	0.9	101.8
Foreign tax credit and payments	1.4	0.8	10.2
Lower tax rates applicable to income of subsidiaries	(6.9)	(0.5)	(79.0)

Minority interests	9.5	0.6	143.7
Change in valuation allowance	0.2	7.2	1,400.7
Realization of previously unrecognized tax effects of subsidiaries	(16.5)		(5.0)
Nontaxable dividends received	(1.7)	(1.4)	(152.3)
Tax expense on capital transactions by a subsidiary	4.4		
Impairment of goodwill			2,937.4
Undistributed earnings of subsidiaries	2.2	0.9	36.3
Other net	(4.3)	(0.6)	17.0
Effective income tax rate	31.2%	48.7%	4,476.3%

The effective income tax rate of 4,476.3% for the fiscal year ended March 31, 2008 was 4,435.7 percentage points higher than the combined normal effective statutory tax rate of 40.6%. This higher tax rate was primarily due to the fact that an impairment of goodwill was recorded under US GAAP, decreasing our income from continuing operations before income tax expense and cumulative effect of a change in accounting principle to ¥12.4 billion for the fiscal year ended March 31, 2008. Under Japanese tax law, such impairment of goodwill was not deductible in computing our taxable income and, accordingly, our income tax expense was significantly higher in comparison to our income from continuing operations before income tax expense and cumulative effect of a change in accounting principle reported under US GAAP. In addition, the higher effective income tax rate reflected an additional valuation allowance related to operating loss carryforwards that were no longer deemed to be more likely than not to be realized, due to a decline in estimated future taxable income resulting from the downturn in financial and banking businesses caused by disruptions in the global financial markets.

The effective income tax rate of 48.7% for the fiscal year ended March 31, 2007 was 8.1 percentage points higher than the combined normal effective statutory tax rate of 40.6%. This higher tax rate primarily reflected an addition of valuation allowance for certain companies, including a subsidiary in the consumer finance business.

The effective income tax rate of 31.2% for the fiscal year ended March 31, 2006 was 9.4 percentage points lower than the combined normal effective statutory tax rate of 40.6%. This lower tax rate primarily reflected realization of previously unrecognized tax effects in conjunction with the liquidation of certain subsidiaries and recognition of tax benefits through the reorganization of business within the MUFG Group, which were partly offset by certain items, including minority interests and tax expense on capital transactions by a subsidiary.

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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. Accordingly, the format and information is not consistent with our consolidated financial statements prepared on the basis of US GAAP. For example, operating profit does not reflect items such as a part of provision (credit) for credit losses (primarily an equivalent of formula allowance under US GAAP), foreign exchange gains (losses) and equity investment securities gains (losses).

We operate our main businesses under an integrated business group system, which integrates the operations of BTMU, MUTB, MUS, Mitsubishi UFJ NICOS and other subsidiaries in the following three areas Retail, Corporate, and Trust Assets. This integrated business group system is intended to enhance synergies by promoting more effective and efficient collaboration between our subsidiaries. Under this system, as the holding company, we formulate 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, 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 March 31, 2008, BTMU owned approximately 65% of UNBC, whose shares are listed on the New York Stock Exchange. UNBC is a bank holding company, whose primary subsidiary, Union Bank of California, N.A., or UBOC, is one of the largest commercial banks in California by both total assets and total deposits. UNBC provides a wide range of financial services to consumers, small businesses, middle market companies and major corporations, primarily in California, Oregon and Washington but also nationally and internationally. On August 29, 2008, BTMU commenced a cash tender offer to acquire all of the shares of UNBC s common stock not owned by us. For further information, see Recent Developments.

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

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

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

The following table sets forth the net revenue, operating expenses and operating profits (loss) of each of our business segments for the periods indicated. Our merger with UFJ Holdings completed on October 1, 2005 was the major factor in the changes in many of the items in our consolidated statements of operations between the fiscal years ended March 31, 2006 and 2007. The results for the fiscal year ended March 31, 2006 reflect the pre-merger results of MTFG for the six months ended September 30, 2005 and the post-merger results of MUFG for the six months ended March 31, 2006. The results for the fiscal years ended March 31, 2007 and 2008 reflect the post-merger results of MUFG for the full twelve-month period. Effective April 1, 2007, there were changes made in the managerial accounting methods, including those regarding revenue and expense distribution among MUFG s business segments. The presentation set forth below has been reclassified to conform to the new basis of managerial accounting. For further information, see Note 29 to our consolidated financial statements included elsewhere in this Annual Report.

(in billions)	Integrated Retail Banking Business Group	Integrated Corporate Banking Business Group					Integrated Trust Assets Business Group	Global Markets	Other	Total
		Domestic	Overseas			Total				
			Other than UNBC	UNBC	Overseas total					
Fiscal year ended March 31, 2006										
Net revenue	¥ 918.2	¥ 1,040.7	¥ 234.7	¥ 350.3	¥ 585.0	¥ 1,625.7	¥ 123.4	¥ 369.8	¥ (31.4)	¥ 3,005.7
Operating expenses	624.4	389.1	157.4	202.3	359.7	748.8	75.6	47.2	137.3	1,633.3
Operating profit (loss)	¥ 293.8	¥ 651.6	¥ 77.3	¥ 148.0	¥ 225.3	¥ 876.9	¥ 47.8	¥ 322.6	¥ (168.7)	¥ 1,372.4
Fiscal year ended March 31, 2007										
Net revenue	¥ 1,300.1	¥ 1,297.6	¥ 303.4	¥ 324.3	¥ 627.7	¥ 1,925.3	¥ 194.2	¥ 367.9	¥ 14.8	¥ 3,802.3
Operating expenses	919.5	537.5	178.4	200.8	379.2	916.7	103.8	54.9	177.0	2,171.9
Operating profit (loss)	¥ 380.6	¥ 760.1	¥ 125.0	¥ 123.5	¥ 248.5	¥ 1,008.6	¥ 90.4	¥ 313.0	¥ (162.2)	¥ 1,630.4
Fiscal year ended March 31, 2008										
Net revenue	¥ 1,328.9	¥ 1,190.4	¥ 305.1	¥ 296.4	¥ 601.5	¥ 1,791.9	¥ 198.5	¥ 275.3	¥ 25.5	¥ 3,620.1
Operating expenses	957.8	572.0	183.4	187.6	371.0	943.0	98.5	56.8	192.8	2,248.9
Operating profit (loss)	¥ 371.1	¥ 618.4	¥ 121.7	¥ 108.8	¥ 230.5	¥ 848.9	¥ 100.0	¥ 218.5	¥ (167.3)	¥ 1,371.2

Fiscal Year Ended March 31, 2008 Compared to Fiscal Year Ended March 31, 2007

Net revenue of the Integrated Retail Banking Business Group increased ¥28.8 billion from ¥1,300.1 billion for the fiscal year ended March 31, 2007 to ¥1,328.9 billion for the fiscal year ended March 31, 2008. 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 net fees and revenue from the deposits and the revenue from kabu.com Securities, an online securities company that became a consolidated subsidiary during the fiscal year ended March 31, 2008.

Operating expenses of the Integrated Retail Banking Business Group increased ¥38.3 billion from ¥919.5 billion for the fiscal year ended March 31, 2007 to ¥957.8 billion for the fiscal year ended March 31, 2008. The increase in operating expenses was due to an increase in expenses related to the integration of IT systems mainly for our merged commercial bank subsidiaries.

Operating profit of the Integrated Retail Banking Business Group decreased ¥9.5 billion from ¥380.6 billion for the fiscal year ended March 31, 2007 to ¥371.1 billion for the fiscal year ended March 31, 2008. This decrease was mainly due to the increase in operating expenses as stated above.

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Net revenue of the Integrated Corporate Banking Business Group decreased ¥133.4 billion from ¥1,925.3 billion for the fiscal year ended March 31, 2007 to ¥1,791.9 billion for the fiscal year ended March 31, 2008. Net revenue of the Integrated Corporate Banking Business Group mainly consists of revenues from lending and other commercial banking operations, investment banking and trust banking businesses in relation to corporate clients, as well as fees of subsidiaries within the Integrated Corporate Banking Business Group. The decrease in net revenue was mainly due to decreased net revenue in domestic businesses resulting from a decrease in interest spread and lending volume.

With regard to the domestic businesses, net revenue of ¥1,190.4 billion, a decrease of ¥107.2 billion from the previous fiscal year, was recorded for the fiscal year ended March 31, 2008. This decrease was mainly due to a decrease in net interest income from loans and fees related to securities businesses. Intensified competition with other financial institutions increased downward pressure on the interest spread of our lending operations to large and medium-sized Japanese companies, and the recent deterioration in financial markets led to lower transaction volume in securities businesses.

With regard to the overseas businesses, net revenue of ¥601.5 billion, a decrease of ¥26.2 billion from the previous fiscal year, was recorded for the fiscal year ended March 31, 2008. Although lending and foreign exchange businesses to Japanese and non-Japanese corporate clients in growing markets in Asia as well as the markets in the Americas and Europe contributed to the expansion of our overseas businesses, net revenue decreased due to further appreciation of the Japanese yen against the US dollar.

Operating expenses of the Integrated Corporate Banking Business Group were ¥943.0 billion for the fiscal year ended March 31, 2008, an increase of ¥26.3 billion from the fiscal year ended March 31, 2007.

Operating profit of the Integrated Corporate Banking Business Group decreased ¥159.7 billion from ¥1,008.6 billion for the fiscal year ended March 31, 2007 to ¥848.9 billion for the fiscal year ended March 31, 2008. This decrease was mainly due to the decrease in net revenue as stated above.

Net revenue of the Integrated Trust Assets Business Group increased ¥4.3 billion from ¥194.2 billion for the fiscal year ended March 31, 2007 to ¥198.5 billion for the fiscal year ended March 31, 2008. Net revenue of the Integrated Trust Assets Business Group mainly consists of fees from asset management and administration services for products such as pension trusts and investment trusts. The 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 ¥5.3 billion from ¥103.8 billion for the fiscal year ended March 31, 2007 to ¥98.5 billion for the fiscal year ended March 31, 2008. This decrease was mainly due to a decrease in costs of retirement benefits.

Operating profit of the Integrated Trust Assets Business Group increased ¥9.6 billion from ¥90.4 billion for the fiscal year ended March 31, 2007 to ¥100.0 billion for the fiscal year ended March 31, 2008. This increase was mainly due to the decrease in operating expenses as stated above.

Net revenue of Global Markets decreased ¥92.6 billion from ¥367.9 billion for the fiscal year ended March 31, 2007 to ¥275.3 billion for the fiscal year ended March 31, 2008. The decrease in net revenue was mainly due to losses on sales and impairment losses of investment securities, including asset-backed securities.

Fiscal Year Ended March 31, 2007 Compared to Fiscal Year Ended March 31, 2006

Net revenue of the Integrated Retail Banking Business Group increased ¥381.9 billion, from ¥918.2 billion for the fiscal year ended March 31, 2006 to ¥1,300.1 billion for the fiscal year ended March 31, 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

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net revenue was mainly due to increases in net fees and revenue from the deposits and consumer finance businesses, including those of UFJ NICOS (presently Mitsubishi UFJ NICOS). These increases primarily reflected the fact that the fiscal year ended March 31, 2006 reflected only six months of the post-merger MUFG (with the first half of the fiscal year reflecting the pre-merger MTFG only), while the results for the fiscal year ended March 31, 2007 reflected the post-merger MUFG for the full twelve-month period. Other factors which increased net revenue were increases in fee income from investment trusts and in interest spread from our domestic Japanese Yen deposits.

Operating expenses of the Integrated Retail Banking Business Group increased ¥295.1 billion, from ¥624.4 billion for the fiscal year ended March 31, 2006 to ¥919.5 billion for the fiscal year ended March 31, 2007. The increase primarily reflected the fact that operating expenses for the fiscal year ended March 31, 2006 reflected only those of the post-merger MUFG for six months (with the first half of the fiscal year reflecting those of the pre-merger MTFG only), while operating expenses for the fiscal year ended March 31, 2007 reflected those of the post-merger MUFG for the full twelve-month period. An increase in general expenses due to the expansion of our consumer finance business also increased our operating expenses.

Operating profit of the Integrated Retail Banking Business Group increased ¥86.8 billion from ¥293.8 billion for the fiscal year ended March 31, 2006 to ¥380.6 billion for the fiscal year ended March 31, 2007. This increase was mainly due to the increase in net revenue, as stated above.

Net revenue of the Integrated Corporate Banking Business Group increased ¥299.6 billion, from ¥1,625.7 billion for the fiscal year ended March 31, 2006 to ¥1,925.3 billion for the fiscal year ended March 31, 2007. Net revenue of the Integrated Corporate Banking Business Group mainly consists of revenue from lending and other commercial banking operations, investment banking and trust banking businesses in relation to corporate clients, as well as fees of subsidiaries within the Integrated Corporate Banking Business Group. The increase in net revenue was due mainly to increased net revenue in domestic businesses, resulting from the merger with UFJ Holdings.

With regard to the domestic businesses, net revenue of ¥1,297.6 billion, an increase of ¥256.9 billion from the previous fiscal year, was recorded for the fiscal year ended March 31, 2007. The increase primarily reflected the fact that net revenue for the fiscal year ended March 31, 2006 reflected only that of the post-merger MUFG for six months (with the first half of the fiscal year reflecting that of the pre-merger MTFG only), while net revenue for the fiscal year ended March 31, 2007 reflected that of the post-merger MUFG for the full twelve- month period. As a result, net revenue in most areas, such as net interest income from loans, and fees related to investment banking, settlements and securities businesses, increased. A decrease in interest spread from our lending operations to large- and medium-sized Japanese companies, due to the improved credit of many borrowers and increased competition with other financial institutions, partially offset the increase in net revenue.

With regard to the overseas businesses, net revenue of ¥627.7 billion, an increase of ¥42.7 billion from the previous fiscal year, was recorded for the fiscal year ended March 31, 2007. This increase was mainly due to increased overseas businesses mainly consisting of loans to Japanese corporate clients situated outside Japan. This increase primarily reflected the fact that the fiscal year ended March 31, 2006 reflected only six months of the post-merger MUFG (with the first half of the fiscal year reflecting the pre-merger MTFG only), while the results for the fiscal year ended March 31, 2007 reflected the post-merger MUFG for the full twelve-month period. An increase in lending and foreign exchange businesses to Japanese and non-Japanese corporate clients situated in Asia, excluding Japan, also contributed to the increase in net revenue. On the other hand, net revenue at UNBC decreased mainly due to a decrease in net interest income, caused by the shift in customer deposits from non-interest bearing deposits to interest bearing deposits or other investments, in response to rising short-term interest rates in the United States.

Operating expenses of the Integrated Corporate Banking Business Group increased ¥167.9 billion, from ¥748.8 billion for the fiscal year ended March 31, 2006 to ¥916.7 billion for the fiscal year ended March 31, 2007. The increase primarily reflected the fact that operating expenses for the fiscal year ended March 31, 2006

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reflected only those of the post-merger MUFG for six months (with the first half of the fiscal year reflecting those of the pre-merger MTFG only), while operating expenses for the fiscal year ended March 31, 2007 reflected those of the post-merger MUFG for the full twelve-month period.

Operating profit of the Integrated Corporate Banking Business Group increased ¥131.7 billion, from ¥876.9 billion for the fiscal year ended March 31, 2006 to ¥1,008.6 billion for the fiscal year ended March 31, 2007. This increase was due mainly to the increase in net revenue as stated above.

Net revenue of the Integrated Trust Assets Business Group increased ¥70.8 billion, from ¥123.4 billion for the fiscal year ended March 31, 2006 to ¥194.2 billion for the fiscal year ended March 31, 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 investment trusts. The increase in net revenue was mainly due to an increase in business in pension products and investment trusts and the change in the managerial accounting method applied to trust fees. The managerial accounting change resulted in a ¥7.0 billion increase in net revenue and operating profit for the fiscal year ended March 31, 2007 compared to that for the fiscal year ended March 31, 2006. The consolidation of The Master Trust Bank of Japan, Ltd. and KOKUSAI Asset Management Co, Ltd. also contributed to the increase in net revenue. In addition, the increase in net revenue is partly attributable to the fact that net revenue for the fiscal year ended March 31, 2006 reflected only that of the post-merger MUFG for six months (with the first half of the fiscal year reflecting that of the pre-merger MTFG only), while net revenue for the fiscal year ended March 31, 2007 reflected that of the post-merger MUFG for the full twelve-month period.

Operating expenses of the Integrated Trust Assets Business Group increased ¥28.2 billion, from ¥75.6 billion for the fiscal year ended March 31, 2006 to ¥103.8 billion for the fiscal year ended March 31, 2007. The increase primarily reflected the fact that operating expenses for the fiscal year ended March 31, 2006 reflected only those of the post-merger MUFG for six months (with the first half of the fiscal year reflecting those of the pre-merger MTFG only), while operating expenses for the fiscal year ended March 31, 2007 reflected those of the post-merger MUFG for the full twelve-month period. The addition of newly consolidated subsidiaries also contributed to the increase in operating expenses.

Operating profit of the Integrated Trust Assets Business Group increased ¥42.6 billion, from ¥47.8 billion for the fiscal year ended March 31, 2006 to ¥90.4 billion for the fiscal year ended March 31, 2007. This increase was due mainly to the increase in net revenue as stated above.

Net revenue of Global Markets decreased ¥1.9 billion, from ¥369.8 billion for the fiscal year ended March 31, 2006 to ¥367.9 billion for the fiscal year ended March 31, 2007. The decrease in net revenue was mainly caused by the rise in Japanese and foreign currency interest rates, which resulted in a decline in revenue from our bond trading operations in such currencies. This decrease was partially offset by the fact that the fiscal year ended March 31, 2006 reflected only six months of the post-merger MUFG (with the first half of the fiscal year reflecting the pre-merger MTFG only), while the results for the fiscal year ended March 31, 2007 reflected the post-merger MUFG for the full twelve-month period.

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Geographic Segment Analysis

The table immediately below sets forth our total revenue, income from continuing operations before income tax expense and cumulative effect of a change in accounting principle and net income (loss) on a geographic basis for the fiscal years ended March 31, 2006, 2007 and 2008. Assets, income and expenses attributable to foreign operations are allocated to geographical areas based on the domicile of the debtors and customers. For further information, see Note 30 to our consolidated financial statements included elsewhere in this Annual Report.

	Fiscal years ended March 31,		
	2006	**2007**	**2008**
		(in billions)	
Total revenue (interest income and non-interest income):			
Domestic	¥ 2,168.6	¥ 3,668.0	¥ 4,691.0
Foreign:			
United States of America	907.4	1,191.6	228.1
Europe	221.1	540.6	699.8
Asia/Oceania excluding Japan	179.3	270.2	442.0
Other areas(1)	121.6	193.3	84.0
Total foreign	1,429.4	2,195.7	1,453.9
Total	¥ 3,598.0	¥ 5,863.7	¥ 6,144.9
Income (loss) from continuing operations before income tax expense and cumulative effect of a change in accounting principle:			
Domestic	¥ (25.7)	¥ 236.8	¥ 280.2
Foreign:			
United States of America	367.9	462.9	(517.6)
Europe	53.6	254.5	91.8
Asia/Oceania excluding Japan	65.5	83.5	183.9
Other areas(1)	68.4	97.2	(25.9)
Total foreign	555.4	898.1	(267.8)
Total	¥ 529.7	¥ 1,134.9	¥ 12.4
Net income (loss):			
Domestic	¥ (78.4)	¥ 63.0	¥ (227.1)
Foreign:			
United States of America	285.3	248.9	(637.3)
Europe	44.4	169.2	121.3
Asia/Oceania excluding Japan	56.6	44.2	232.2
Other areas(1)	55.6	56.0	(31.5)
Total foreign	441.9	518.3	(315.3)
Total	¥ 363.5	¥ 581.3	¥ (542.4)

Note:

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

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Fiscal Year Ended March 31, 2008 Compared to Fiscal Year Ended March 31, 2007

Domestic net loss for the fiscal year ended March 31, 2008 was ¥227.1 billion, compared to a net income of ¥63.0 billion for the fiscal year ended March 31, 2007. This deterioration was mainly due to our recording an impairment of goodwill for the fiscal year ended March 31, 2008.

Foreign net loss for the fiscal year ended March 31, 2008 was ¥315.3 billion, compared to a foreign net income of ¥518.3 billion for the fiscal year ended March 31, 2007. This deterioration primarily reflected the net loss in the United States mainly due to an increase in impairment losses on investment securities denominated in US dollars.

Fiscal Year Ended March 31, 2007 Compared to Fiscal Year Ended March 31, 2006

Domestic net income for the fiscal year ended March 31, 2007 was ¥63.0 billion, compared to a net loss of ¥78.4 billion for the fiscal year ended March 31, 2006. This improvement primarily reflected the increase in non-interest income due to increases in net trading profits and net investment securities gains and a decrease in net foreign exchange losses.

Foreign net income for the fiscal year ended March 31, 2007 was ¥518.3 billion, compared to ¥441.9 billion for the fiscal year ended March 31, 2006.

Effect of Change in Exchange Rates on Foreign Currency Translation

Fiscal Year Ended March 31, 2008 Compared to Fiscal Year Ended March 31, 2007

The average exchange rate for the fiscal year ended March 31, 2008 was ¥114.29 per US$1.00, compared to the prior fiscal year s average exchange rate of ¥117.02 per US$1.00. The average exchange rate for the conversion of the US dollar financial statements of some of our foreign subsidiaries for the fiscal year ended December 31, 2007 was ¥117.84 per US$1.00, compared to the average exchange rate for the fiscal year ended December 31, 2006 of ¥116.38 per US$1.00.

The change in the average exchange rate of the Japanese yen against the US dollar and other foreign currencies had the effect of increasing total revenue by ¥30.7 billion, net interest income by ¥12.3 billion and income before income taxes by ¥0.3 billion, respectively, for the fiscal year ended March 31, 2008.

Fiscal Year Ended March 31, 2007 Compared to Fiscal Year Ended March 31, 2006

The average exchange rate for the fiscal year ended March 31, 2007 was ¥117.02 per US$1.00, compared to the prior fiscal year s average exchange rate of ¥113.31 per US$1.00. The average exchange rate for the conversion of the US dollar financial statements of some of our foreign subsidiaries for the fiscal year ended December 31, 2006 was ¥116.38 per US$1.00, compared to the average exchange rate for the fiscal year ended December 31, 2005 of ¥110.21 per US$1.00.

The change in the average exchange rate of the Japanese yen against the US dollar and other foreign currencies had the effect of increasing total revenue by approximately ¥105 billion, net interest income by approximately ¥37 billion and income before income taxes by approximately ¥19 billion, respectively, for the fiscal year ended March 31, 2007.

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B. Liquidity and Capital Resources

Financial Condition

Total Assets

Our total assets at March 31, 2008 were ¥190.73 trillion, an increase of ¥4.53 trillion from ¥ 186.20 trillion at March 31, 2007. The increase in total assets mainly reflected increases in net loans of ¥3.66 trillion, trading account assets of ¥2.97 trillion, receivables under resale agreement of ¥ 2.55 trillion, and receivables under securities borrowing transactions of ¥2.01 trillion. These increases were partially offset by a decrease in investment securities of ¥7.23 trillion primarily due to the sale of Japanese government bonds to take advantage of lower market interest rates.

We have allocated a substantial portion of our assets to international activities. As a result, reported amounts are affected by changes in the value of the Japanese yen against the US dollar and other foreign currencies. Foreign assets are denominated primarily in US dollars. The following table shows our total assets at March 31, 2007 and 2008 by geographic region based principally on the domicile of the obligors:

	At March 31, 2007	At March 31, 2008
	(in trillions)	
Japan	¥ 143.11	¥ 136.67
Foreign:		
United States of America	19.21	19.98
Europe	12.67	19.58
Asia/Oceania excluding Japan	6.67	8.25
Other areas(1)	4.54	6.25
Total foreign	43.09	54.06
Total	¥ 186.20	¥ 190.73

Note:

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

At March 31, 2008, the foreign exchange rate expressed in Japanese yen per US$1.00 by BTMU was ¥100.19, as compared with ¥118.05 at March 30, 2007. The Japanese yen amount of foreign currency-denominated assets and liabilities decreases as the relevant exchange rates resulted in an increase in the value of the Japanese yen relative to such foreign currencies. The appreciation of the Japanese yen against the US dollar and other foreign currencies during the fiscal year ended March 31, 2008 decreased the Japanese yen amount of our total assets by ¥10.56 trillion.

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Loan Portfolio

The following table sets forth our loans outstanding, before deduction of allowance for credit losses, at March 31, 2007 and 2008, 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. Classification of loans by industry at March 31, 2007 has been restated. For further information, see Note 7 to our consolidated financial statements included elsewhere in this Annual report.

	At March 31, 2007 (Restated)	2008
	(in billions)	
Domestic[1]:		
Manufacturing	¥ 10,988.3	¥ 11,322.1
Construction	1,843.0	1,759.4
Real estate	8,307.4	8,248.0
Services	7,069.1	6,707.4
Wholesale and retail	9,430.0	9,437.0
Banks and other financial institutions[2]	4,484.3	4,825.4
Communication and information services	1,170.0	1,152.7
Other industries	10,264.7	10,412.3
Consumer	23,818.0	23,908.6
Total domestic	77,374.8	77,772.9
Foreign:		
Governments and official institutions	374.2	316.8
Banks and other financial institutions[2]	1,694.9	2,100.1
Commercial and industrial	13,468.9	16,188.4
Other	2,460.9	2,708.0
Total foreign	17,998.9	21,313.3
Unearned income, unamortized premium net and deferred loan fees net	(50.9)	(84.1)
Total[3]	¥ 95,322.8	¥ 99,002.1

Notes:

(1) Since the credit administration system was upgraded, a precise breakdown of the balance of consumer loans by the type of proprietor business became available. As a result, the consumer balances at March 31, 2007 and 2008 do not include those loans to individuals who utilize loan proceeds to finance their proprietor activities and not for their personal financing needs. The balances at March 31, 2007 were reclassified accordingly.

(2) Loans to the so-called non-bank finance companies are generally included in the Banks and other financial institutions category. Non-bank finance companies are primarily engaged in consumer lending, factoring and credit card businesses.

(3) The above table includes loans held for sale of ¥113.6 billion at March 31, 2007 and ¥505.6 billion at March 31, 2008, which are carried at the lower of cost or estimated fair value.

Loans are our primary use of funds. The average loan balance accounted for 56.62% of total interest-earning assets for the fiscal year ended March 31, 2007 and 56.26% for the fiscal year ended March 31, 2008.

At March 31, 2008, our total loans were ¥99.00 trillion, representing an increase of ¥3.68 trillion from ¥95.32 trillion at March 31, 2007. Before unearned income, unamortized premiums net and deferred loan fees net, our loan balance at March 31, 2008 consisted of ¥77.77 trillion of domestic loans and ¥21.31 trillion of foreign loans, while the loan balance at March 31, 2007 consisted of ¥77.37 trillion of domestic loans and ¥18.00 trillion of foreign loans. Between March 31, 2007 and March 31, 2008, domestic loans increased ¥0.40 trillion and foreign loans increased ¥3.31 trillion.

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Domestic loans outstanding at March 31, 2008 remained approximately at the same level as those at March 31, 2007. Breaking down the domestic portfolio by industry segment, the loan balance for manufacturing increased ¥0.33 trillion and the loan balance for banks and other financial institutions increased ¥0.34 trillion, while the loan balance for services decreased ¥0.36 trillion.

Despite foreign corporations increasing need for funds, the ability of corporations to obtain funds from the capital markets mainly in the United States and Europe was affected by the recent disruptions in the financial markets. The recent disruptions in the financial markets also caused US and European banks to reduce lending activity. As a result, loans to our customers increased mainly in the United States and Europe during the fiscal year ended March 31, 2008.

Allowance for Credit Losses, Nonperforming and Past Due Loans

The following table shows a summary of the changes in the allowance for credit losses for the fiscal years ended March 31, 2006, 2007 and 2008:

	Fiscal years ended March 31, 2006	2007 (in billions)	2008
Balance at beginning of fiscal year	¥ 739.9	¥ 1,012.2	¥ 1,112.5
Additions resulting from the merger with UFJ Holdings(1)	287.5		
Provision for credit losses	110.2	358.6	385.7
Charge-offs:			
Domestic	(153.6)	(289.2)	(380.0)
Foreign	(11.2)	(13.9)	(6.5)
Total	(164.8)	(303.1)	(386.5)
Recoveries:			
Domestic	11.4	35.5	28.5
Foreign	17.2	5.0	2.1
Total	28.6	40.5	30.6
Net charge-offs	(136.2)	(262.6)	(355.9)
Others(2)	10.8	4.3	(7.4)
Balance at end of fiscal year	¥ 1,012.2	¥ 1,112.5	¥ 1,134.9

Notes:

(1) Additions resulting from the merger with UFJ Holdings represent the allowance for credit losses for acquired loans outside the scope of SOP 03-3. The allowance for credit losses on loans within the scope of SOP 03-3 was not carried over.

(2) Others primarily include foreign currency translation adjustments.

As previously discussed, the provision for credit losses for the fiscal year ended March 31, 2008 was ¥385.7 billion, an increase of ¥27.1 billion from ¥358.6 billion for the fiscal year ended March 31, 2007. The increase in the provision for credit losses was mainly due to the downgrade in credit rating of certain overseas borrowers.

For the fiscal year ended March 31, 2008, the ratio of the provision for the credit losses of ¥385.7 billion to the average loan balance of ¥97.04 trillion was 0.40%, and that to the total average interest-earning assets of ¥172.47 trillion was 0.22%.

Charge-offs for the fiscal year ended March 31, 2008 were ¥386.5 billion, an increase of ¥83.4 billion from ¥303.1 billion for the fiscal year ended March 31, 2007. The increase in the charge-offs was mainly due to increases in the charge-offs for the domestic manufacturing, wholesale and retail segments.

The total allowance at March 31, 2008 was ¥1,134.9 billion, an increase of ¥22.4 billion from ¥1,112.5 billion at March 31, 2007 as we recorded a provision for credit losses of ¥385.7 billion, whereas we had net charge-offs of ¥355.9 billion.

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

	Principal amount of loans[1]	Allowance for credit losses[2]	Loans, net of allowance	Reversal of allowance for credit losses
	(in billions)			
For the fiscal year ended March 31, 2007	¥ 127.5	¥ 35.8	¥ 91.7	¥ (32.0)
For the fiscal year ended March 31, 2008	¥ 78.3	¥ 20.8	¥ 57.5	¥ (13.2)

Notes:

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

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

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

In connection with the sale of loans including performing loans, we recorded gains of ¥31.2 billion and ¥14.8 billion for the fiscal years ended March 31, 2007 and 2008, respectively.

The following table summarizes the allowance for credit losses by component at March 31, 2007 and 2008:

	At March 31, 2007	At March 31, 2008
	(in billions)	
Allocated allowance:		
Specific specifically identified problem loans	¥ 569.7	¥ 563.3
Large groups of smaller balance homogeneous loans	129.6	129.1
Loans exposed to specific country risk	0.1	0.1
Formula substandard, special mention and other loans	406.1	432.7
Unallocated allowance	7.0	9.7
Total allowance	¥ 1,112.5	¥ 1,134.9

Allowance Policy

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

Change in total allowance and provision for credit losses

At March 31, 2008, the total allowance for credit losses was ¥1,134.9 billion, representing 1.15% of our total loan portfolio. At March 31, 2007, the total allowance for credit losses was ¥1,112.5 billion, representing 1.17% of our total loan portfolio.

The total allowance increased from ¥1,112.5 billion at March 31, 2007 to ¥1,134.9 billion at March 31, 2008 primarily as a result of the downgrade in credit rating of certain borrowers.

The provision for credit losses for the fiscal year ended March 31, 2008 was ¥385.7 billion, an increase of ¥27.1 billion from ¥358.6 billion for the fiscal year ended March 31, 2007. The increase in the provision for credit losses was mainly due to the downgrade in credit rating of certain overseas borrowers.

During the fiscal year ended March 31, 2008, there were no significant changes in our general allowance policy, which affected our allowance for credit losses for the period, resulting from directives, advice or counsel from governmental or regulatory bodies.

Allocated allowance for specifically identified problem loans

The allocated credit loss allowance for specifically identified problem loans represents the allowance against impaired loans required under SFAS No. 114, Accounting by Creditors for Impairment of a Loan. Impaired loans primarily include nonaccrual loans and restructured loans. We generally discontinue the accrual of interest income on loans when substantial doubt exists as to the full and timely collection of either principal or interest, or when principal or interest is contractually past due one month or more with respect to loans of our domestic banking subsidiaries, including BTMU and MUTB, and 90 days or more with respect to loans of certain banking subsidiaries abroad. Loans are classified as restructured loans when we grant a concession to borrowers for economic or legal reasons related to the borrowers financial difficulties.

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

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The following table summarizes nonaccrual and restructured loans, and accruing loans that are contractually past due 90 days or more as to principal or interest payments, at March 31, 2007 and 2008:

	At March 31, 2007	At March 31, 2008
	(in billions, except percentages)	
Nonaccrual loans:		
Domestic:(1)		
Manufacturing	¥ 82.2	¥ 109.1
Construction	45.0	44.3
Real estate	142.7	164.5
Services	140.5	142.8
Wholesale and retail	133.4	156.8
Banks and other financial institutions	16.7	10.6
Communication and information services	32.0	45.1
Other industries	140.2	36.2
Consumer	301.8	318.9
Total domestic	1,034.5	1,028.3
Foreign	51.8	116.2
Total nonaccrual loans	1,086.3	1,144.5
Restructured loans:		
Domestic:(1)		
Manufacturing	103.7	79.0
Construction	14.0	16.4
Real estate	98.4	119.3
Services	50.2	32.7
Wholesale and retail	111.3	32.1
Banks and other financial institutions	0.6	2.0
Communication and information services	2.9	2.6
Other industries	93.9	145.5
Consumer	73.6	62.6
Total domestic	548.6	492.2
Foreign	42.1	25.1
Total restructured loans	590.7	517.3
Accruing loans contractually past due 90 days or more:		
Domestic	20.7	14.9
Foreign	1.8	3.0
Total accruing loans contractually past due 90 days or more	22.5	17.9
Total	¥ 1,699.5	¥ 1,679.7
Total loans	¥ 95,322.8	¥ 99,002.1
Nonaccrual and restructured loans, and accruing loans contractually past due 90 days or more as a percentage of total loans	1.78%	1.70%

Note:

(1) Since the credit administration system was upgraded, a precise breakdown of the balance of consumer loans by the type of proprietor business became available. As a result, the consumer balance at March 31, 2007 and 2008 do not include those loans to individuals who utilize loan proceeds to finance their proprietor activities and not for their personal financing needs. The balance at March 31, 2007 were reclassified accordingly.

Nonaccrual and restructured loans and accruing loans contractually past due 90 days or more decreased ¥19.8 billion from March 31, 2007 to ¥1,679.7 billion at March 31, 2008. Similarly, the percentage of nonperforming loans to total loans decreased to 1.70% at March 31, 2008 from 1.78% at March 31, 2007.

Total nonaccrual loans were ¥1,144.5 billion at March 31, 2008, an increase of ¥58.2 billion from ¥1,086.3 billion at March 31, 2007. While domestic nonaccrual loans at March 31, 2008 remained approximately at the same level as those at March 31, 2007, foreign nonaccrual loans were increased ¥64.4 billion between March 31, 2007 and 2008, mainly due to the downgrade in credit rating of certain overseas borrowers. Domestic nonaccrual loans in other industries decreased ¥104.0 billion mainly due to the upgrade in credit rating of certain borrowers.

Total restructured loans were ¥517.3 billion at March 31, 2008, a decrease of ¥73.4 billion from ¥590.7 billion at March 31, 2007. Domestic restructured loans decreased ¥56.4 billion to ¥492.2 billion at March 31, 2008 from ¥548.6 billion at March 31, 2007 mainly due to the upgrade in credit rating of certain large borrowers. While the restructured loans in the wholesale and retail segments decreased ¥79.2 billion and the restructured loans in the manufacturing segments decreased ¥24.7 billion, those in other industries increased ¥51.6 billion.

The following table summarizes the balances of impaired loans and related impairment allowances at March 31, 2007 and 2008, excluding smaller-balance homogeneous loans:

	At March 31,			
	2007		2008	
	Loan balance	Impairment allowance	Loan balance	Impairment allowance
	(in billions)			
Requiring an impairment allowance	¥ 1,118.9	¥ 569.7	¥ 1,131.8	¥ 563.3
Not requiring an impairment allowance(1)	263.1		311.8	
Total(2)	¥ 1,382.0	¥ 569.7	¥ 1,443.6	¥ 563.3
Percentage of the allocated allowance to total impaired loans	41.2%		39.0%	

Notes:

(1) These loans do not require an allowance for credit losses under SFAS No. 114 since the fair values of the impaired loans equal or exceed the recorded investments in the loans.

(2) In addition to impaired loans presented in the above table, there were loans held for sale that were impaired of ¥0.8 billion and ¥11.9 billion at March 31, 2007 and 2008, respectively.

Impaired loans increased ¥61.6 billion from ¥1,382.0 billion at March 31, 2007 to ¥1,443.6 billion at March 31, 2008, reflecting the increase in restructured loans.

The percentage of the allocated allowance to total impaired loans decreased 2.2 percentage points to 39.0% at March 31, 2008 from 41.2% at March 31, 2007.

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

Allocated allowance for large groups of smaller-balance homogeneous loans

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

The allocated credit loss allowance for large groups of smaller-balance homogeneous loans was ¥129.1 billion at March 31, 2008, a decrease of ¥0.5 billion from ¥129.6 billion at March 31, 2007.

Allocated allowance for country risk exposure

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

The allocated allowance for country risk exposure was approximately ¥0.1 billion at March 31, 2007 and 2008.

Formula allowance for substandard, special mention and unclassified loans

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

The formula allowance increased ¥26.6 billion from ¥406.1 billion at March 31, 2007 to ¥432.7 billion at March 31, 2008. The main reason for this increase was downgrades of loans to some borrowers to substandard loans or special mention loans.

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

UNBC, our largest overseas subsidiary, calculates the formula allowance by applying loss factors to outstanding loans and certain unused commitments, in each case based on the internal risk grade of such loans, leases and commitments. Changes in risk grades affect the amount of the formula allowance. Loss factors are based on their historical loss experience and may be adjusted for significant factors that, in management s judgment, affect the collectibility of the portfolio as of the evaluation date. Loss factors are developed in the following ways:

- loss factors for individually graded credits are derived from a migration model that tracks historical losses over a period, which we believe captures the inherent losses in our loan portfolio; and

- pooled loan loss factors (not individually graded loans) are based on expected net charge-offs. Pooled loans are loans that are homogeneous in nature, such as consumer installment, home equity, residential mortgage loans and certain small commercial and commercial real estate loans.

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

Unallocated allowance

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

- general economic and business conditions affecting our key lending areas;

- credit quality trends (including trends in nonperforming loans expected to result from existing conditions);

- collateral values;

- loan volumes and concentrations;

- specific industry conditions within portfolio segments;

- recent loss experience in particular segments of the portfolio;

- duration of the current economic cycle;

bank regulatory examination results; and

findings of internal credit examination.

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

The unallocated allowance increased ¥2.7 billion from ¥7.0 billion at March 31, 2007 to ¥9.7 billion at March 31, 2008. This increase resulted mainly from management s negative outlook of economic and specific industry conditions.

Allowance for Off-balance-sheet Credit Instruments

In addition to the allowance for credit losses on the loan portfolio, we maintain an allowance for credit losses on off-balance-sheet credit instruments, including commitments of credit, guarantees and standby letters of credit. This allowance is included in other liabilities. With regard to the specific allocated allowance for specifically identified credit exposure and the allocated formula allowance, we apply the same methodology that we use in determining the allowance for loan credit losses. The allowance for credit losses on off-balance-sheet credit instruments was ¥97.3 billion at March 31, 2008, an increase of ¥12.3 billion from ¥85.0 billion at March 31, 2007. The increase in the allowance for credit losses on off-balance-sheet credit instruments was mainly due to the downgrade in credit rating of certain overseas borrowers.

Investment Portfolio

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

Historically, we have held equity securities of some of our customers for strategic purposes, in particular, to maintain long-term relationships with these customers. However, we have been reducing the aggregate value of our equity securities because we believe that from a risk management perspective reducing the price fluctuation risk in our equity portfolio is imperative. As of March 31, 2008, the aggregate value of our marketable equity securities under Japanese GAAP satisfies the requirements of the legislation prohibiting banks from holding equity securities in excess of their Tier I capital.

Investment securities decreased ¥7.23 trillion, from ¥49.38 trillion at March 31, 2007 to ¥42.15 trillion at March 31, 2008 due primarily to the sale of Japanese government bonds to take advantage of lower market interest rates and to a lesser extent due to the decrease in net unrealized gain in marketable equity securities relevant to the decline in the Japanese stock market.

The following table shows information as to the amortized costs and estimated fair values of our investment securities available for sale and being held to maturity at March 31, 2007 and 2008:

	At March 31,					
	2007			2008		
	Amortized cost	Estimated fair value	Net unrealized gains	Amortized cost	Estimated fair value	Net unrealized gains (losses)
	(in billions)					
Securities available for sale:						
Debt securities:						
Japanese national government and Japanese government agency bonds	¥ 20,939.8	¥ 20,980.9	¥ 41.1	¥ 16,133.0	¥ 16,185.9	¥ 52.9
Japanese prefectural and municipal bonds	238.0	239.6	1.6	203.1	208.2	5.1
Foreign governments and official institutions bonds	3,469.2	3,538.1	68.9	3,637.6	3,670.8	33.2
Corporate bonds	6,060.3	6,226.1	165.8	5,281.3	5,408.0	126.7
Mortgage-backed securities	2,728.0	2,793.8	65.8	3,439.5	3,438.7	(0.8)
Asset-backed securities, excluding mortgage-backed securities	3,172.6	3,236.0	63.4	3,547.3	3,455.1	(92.2)
Other debt securities	14.1	14.8	0.7	19.2	18.9	(0.3)
Marketable equity securities	4,677.6	8,650.5	3,972.9	4,315.2	6,343.7	2,028.5
Total securities available for sale	¥ 41,299.6	¥ 45,679.8	¥ 4,380.2	¥ 36,576.2	¥ 38,729.3	¥ 2,153.1

Debt securities being held to maturity, principally Japanese government bonds	¥ 3,033.1	¥ 3,034.6	¥ 1.5	¥ 2,839.7	¥ 2,860.4	¥ 20.7

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The estimated fair value of available-for-sale securities decreased ¥6.95 trillion from ¥45.68 trillion at March 31, 2007 to ¥38.73 trillion at March 31, 2008. This decrease was primarily due to a decrease in our holdings of Japanese government bonds. As part of our asset-liability management operations, we decreased our Japanese government bond holdings, considering the interest rate market conditions and possible tightening of liquidity condition resulting from the effects of the market disruptions starting in the latter half of 2007.

Net unrealized gains on available-for-sale securities decreased ¥2.23 trillion from ¥4.38 trillion at March 31, 2007 to ¥2.15 trillion at March 31, 2008. This decrease consisted of a ¥1.95 trillion decrease in net unrealized gains on marketable equity securities and a ¥0.28 trillion decrease in net unrealized gains on debt securities. The decrease in net unrealized gains of ¥1.95 trillion on marketable equity securities was mainly due to the decrease in stock prices which negatively affected our holdings of Japanese equity securities. The decrease in net unrealized gains on debt securities was mainly due to the appreciation of the Japanese yen against the US dollar that negatively affected the yen value of our foreign mortgage-backed securities and asset-backed securities. The decline in market prices of asset-backed securitization products due to the deterioration in credit markets was also a factor resulting in our reporting net unrealized losses on mortgage-backed securities and asset-backed securities.

The amortized cost of securities being held to maturity decreased ¥0.19 trillion compared to the previous fiscal year. The decrease was mainly due to the redemption of Japanese government bonds.

Cash and Due from Banks

Cash and due from banks at March 31, 2008 was ¥4.09 trillion, an increase of ¥1.24 trillion from ¥2.85 trillion at March 31, 2007. The increase was primarily due to an increase in our deposit balance with the Bank of Japan, resulting from an increase in our total balance of time deposits.

Interest-earning Deposits in Other Banks

Interest-earning deposits in other banks fluctuate significantly from day to day depending upon financial market conditions. Interest-earning deposits in other banks at March 31, 2008 were ¥6.32 trillion, an increase of ¥0.26 trillion from ¥6.06 trillion at March 31, 2007. This increase primarily reflected an increase in released funds in Euro-yen markets.

Receivables under resale agreements

Receivables under resale agreements at March 31, 2008 was ¥7.11 trillion, an increase of ¥2.55 trillion from ¥4.56 trillion at March 31, 2007. The increase was primarily due to an increase in our overseas subsidiaries   transactions with institutional investors.

Goodwill

Goodwill at March 31, 2008 was ¥1.07 trillion, a decrease of ¥0.77 trillion from ¥1.84 trillion at March 31, 2007. This decrease was mainly because goodwill impairment loss of ¥893.7 billion was recognized for the fiscal year ended March 31, 2008, compared to no impairment for the previous fiscal year. For further information, see A. Operating Results Impairment of Goodwill.

Deferred Tax Assets

Deferred tax assets increased ¥0.34 trillion, from ¥0.56 trillion at March 31, 2007 to ¥0.90 trillion at March 31, 2008. This increase was primarily due to a decrease in deferred tax liabilities related to a decline in net unrealized gains on investment securities, which was partly offset by a decrease in deferred tax assets for utilized operating loss carryforwards and an additional valuation allowance related to operating loss carryforwards that were no longer deemed to be more likely than not to be realized due to a decline in estimated future taxable income resulting from the downturn in financial and banking businesses caused by disruptions in the global financial markets.

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Total Liabilities

At March 31, 2008, total liabilities were ¥182.24 trillion, an increase of ¥6.47 trillion from ¥175.77 trillion at March 31, 2007, as the total balance of deposits was ¥129.24 trillion, an increase of ¥2.65 trillion from ¥126.59 trillion at March 31, 2007. The increase in interest bearing deposits of ¥5.40 trillion compared to the previous fiscal year end was partially offset by the decrease in non-interest bearing deposits of ¥2.74 trillion.

The appreciation of the Japanese yen against the US dollar and other foreign currencies during the fiscal year ended March 31, 2008 decreased the Japanese yen amount of foreign currency-denominated liabilities by ¥9.02 trillion.

Deposits

Deposits are our primary source of funds. Total average balance of deposits increased ¥3.49 trillion from ¥123.53 trillion for the fiscal year ended March 31, 2007 to ¥127.02 trillion for the fiscal year ended March 31, 2008. This increase primarily reflected an increase of ¥3.78 trillion