

MITSUBISHI UFJ FINANCIAL GROUP INC

Form 20-F

July 23, 2012

Table of Contents

As filed with the Securities and Exchange Commission on July 23, 2012

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

WASHINGTON, D.C. 20549

**FORM 20-F**

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF

THE SECURITIES EXCHANGE ACT OF 1934

OR

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

THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended March 31, 2012

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 000-54189

## **KABUSHIKI KAISHA MITSUBISHI UFJ FINANCIAL GROUP**

(Exact name of Registrant as specified in its charter)

## **MITSUBISHI UFJ FINANCIAL GROUP, INC.**

(Translation of Registrant's name into English)

Japan

(Jurisdiction of incorporation or organization)

7-1, Marunouchi 2-chome

Chiyoda-ku, Tokyo 100-8330

Japan

(Address of principal executive offices)

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

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

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

<b>Title of each class</b>	<b>Name of each exchange on which registered</b>
Common stock, without par value	New York Stock Exchange <sup>(1)</sup>
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

Restricted Share Units granting rights to common stock pursuant to the UnionBanCal Corporation Stock Bonus Plan

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:

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At March 31, 2012, (1) 14,154,534,220 shares of common stock (including 10,471,043 shares of common stock held by the registrant and its consolidated subsidiaries as treasury stock), (2) 156,000,000 shares of first series of class 5 preferred stock, and (3) 1,000 shares of class 11 preferred stock.

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

Yes  No

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

Yes  No

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

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

Yes  No

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

Yes  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  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  International Financial Reporting Standards as issued  Other

by the International Accounting Standards Board

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

Item 17  Item 18

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

Yes  No

**Table of Contents****TABLE OF CONTENTS**

	<b>Page</b>
<u>Forward-Looking Statements</u>	2
Item 1. <u>Identity of Directors, Senior Management and Advisers</u>	3
Item 2. <u>Offer Statistics and Expected Timetable</u>	3
Item 3. <u>Key Information</u>	3
Item 4. <u>Information on the Company</u>	21
Item 4A. <u>Unresolved Staff Comments</u>	48
Item 5. <u>Operating and Financial Review and Prospects</u>	49
Item 6. <u>Directors, Senior Management and Employees</u>	127
Item 7. <u>Major Shareholders and Related Party Transactions</u>	144
Item 8. <u>Financial Information</u>	146
Item 9. <u>The Offer and Listing</u>	148
Item 10. <u>Additional Information</u>	149
Item 11. <u>Quantitative and Qualitative Disclosures about Credit, Market and Other Risk</u>	171
Item 12. <u>Description of Securities Other than Equity Securities</u>	193
Item 13. <u>Defaults, Dividend Arrearages and Delinquencies</u>	195
Item 14. <u>Material Modifications to the Rights of Security Holders and Use of Proceeds</u>	195
Item 15. <u>Controls and Procedures</u>	195
Item 16A. <u>Audit Committee Financial Expert</u>	199
Item 16B. <u>Code of Ethics</u>	199
Item 16C. <u>Principal Accountant Fees and Services</u>	199
Item 16D. <u>Exemptions from the Listing Standards for Audit Committees</u>	200
Item 16E. <u>Purchases of Equity Securities by the Issuer and Affiliated Purchasers</u>	201
Item 16F. <u>Change in Registrant's Certifying Accountant</u>	201
Item 16G. <u>Corporate Governance</u>	201
Item 16H. <u>Mine Safety Disclosure</u>	203
Item 17. <u>Financial Statements</u>	204
Item 18. <u>Financial Statements</u>	204
Item 19. <u>Exhibits</u>	204
<u>Selected Statistical Data</u>	A-1
<u>Consolidated Financial Statements</u>	F-1

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

When we refer in this Annual Report to MUFG, we, us, our and the Group, we generally mean Mitsubishi UFJ Financial Group, Inc. and its consolidated subsidiaries, but from time to time as the context requires, we mean Mitsubishi UFJ Financial Group, Inc. as an individual legal entity. Similarly, references to MTFG and UFJ Holdings are to Mitsubishi Tokyo Financial Group, Inc. and to UFJ Holdings, Inc., respectively, as well as to MTFG and UFJ Holdings and their respective consolidated subsidiaries, as the context requires. Unless the context otherwise requires, references in this Annual Report to the financial results or business of the MTFG group and the UFJ group refer to those of MTFG and UFJ Holdings and their respective consolidated subsidiaries. In addition, our banking subsidiaries refers to The Bank of Tokyo-Mitsubishi UFJ, Ltd. and Mitsubishi UFJ Trust and Banking Corporation and, as the context requires, their respective consolidated subsidiaries engaged in the banking business. References in this Annual Report to yen or ¥ are to Japanese yen, references to US dollars, US dollar, dollars, US\$ or United States dollars, references to euro or € are to the currency of the member states of the European Union, and references to £ are to British pounds sterling. Unless the context otherwise requires, references to the Great East Japan Earthquake generally mean the earthquake and the ensuing tsunami in the northeastern region of Japan that occurred on March 11, 2011, as well as the subsequent accidents at the Fukushima Daiichi Nuclear Power Plants. 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.

**Table of Contents**

**Forward-Looking Statements**

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

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

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

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

We 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.

**Table of Contents**

**PART I**

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

Not applicable.

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

Not applicable.

**Item 3. Key Information.**

**A. Selected Financial Data**

The selected statement of operations data and selected balance sheet data set forth below have been derived from our audited consolidated financial statements.

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

Upon the conversion of the convertible preferred stock issued to us by Morgan Stanley into shares of Morgan Stanley's common stock on June 30, 2011, we adopted the equity method of accounting for our investment in Morgan Stanley for the fiscal year ended March 31, 2012. Accordingly, certain financial data for the fiscal years ended March 31, 2010 and 2011 have been retroactively adjusted on a step-by-step basis as if the equity method of accounting had been in effect during the previous reporting periods.

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.

**Table of Contents**

	Fiscal years ended March 31,				
	2008	2009	2010	2011	2012
	(in millions, except per share data and number of shares)				
<b>Statement of operations data:</b>					
Interest income <sup>(1)</sup>	¥ 4,366,811	¥ 3,895,794	¥ 2,757,866	¥ 2,550,144	¥ 2,595,956
Interest expense	2,087,094	1,599,389	774,400	670,673	640,139
Net interest income	2,279,717	2,296,405	1,983,466	1,879,471	1,955,817
Provision for credit losses	385,740	626,947	647,793	292,035	223,809
Net interest income after provision for credit losses	1,893,977	1,669,458	1,335,673	1,587,436	1,732,008
Non-interest income	1,778,114	175,099	2,469,411	1,694,822	1,440,576
Non-interest expense	3,620,336	3,608,784	2,508,060	2,460,446	2,322,642
Income (loss) from continuing operations before income tax expense (benefit)	51,755	(1,764,227)	1,297,024	821,812	849,942
Income tax expense (benefit)	553,045	(259,928)	413,105	433,625	429,191
Income (loss) from continuing operations	(501,290)	(1,504,299)	883,919	388,187	420,751
Loss from discontinued operations - net	(2,670)				
Net income (loss) before attribution of noncontrolling interests	(503,960)	(1,504,299)	883,919	388,187	420,751
Net income (loss) attributable to noncontrolling interests	38,476	(36,259)	15,257	(64,458)	4,520
Net income (loss) attributable to Mitsubishi UFJ Financial Group	¥ (542,436)	¥ (1,468,040)	¥ 868,662	¥ 452,645	¥ 416,231
Net income (loss) available to common shareholders of Mitsubishi UFJ Financial Group	¥ (557,014)	¥ (1,491,593)	¥ 846,984	¥ 431,705	¥ 398,291
<b>Amounts per share:</b>					
Basic earnings (loss) per common share - income (loss) from continuing operations available to common shareholders of Mitsubishi UFJ Financial Group	¥ (53.79)	¥ (137.84)	¥ 68.72	¥ 30.55	¥ 28.17
Basic earnings (loss) per common share - net income (loss) available to common shareholders of Mitsubishi UFJ Financial Group	(54.05)	(137.84)	68.72	30.55	28.17
Diluted earnings (loss) per common share - income (loss) from continuing operations available to common shareholders of Mitsubishi UFJ Financial Group	(53.79)	(137.84)	68.59	30.43	28.09
Diluted earnings (loss) per common share - net income (loss) available to common shareholders of Mitsubishi UFJ Financial Group	(54.05)	(137.84)	68.59	30.43	28.09
Number of shares used to calculate basic earnings (loss) per common share (in thousands)	10,305,911	10,821,091	12,324,315	14,131,567	14,140,136
Number of shares used to calculate diluted earnings (loss) per common share (in thousands)	10,305,911	10,821,091	12,332,681 <sup>(2)</sup>	14,144,737 <sup>(2)</sup>	14,156,820 <sup>(2)</sup>
Cash dividends per share declared during the fiscal year:					
Common stock	¥ 13.00	¥ 14.00	¥ 11.00	¥ 12.00	¥ 12.00
	\$ 0.11	\$ 0.14	\$ 0.12	\$ 0.14	\$ 0.15
Preferred stock (Class 3)	¥ 60.00	¥ 60.00	¥ 60.00	¥ 30.00	
	\$ 0.51	\$ 0.61	\$ 0.65	\$ 0.34	
Preferred stock (Class 5)			¥ 100.50 <sup>(3)</sup>	¥ 115.00	¥ 115.00
			\$ 1.10	\$ 1.33	\$ 1.45
Preferred stock (Class 8)	¥ 15.90	¥ 7.95			
	\$ 0.14	\$ 0.07			
Preferred stock (Class 11)	¥ 5.30	¥ 5.30	¥ 5.30	¥ 5.30	¥ 5.30
	\$ 0.05	\$ 0.05	\$ 0.06	\$ 0.06	\$ 0.07
Preferred stock (Class 12)	¥ 11.50	¥ 11.50			
	\$ 0.10	\$ 0.12			





**Table of Contents**

	2008	2009	At March 31, 2010 (in millions)	2011	2012
<b>Balance sheet data:</b>					
Total assets	¥ 195,766,083	¥ 193,499,417	¥ 200,081,462	¥ 202,850,243	¥ 215,202,514
Loans, net of allowance for credit losses	97,867,139	99,153,703	90,870,295	86,261,519	91,012,736
Total liabilities	186,612,152	187,032,297	190,980,363	194,187,331	206,344,067
Deposits	129,240,128	128,331,052	135,472,496	136,631,704	139,493,730
Long-term debt	13,675,250	13,273,288	14,162,424	13,356,728	12,593,062
Total equity	9,153,931	6,467,120	9,101,099	8,662,912	8,858,447
Capital stock - Common stock	1,084,708	1,127,552	1,643,238	1,644,132	1,645,144

	2008	2009	Fiscal years ended March 31, 2010 (in millions, except percentages)	2011	2012
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
<b>Other financial data:</b>					
Average balances:					
Interest-earning assets	¥ 172,467,323	¥ 173,242,745	¥ 175,370,688	¥ 180,260,385	¥ 184,179,147
Interest-bearing liabilities	156,151,982	156,084,859	158,156,363	161,344,664	165,420,569
Total assets	197,946,692	196,214,390	195,571,703	204,781,984	211,835,389
Total equity	10,038,425	8,069,262	7,871,505	8,987,129	8,594,310

	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
<b>Return on equity and assets:</b>					
Net income (loss) available to common shareholders as a percentage of total average assets	(0.28)%	(0.76)%	0.43%	0.21%	0.19%
Net income (loss) available to common shareholders as a percentage of total average equity	(5.55)%	(18.48)%	10.76%	4.80%	4.63%
Dividends per common share as a percentage of basic earnings per common share	(4)	(4)	16.01%	39.28%	42.60%
Total average equity as a percentage of total average assets	5.07%	4.11%	4.02%	4.39%	4.06%
Net interest income as a percentage of total average interest-earning assets	1.32%	1.33%	1.13%	1.04%	1.06%

	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
<b>Credit quality data:</b>					
Allowance for credit losses	¥ 1,134,940	¥ 1,156,638	¥ 1,315,615	¥ 1,240,456	¥ 1,285,507
Allowance for credit losses as a percentage of loans	1.15%	1.15%	1.43%	1.42%	1.39%
Nonaccrual and restructured loans, and accruing loans contractually past due 90 days or more	¥ 1,679,672	¥ 1,792,597	¥ 2,007,619	¥ 2,064,477	¥ 2,178,541
Nonaccrual and restructured loans, and accruing loans contractually past due 90 days or more as a percentage of loans	1.70%	1.79%	2.18%	2.36%	2.36%
Allowance for credit losses as a percentage of nonaccrual and restructured loans, and accruing loans contractually past due 90 days or more	67.57%	64.52%	65.53%	60.09%	59.01%
Net loan charge-offs	¥ 355,892	¥ 576,852	¥ 468,400	¥ 342,100	¥ 173,370

	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Net loan charge-offs as a percentage of average loans	0.37%	0.58%	0.49%	0.39%	0.20%
Average interest rate spread	1.19%	1.23%	1.08%	0.99%	1.02%
Risk-adjusted capital ratio calculated under Japanese GAAP <sup>(5)</sup>	11.19%	11.77%	14.87%	14.89%	14.91%

## Notes:

- (1) Interest income for the fiscal year ended March 31, 2012 includes a gain of ¥139,320 million on conversion rate adjustment of convertible preferred stock. Exclusive of the one-time gain associated with the conversion, interest income would have been lower for the fiscal year ended March 31, 2012.
- (2) Includes the common shares potentially issuable by conversion of the Class 11 Preferred Stock.
- (3) Includes a cash dividend of ¥43.00 per share declared at the ordinary annual meeting of shareholders held on June 26, 2009, which was the annual dividend declared for the fiscal year ended March 31, 2009, and a cash dividend of ¥57.50 per share declared at the board of directors meeting held on November 18,

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2009, which represented one-half of the annual dividend declared for the fiscal year ended March 31, 2010.

- (4) Percentages of basic loss per common stock have not been presented because such information is not meaningful.
- (5) 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.

**Table of Contents****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 July 10, 2012, the noon buying rate was ¥79.44 to US\$1.00 and the inverse noon buying rate was US\$1.26 to ¥100.00.

	Year 2012					
	February	March	April	May	June	July <sup>(1)</sup>
High	¥ 81.10	¥ 83.78	¥ 82.62	¥ 80.36	¥ 80.52	¥ 79.95
Low	¥ 76.11	¥ 80.86	¥ 79.81	¥ 78.29	¥ 78.21	¥ 79.42

Note:

(1) Period from July 1, 2012 to July 10, 2012.

	Fiscal years ended March 31,				
	2008	2009	2010	2011	2012
Average (of month-end rates)	¥ 113.61	¥ 100.85	¥ 92.49	¥ 85.00	¥ 78.86

**B. Capitalization and Indebtedness**

Not applicable.

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

Not applicable.

**D. Risk Factors**

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

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

**Risks Related to Our Business**

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

Our performance is particularly affected by the general economic conditions of Japan where we are headquartered and conduct a significant amount of our business. As of March 31, 2010, 2011 and 2012, 74.5%, 71.9% and 69.1% of our total assets were related to Japanese domestic assets, respectively, including Japanese national government and Japanese government agency bonds, which accounted for 73.8%, 77.5% and 81.1% of our total investment securities portfolio, and 20.2%, 22.6% and 23.0% of our total assets, respectively. Moreover, 72.8% of our total interest and non-interest income for the fiscal year ended March 31, 2012 related to such income in Japan. Furthermore, as of March 31, 2012, our domestic loans in Japan accounted for approximately 73.8% of our total loans outstanding.

## Table of Contents

The Japanese economy slowed down in the quarter ended June 30, 2011 following the Great East Japan Earthquake in March 2011 and again in the third quarter ended December 31, 2011 as overseas economies deteriorated and the Japanese yen appreciated against other major currencies. The exchange rate between the Japanese yen and the US dollar fluctuated during the fiscal year ended March 31, 2012, with the yen appreciating to the highest rate for the fiscal year of ¥75.32 to the US dollar on October 31, 2011. As of July 10, 2012, the exchange rate was ¥79.25 to US\$1. The Japanese economy may further deteriorate if, for example, the yen continues to appreciate or remains at current levels against other currencies, consumer spending in Japan is negatively affected by various factors such as tax rate increases, or the global economy worsens due to the ongoing sovereign debt crisis in Europe. Shortages in electricity supply and electricity rate increases could also further adversely affect the Japanese economy. Growing global competition may adversely affect Japanese companies and, as a result, the Japanese economy as a whole. In addition, there is significant uncertainty surrounding political decision-making over, and the execution of measures in response to, issues that could have a significant impact on Japan's economy, including Japan's energy, tax and social security policies, issuance of government bonds as well as responses to the Great East Japan Earthquake. In recent periods, several credit rating agencies have downgraded the credit ratings of Japan's sovereign debt, including a downgrade by Moody's Japan K.K., or Moody's, in August 2011 and a downgrade by Fitch Ratings Japan Limited, or Fitch, in May 2012. For a detailed discussion on the business environment in Japan and abroad, see Item 5. Operating and Financial Review and Prospects Business Environment and Item 5. Operating and Financial Review and Prospects Recent Developments.

Since the accidents at the Fukushima Daiichi Nuclear Power Plants in March 2011, the Japanese electric utility industry has been experiencing significant difficulties and has been influenced by evolving public policy. In particular, The Tokyo Electric Power Company, Incorporated, or TEPCO, and the Nuclear Damage Liability Facilitation Fund, which is a government-supported fund, drafted a Comprehensive Special Business Plan to address TEPCO's problems following the accidents at the Fukushima Daiichi Nuclear Power Plants. That plan was approved by the Minister of Economy, Trade and Industry in May 2012. The plan provides for a ¥1 trillion capital injection into TEPCO by the Nuclear Damage Liability Facilitation Fund in July 2012. In addition, as part of the plan, TEPCO has requested its primary lenders, which includes us, to (1) maintain all existing credit lines until TEPCO can procure financing independently through corporate bond issuances, (2) re-lend any previous loans that TEPCO may have repaid between March 11 and September 30, 2011, and (3) provide additional debt financing of up to approximately ¥1 trillion in aggregate (including the amount provided in response to the request as described in (2) above). No request for debt-forgiveness was made to the lenders as part of the plan. We are carefully monitoring TEPCO's progress under the plan, and are currently considering providing the requested financial support to TEPCO if TEPCO's operations and financial standing are in accordance with the plan without any material change. Assuming that we had provided the additional debt financing requested by TEPCO under the plan as of March 31, 2012, our aggregate loans outstanding to the Japanese electric utility industry would have been approximately 2% of our total outstanding loans as of such date.

Since, as described above, our domestic loans in Japan accounted for a significant portion of our loan portfolio, deteriorating or stagnant economic conditions in Japan have resulted in, and will likely further cause, indirect adverse effects on our financial results such as increases in credit costs as the credit quality of some borrowers could deteriorate. For a further discussion, see Risks Related to Our Business We may suffer additional credit-related losses in the future if our borrowers are unable to repay their loans as expected or if the measures we take in reaction to, or in anticipation of, our borrowers' deteriorating repayment abilities prove inappropriate or insufficient.

In addition, our Japanese domestic marketable equity securities portfolio and Japanese government bond portfolio may be adversely affected, depending on how the Japanese economy performs in general and what governmental policies may be adopted in the future. Deteriorating or stagnant economic conditions in Japan may also result in a decrease in the volume of financial transactions in general, which in turn may reduce our domestic income from fees and commissions. For a further discussion of our results of operations on a geographic basis, see Item 5.A. Operating and Financial Review and Prospects Operating Results Geographic Segment Analysis.

**Table of Contents**

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

Global economic conditions remain volatile, and it is uncertain how the global economy will evolve over time. Especially, the financial turmoil caused by the credit crises in some European countries has negatively impacted wider markets, including those of both emerging and developed countries. As of March 31, 2012, based principally on the domicile of the obligors, assets related to Europe accounted for approximately 8.7% of our total assets, assets related to Asia and Oceania excluding Japan accounted for approximately 5.8% of our total assets, and assets related to the United States accounted for approximately 13.2% of our total assets. If the global economy deteriorates or the global economic recovery significantly slows down again, the availability of credit may become limited, and some of our borrowers may default on their loan obligations to us, increasing our credit losses. In addition, concerns over the sovereign debt problem in some European countries may limit liquidity in the global financial markets. Some of our credit derivative transactions may also be negatively affected, including the protection we sold through single name credit default swaps, index and basket credit default swaps, and credit linked notes. The notional amounts of these protections sold as of March 31, 2012 were ¥2.63 trillion, ¥0.67 trillion and ¥0.04 trillion, respectively. In addition, if credit market conditions worsen, our capital funding structure may need to be adjusted or our funding costs may increase, which could have a material adverse impact on our financial condition and results of operations.

Furthermore, we have incurred losses, and may incur further losses, as a result of changes in the fair value of our financial instruments resulting from weakening market conditions. For example, declines in the fair value of our investment securities, particularly equity investment securities, resulted in our recording impairment losses of ¥117.5 billion, ¥139.0 billion and ¥195.7 billion for the fiscal years ended March 31, 2010, 2011 and 2012, respectively. As of March 31, 2012, approximately 43% of our total assets were financial instruments for which we measure fair value on a recurring basis, and less than 0.5% of our total assets were financial instruments for which we measure fair value on a nonrecurring basis. Generally, in order to establish the fair value of these instruments, we rely on quoted market prices. If the value of these financial instruments declines, a corresponding write-down may be recognized in our consolidated statements of income. In addition, because we hold a large amount of investment securities, short-term fluctuations in the value of our securities may trigger losses or exit costs for us to manage our risk. For more information on our valuation method for financial instruments, see Item 5. Operating and Financial Review and Prospects Critical Accounting Estimates.

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

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

large borrowers become insolvent or must be restructured;

domestic or global economic conditions, either generally or in particular industries in which large borrowers operate, deteriorate;

the value of the collateral we hold, such as real estate or securities, declines; or

we are adversely affected by corporate credibility issues among our borrowers, to an extent that is worse than anticipated.

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As a percentage of total loans, nonaccrual and restructured loans and accruing loans contractually past due 90 days or more ranged from 1.70% to 2.36% as of the five recent fiscal year-ends, reaching its highest level of 2.36% as of March 31, 2011 and 2012. Nonaccrual and restructured loans and accruing loans contractually past due 90 days or more increased to ¥2.2 trillion at March 31, 2012, from ¥2.1 trillion at March 31, 2011, primarily due to an increase in such loans in our domestic loan portfolio. If the recession in Japan worsens again, our



## Table of Contents

problem loans and credit-related expenses may increase. An increase in problem loans and credit-related expenses would adversely affect our results of operations, weaken our financial condition and erode our capital base. For a discussion of our problem loans, see Item 5.B. Operating and Financial Review and Prospects Liquidity and Capital Resources Financial Condition and Selected Statistical Data Loan Portfolio.

Due to the nuclear power plant accidents in Fukushima Prefecture following the Great East Japan Earthquake in March 2011, certain areas in eastern Japan were affected by radiation contamination, and the Kanto region of Japan, where Tokyo is located, experienced electricity supply shortages. Electricity is expected to fall short in supply in wider regions of Japan. Electricity supply shortages are expected to have a significant negative impact on the recovery efforts in the northeastern region of Japan and could also disrupt the economic and industrial activities in other regions of Japan. Increased costs are expected to secure alternative sources of electricity, parts and other materials, and to provide financial support or compensation for affected individuals and companies. In addition, electricity rates have been raised, and may be further raised, which will affect our borrowers in Japan. As a result, our borrowers' financial condition and creditworthiness could deteriorate, and our credit-related expenses with respect to our domestic credit portfolio could increase.

We may provide additional loans, equity capital or other forms of support to troubled borrowers in order to facilitate their restructuring and revitalization efforts. We may also forbear from exercising some or all of our rights as a creditor against them, and we may forgive loans to them in conjunction with their debt restructurings. We may take these steps even when such steps might not be warranted from the perspective of our short-term or narrow economic interests or a technical analysis of our legal rights against those borrowers, in light of other factors such as our longer-term economic interests, and our commitment to support the Japanese economy. These practices may substantially increase our exposure to troubled borrowers and increase our losses. Credit losses may also increase if we elect, or are forced by economic or other considerations, to sell or write off our problem loans at a larger discount, in a larger amount or in a different time or manner, than we may otherwise want.

Although we, from time to time, enter into credit derivative transactions, including credit default swap contracts, to manage our credit risk exposure, such transactions may not provide the protection against credit defaults that we intended due to counterparty defaults or similar issues. The credit default swap contracts could also result in significant losses. As of March 31, 2012, the total notional amount of the protection we sold through single name credit default swaps, index and basket credit default swaps, and credit-linked notes was ¥3.3 trillion. In addition, negative changes in financial market conditions may restrict the availability and liquidity of credit default swaps. For more information on our credit derivative transactions, see Note 21 to our consolidated financial statements included elsewhere in this Annual Report.

Our loan losses could prove to be materially different from our estimates and could materially exceed our current allowance for credit losses, in which case we may need to provide for additional allowance for credit losses and may also record credit losses beyond our allowance. Our allowance for credit losses in our loan portfolio is based on evaluations about customers' creditworthiness and the value of collateral we hold. Negative changes in economic conditions or our borrowers' repayment abilities could require us to provide for additional allowance. For example, borrowers in wider regions of Japan may be adversely affected due to the compensation issues for affected individuals and companies, electricity power supply shortages and electricity rate increases, and other indirect consequences of the Great East Japan Earthquake beyond our expectations, as well as changes in governmental policies in the future. As a result, our borrowers may incur financial and nonfinancial losses that exceed our estimations. In such case, we may need to provide for additional allowance for credit losses. Also, the regulatory standards or guidance on establishing allowances may also change, causing us to change some of the evaluations used in determining the allowances. As a result, we may need to provide for additional allowance for credit losses. For a discussion of our allowance policy, see Item 5.B. Operating and Financial Review and Prospects Liquidity and Capital Resources Financial Condition.

## **Table of Contents**

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

A decline in Japanese stock prices could reduce the value of the Japanese domestic marketable equity securities that we hold, which accounted for 5.6% of our total investment securities portfolio, or 1.6% of our total assets, as of March 31, 2012. The Nikkei Stock Average, which is the average of 225 blue chip stocks listed on the Tokyo Stock Exchange, fluctuated throughout the fiscal year ended March 31, 2012, with the closing price of the Nikkei Stock Average declining to ¥8,160.01 on November 25, 2011. As of July 10, 2012, the closing price of the Nikkei Stock Average was ¥8,857.73. Fluctuations in the Nikkei Stock Average have mainly reflected volatility in the global economy and weak investor sentiment that remains cautious in light of uncertainties surrounding the global financial and capital markets and, to some extent, the appreciating Japanese yen and the growing global competition adversely affecting Japanese companies. If stock market prices further decline or do not improve, we may incur additional losses on our securities portfolio. Because we hold a large amount of Japanese domestic marketable equity securities, even short-term fluctuations in the value of our securities may trigger losses or exit costs for us to manage our risk. Further declines in the Japanese stock market or other global markets may also materially and adversely affect our capital ratios and financial condition. For a detailed discussion of our holdings of marketable equity securities and the effect of market declines on our capital ratios, see Item 5.B. Operating and Financial Review and Prospects Liquidity and Capital Resources Capital Adequacy and Selected Statistical Data Investment Portfolio.

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

We have entered into a global strategic alliance with Morgan Stanley, under which we operate two joint venture securities companies in Japan, engage in joint corporate finance operations in the United States and pursue other cooperative opportunities. We hold approximately 21.8% of the voting rights in Morgan Stanley as of March 31, 2012 and continue to hold approximately \$0.5 billion, or ¥53.6 billion, of perpetual non-cumulative non-convertible preferred stock with a 10% dividend. In addition, we currently have two representatives on Morgan Stanley's board of directors.

We initially entered into this strategic alliance in October 2008 with a view towards long-term cooperation with Morgan Stanley, and currently plan to deepen the strategic alliance, given that the voluntary conversion of the convertible preferred stock to the common stock was completed in June 2011. However, due to any unexpected changes in social, economic or financial conditions, changes in the regulatory environment, or any failure to integrate or share staff, products or services, or to operate, manage or implement the business strategy of the securities joint venture companies or other cooperative opportunities as planned, we may be unable to achieve the expected synergies from this alliance.

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

In addition, with our current investment in Morgan Stanley, we have neither a controlling interest in, nor control over the business operations of Morgan Stanley. If Morgan Stanley makes any business decisions that are inconsistent with our interests, we may be unable to achieve the goals initially set out for the strategic alliance. Furthermore, although we do not control Morgan Stanley, given the magnitude of our investment, if Morgan Stanley encounters financial or other business difficulties, we may suffer a financial loss on our investment or damage to our reputation. Because of a decline in the quoted market price of Morgan Stanley's common stock that we determined to be other than temporary in light of the increasingly stringent regulatory environment and the existing adverse economic events in Europe, we recorded an impairment loss of ¥579.5 billion on our investment in Morgan Stanley's common stock for the fiscal year ended March 31, 2012.



## **Table of Contents**

In the fiscal year ended March 31, 2012, Morgan Stanley became an equity-method affiliate in our consolidated financial statements. Accordingly, Morgan Stanley's performance will have a more significant impact on our results of operations as a result of equity method accounting. Further, fluctuations in Morgan Stanley's stock price or in our equity ownership interest in Morgan Stanley may cause us to recognize additional losses on our investment in Morgan Stanley.

For a detailed discussion of our strategic alliance with Morgan Stanley, see Item 5. Operating and Financial Review and Prospects Recent Developments.

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

We have a large loan portfolio in the consumer lending industry as well as large shareholdings in subsidiaries and equity method investees in the consumer finance industry. Our domestic loans to consumers amount to approximately one-fifth of our total outstanding loans. Of this amount, the consumer loans provided by Mitsubishi UFJ NICOS, Co., Ltd., which is our primary consumer financing subsidiary, were ¥757.9 billion as of March 31, 2012, compared to ¥872.0 billion as of March 31, 2011. Mitsubishi UFJ NICOS's consumer loan portfolio has been adversely affected by a series of regulatory reforms recently implemented in Japan.

The Japanese government implemented regulatory reforms affecting the consumer lending industry in recent years. In December 2006, the Diet passed legislation to reform the regulations relating to the consumer lending business, including amendments to the Law Concerning Acceptance of Investment, Cash Deposit and Interest Rate, etc., which, effective June 18, 2010, reduced the maximum permissible interest rate from 29.2% per annum to 20% per annum. The regulatory reforms also included amendments to the Law Concerning Lending Business, which, effective June 18, 2010, abolished the so-called gray-zone interest. Gray-zone interest refers to interest rates exceeding the limits stipulated by the Interest Rate Restriction Law (between 15% per annum to 20% per annum depending on the amount of principal). Prior to June 18, 2010, gray-zone interest was permitted under certain conditions set forth in the Law Concerning Lending Business. As a result of the regulatory reforms, all interest rates are now subject to the lower limits imposed by the Interest Rate Restriction Law, compelling lending institutions, including our consumer finance subsidiaries and equity method investees, to lower the interest rates they charge borrowers. The new regulations that became effective on June 18, 2010 also have had a further negative impact on the business of consumer finance companies as one of the new regulations requires, among other things, consumer finance companies to limit their lending to a single customer to a maximum of one third of the customer's annual income regardless of the customer's repayment capability, significantly affecting consumer financing companies.

The new regulations and regulatory reforms affecting the consumer finance business were one of the main factors that contributed to the decrease in interest income attributable to our consumer finance business. Our interest income attributable to the consumer finance business was approximately ¥190 billion and ¥160 billion for the fiscal years ended March 31, 2009 and 2010, respectively. However, following the regulatory changes in June 2010, our interest income attributable to the consumer finance business decreased to approximately ¥130 billion and ¥120 billion for the fiscal years ended March 31, 2011 and 2012, respectively.

In addition, as a result of decisions by the Supreme Court of Japan prior to June 18, 2010 imposing stringent requirements under the Law Concerning Lending Business for charging gray-zone interest rates, consumer finance companies have experienced a significant increase in borrowers' claims for reimbursement of previously collected interest payments in excess of the limits stipulated by the Interest Rate Restriction Law.

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Following the various legal developments in June 2010 and other industry developments, Mitsubishi UFJ NICOS revised its estimate by updating management's future forecast to reflect new reimbursement claims information and other data. As of March 31, 2010, 2011 and 2012, we had ¥84.2 billion, ¥136.9 billion and ¥99.4 billion of allowance for repayment of excess interest, respectively. For the fiscal years ended March 31, 2010,

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## **Table of Contents**

2011 and 2012, we recorded provisions for repayment of excess interest of ¥44.8 billion, ¥85.7 billion and nil, respectively. For the same periods, one of our equity method investees engaged in consumer lending, ACOM CO., LTD., had a negative impact of ¥23.1 billion, ¥96.4 billion and ¥19.3 billion, respectively, on Equity in losses of equity method investees net in our consolidated statements of income. We intend to carefully monitor future developments and trends.

These developments have adversely affected, and these and any future developments may further adversely affect, the operations and financial condition of our subsidiaries, equity method investees and borrowers which are engaged in consumer lending, which in turn may affect the value of our related shareholdings and loan portfolio. In particular, in March 2011, we made a capital contribution of approximately ¥85.0 billion to Mitsubishi UFJ NICOS.

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

The aggregate carrying amount of the Japanese government and corporate bonds and foreign bonds, including US Treasury bonds, that we hold has increased in recent fiscal years to 24.8% of our total assets as of March 31, 2012. In particular, the Japanese national government and Japanese government agency bonds accounted for 23.0% of our total assets as of March 31, 2012. For a detailed discussion of our bond portfolio, see Selected Statistical Data Investment Portfolio.

The Bank of Japan has been maintaining a very low policy rate (uncollateralized overnight call rate) of 0.10% in an effort to lift the economy out of deflation. Short-term interest rates continue to decline because of the Bank of Japan's so-called monetary easing policy. Central bank's policies, however, may change, resulting in an interest rate increase. Separate from the central bank monetary policies, interest rates on the Japanese national government and Japanese government agency bonds could also significantly increase if there is a disruption in the market for Japanese national government bonds caused by shifts in investor attitude, fluctuations in other comparable debt instruments or adverse changes in the perception of Japan's sovereign risk. An increase in relevant interest rates, particularly if such increase is unexpected or sudden, may have a significant negative effect on the value of our bond portfolio. See Item 5. Operating and Financial Review and Prospects Business Environment.

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

Fluctuations in foreign currency exchange rates against the Japanese yen create transaction gains or losses on the translation into Japanese yen of monetary assets and liabilities denominated in foreign currencies. To the extent that our foreign currency-denominated assets and liabilities are not matched in the same currency or appropriately hedged, we could incur losses due to future foreign exchange rate fluctuations. During the fiscal year ended March 31, 2012, the average balance of our foreign interest-earning assets was ¥53.3 trillion and the average balance of our foreign interest-bearing liabilities was ¥34.5 trillion, representing 29.0% of our average total interest-earning assets and 20.9% of our average total interest-bearing liabilities during the same period. For the fiscal year ended March 31, 2012, net foreign exchange gains, which primarily include transaction gains on the translation into Japanese yen of monetary assets and liabilities denominated in foreign currencies and net gains on currency derivatives instruments entered into for trading purposes, were ¥34.3 billion, compared to net foreign exchange gains of ¥260.7 billion for the previous fiscal year. In addition, we may incur foreign currency translation losses with respect to our foreign subsidiaries and equity method investees due to fluctuations in foreign currency exchange rates. The average exchange rate for the fiscal year ended March 31, 2012 was ¥79.08 per US\$1.00, compared to the average exchange rate for the fiscal year ended March 31, 2011 of ¥85.72 per US\$1.00. The change in the average exchange rate of the Japanese yen against the US dollar and other foreign currencies had the effect of decreasing total revenue by ¥100.8 billion, net interest income by ¥55.0 billion and income before income tax expense by ¥45.6 billion, respectively, for the fiscal year ended March 31,



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**Table of Contents**

2012. For more information on foreign exchange gains and losses and foreign currency translation gains and losses, see Item 5.A. Operating and Financial Review and Prospects Operating Results Results of Operations and Item 5.A. Operating and Financial Review and Prospects Operating Results Effect of Change in Exchange Rates on Foreign Currency Translation.

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

Union Bank, N.A., or Union Bank, is the primary subsidiary of UnionBanCal Corporation, or UNBC, which is an indirect wholly-owned subsidiary in the United States. Union Bank has historically contributed to a significant portion of our net income. UNBC reported net loss of \$65 million for the fiscal year ended December 31, 2009, net income of \$573 million for the fiscal year ended December 31, 2010, and net income of \$778 million for the fiscal year ended December 31, 2011. Any adverse developments which could arise at Union Bank may have a significant negative impact on our results of operation and financial condition. The risks relating to Union Bank have increased as Union Bank has been expanding its business through acquisitions of community banks within the United States. In April 2010, Union Bank acquired approximately \$600 million in total assets and assumed more than \$400 million in deposits of Tamalpais Bank, a California-based bank, and acquired approximately \$3.2 billion in total assets and assumed approximately \$2.5 billion in deposits of Frontier Bank, a Washington-based bank, pursuant to its respective purchase and assumption agreements with the US Federal Deposit Insurance Corporation. In March 2012, UNBC entered into a definitive agreement to acquire approximately \$5.9 billion in assets and assume approximately \$4.6 billion in deposits of Pacific Capital Bancorp, a bank holding company headquartered in California. In May 2012, Union Bank signed a definitive agreement to acquire Smartstreet, an Atlanta-based financial services division of PNC Bank, N.A., with approximately \$1 billion in deposits and comprehensive receivables offering and lockbox operations. If Union Bank is unable to achieve the benefits expected from its business strategies, including its business expansion strategy through acquisitions of community banks, we may suffer an adverse financial impact. Other factors that have negatively affected, and could continue to negatively affect, Union Bank's results of operations include adverse economic conditions, such as a downturn in the real estate and housing industries in California and other states within the United States, substantial competition in the banking markets in California and other states within the United States and uncertainty over the US economy, as well as the threat of terrorist attacks, fluctuating oil prices, rising interest rates, negative trends in debt ratings, additional costs which may arise from enterprise-wide compliance, or failure to comply, with applicable laws and regulations, such as the US Bank Secrecy Act and related amendments under the USA PATRIOT Act, and any adverse impact of the implementation of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, or the Dodd-Frank Act.

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

Some domestic and foreign financial institutions, including banks, non-bank lending and credit institutions, securities companies and insurance companies, have experienced declining asset quality and capital adequacy and other financial problems. This may lead to severe liquidity and solvency problems, which have in the past resulted in the liquidation, government control or restructuring of affected institutions. In addition, allegations or governmental prosecution of improper trading activities or inappropriate business conduct of a specific financial institution could also negatively affect the public perception of other global financial institutions individually and the global financial industry as a whole. These developments may adversely affect our financial results.

Financial difficulties relating to financial institutions could adversely affect us because we have extended loans, some of which may need to be classified as nonaccrual and restructured loans, to banks, securities companies, insurance companies and other financial institutions that are not our consolidated subsidiaries. Our loans to banks and other financial institutions have been more than 5% of our total loans as of each year-end in





## Table of Contents

the three fiscal years ended March 31, 2012, with the percentage increasing from 8.0% to 8.9% between March 31, 2011 and March 31, 2012. We may also be adversely affected because we are a shareholder of some other banks and financial institutions that are not our consolidated subsidiaries, including our shareholdings in Japanese regional banks and our 21.8% voting interest in Morgan Stanley as of March 31, 2012. If some of the financial institutions to which we have exposure, experience financial difficulties, we may need to provide financial support to them even when such support might not be warranted from the perspective of our narrow economic interests because such institutions may be systematically important to the Japanese or global financial system.

We may also be adversely affected because we enter into transactions, such as derivative transactions, in the ordinary course of business, with other banks and financial institutions as counterparties. For example, we enter into credit derivatives with banks, broker-dealers, insurance and other financial institutions for managing credit risk exposures, for facilitating client transactions, and for proprietary trading purpose. The notional amount of the protection we sold through these instruments was ¥3.3 trillion as of March 31, 2012.

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

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

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

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

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

failures or financial difficulties experienced by other financial institutions could result in additional regulations or requirements that increase the cost of business for us; and

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

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

We continue to seek opportunities to expand the range of our products and services beyond our traditional banking and trust businesses, through development and introduction of new products and services or through acquisitions of or investments in financial institutions with products and services that complement our business. For example, taking advantage of our financial holding company status which enables us to underwrite securities, we are currently seeking to expand our corporate banking operations in the United States. In addition, the sophistication of financial products and management systems has been growing significantly in recent years. As a result, we are exposed to new and increasingly complex risks. Some of the activities that our subsidiaries are expected to engage in, such as derivatives and foreign currency trading, present substantial risks. In some cases, we have only limited experience with the risks related to the expanded range of these products and services. In addition, we may not be able to successfully develop or operate the necessary information systems. As a result, we may not be able to foresee the risks

relating to new products and services. As we expand the geographic scope of our business, we will also be exposed to risks that are unique to particular jurisdictions or markets. Our risk management systems may prove to be inadequate and may not work in all cases or to the degree required. The substantial market, credit, compliance and regulatory risks in relation to the expanding scope of our products, services and trading activities or expanding our business beyond our traditional markets, could result in us

**Table of Contents**

incurring substantial losses. In addition, our efforts to offer new services and products or penetrate new markets may not succeed if product or market opportunities develop more slowly than expected, if our new services or products are not well accepted among customers, or if the profitability of opportunities is undermined by competitive pressures. For a detailed discussion of our risk management systems, see Item 11. Quantitative and Qualitative Disclosures about Credit, Market and Other Risk.

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

We are increasingly active, through a network of branches and subsidiaries, in emerging market countries, particularly countries in Asia, Latin America, Central and Eastern Europe, and the Middle East. For example, based principally on the domicile of the obligors, assets related to Asia and Oceania excluding Japan increased 13.8% from ¥10.91 trillion as of March 31, 2011 to ¥12.41 trillion as of March 31, 2012, accounting for 5.8% of our total assets as of March 31, 2012. The economies of emerging market countries can be volatile and susceptible to adverse changes and trends in the global financial markets. For example, a decline in the value of local currencies of these countries could negatively affect the creditworthiness of some of our borrowers in these countries. The loans we have made to borrowers and banks in these countries are often denominated in US dollars, Euro or other foreign currencies. These borrowers often do not hedge the loans to protect against fluctuations in the values of local currencies. A devaluation of the local currency would make it more difficult for a borrower earning income in that currency to pay its debts to us and other foreign lenders. In addition, some countries in which we operate may attempt to support the value of their currencies by raising domestic interest rates. If this happens, the borrowers in these countries would have to devote more of their resources to repaying their domestic obligations, which may adversely affect their ability to repay their debts to us and other foreign lenders. The limited credit availability resulting from these conditions may adversely affect economic conditions in some countries. This could cause a further deterioration of the credit quality of borrowers and banks in those countries and cause us to incur further losses. In addition, should there be excessively rapid economic growth and increasing inflationary pressure in some of the emerging market countries, such developments could adversely affect the wider regional and global economies. Some emerging market countries may also change their monetary or other economic policies in response to economic and political instabilities or pressures, which are difficult to predict. As of March 31, 2012, based on the domicile of the obligors, our assets in Europe, Asia and Oceania excluding Japan, and other areas excluding Japan and the United States, were ¥18.62 trillion, ¥12.41 trillion and ¥7.01 trillion, representing 8.7%, 5.8% and 3.3% of our total assets, respectively. See Item 5.B. Operating and Financial Review and Prospects Liquidity and Capital Resources Financial Condition.

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

In recent years, the Japanese financial system has been undergoing significant changes and regulatory barriers to competition have been reduced. In particular, any further reform of the Japanese postal savings system, under which the Japan Post Group companies, including Japan Post Bank Co., Ltd., were established in October 2007, could substantially increase competition within the financial services industry as Japan Post Bank, with the largest deposit base and branch network in Japan, may begin to offer financial services in competition with our business operations generating fee income. In May 2012, amendments to the postal privatization law became effective under which Japan Post Bank and Japan Post Insurance may enter into new businesses upon obtaining government approvals, and if the government's equity holdings decrease to a certain level, the two companies will be allowed to enter into new businesses upon submission of a notice to the government. As a result, the Japan Post Group companies may seek to enter into new businesses, including sales of various types of insurance and housing loans. The privatization of the Japan Post Group companies remains subject to political negotiations and government action. In addition, there has been significant consolidation and convergence among financial institutions domestically and globally, and this trend may continue in the future and further increase competition in the market. A number of large commercial banks and other broad-based financial services firms have merged or formed strategic alliances with, or have acquired, other financial institutions both in Japan and

## **Table of Contents**

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

### ***Regulatory matters and any future regulatory matters or regulatory changes could have a negative impact on our business and results of operations.***

As a global financial services provider, our business is subject to increasing regulations and associated regulatory risks, as well as ongoing changes in laws, regulations, policies, voluntary codes of practice and interpretations in Japan and other markets where we operate. We may not be able to improve our compliance risk management systems and programs in a timely manner, and our risk management systems and programs may not be fully effective in preventing all violations of laws, regulations and rules.

Major global financial institutions currently face heightened regulatory scrutiny as a result of the concerns enveloping the global financial sector, and there is growing political pressure to demand even greater regulatory surveillance following several high-profile scandals and risk management failures in the financial industry. Because of our transactions or relationships with other global financial institutions or our activity or participation in the global financial market, we may become subject to various regulatory actions and other legal proceedings arising from such role.

Our failure or inability to comply fully with applicable laws and regulations could lead to fines, public reprimands, damage to reputation, civil liability, 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 adversely affect our ability to obtain regulatory approvals for future strategic initiatives. Furthermore, failure to take necessary corrective action, or the discovery of violations of laws 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.

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

Future developments or changes in laws, regulations, policies, voluntary codes of practice and their effects are expected to require greater capital resources and significant management attention, and may require us to modify our business strategies and plans. For example, the regulations relating to the consumer lending business which became effective in June 2010 impose, among other things, a limit on the amount of loans available to individual borrowers, which have negatively affected our profitability. For more information on regulatory changes in the consumer finance industry, see Risks Related to Our Business. Because of our loans to consumers and our shareholdings in companies engaged in consumer lending, changes in the business or regulatory environment for consumer finance companies in Japan may further adversely affect our financial results.

Furthermore, regulatory reforms recently implemented, proposed and currently being debated in the United States may also significantly affect our business operations. For example, the provisions of the Dodd-Frank Act generally known as the Volcker Rule are designed to restrict banking entities' proprietary trading and private fund investment activities. The Volcker Rule is subject to final rule-making and interpretation, including with respect to the scope of its applicability to activities outside of the United States, and the impact of the rule on our business

operations remain uncertain. The Volcker Rule and other reform measures may ultimately be implemented in a manner that requires us to materially alter our business model or incur significant costs or losses. See Item 4.B. Information on the Company Business Overview Supervision and Regulation United States.

**Table of Contents**

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

Future developments or changes in accounting standards are unpredictable and beyond our control. For example, Japanese and other international organizations that set accounting standards have released revisions to accounting standards applicable to retirement benefit obligations. In May 2012, the Accounting Standards Board of Japan published revised accounting standards that will require companies preparing their financial statements in accordance with Japanese GAAP to record as liabilities on balance sheets actuarial losses and unrecognized past service cost, which are currently not recorded as liabilities on balance sheets. Most of the revised accounting standards will be effective for the annual reporting period beginning on or after April 1, 2013. The revised accounting standards could have a negative impact on our capital ratios since we calculate our capital ratios in accordance with Japanese banking regulations based on information derived from our financial statements prepared in accordance with Japanese GAAP. For more information, see **Risks Related to Our Business**. We may not be able to maintain our capital ratios above minimum required levels, which could result in the suspension of some or all of our operations.

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

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

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

We, through our banking subsidiaries, engage in business activities with entities in or affiliated with Iran, including transactions with counterparties owned or controlled by the Iranian government, and our banking subsidiary has a representative office in Iran. The US Department of State has designated Iran and other countries as state sponsors of terrorism, and US law generally prohibits US persons from doing business with such countries. We currently have business activities with entities in or affiliated with such countries in accordance with our policies and procedures designed to ensure compliance with regulations applicable in the jurisdictions in which we operate.

We have loan transactions with counterparties in or affiliated with Iran, the outstanding balance of which was approximately \$8.0 million, representing less than 0.001% of our total assets, as of March 31, 2012. We do not have any loans outstanding to the financial institutions specifically listed by the US government. In addition to such loan transactions, our other transactions with counterparties in or affiliated with countries designated as state sponsors of terrorism consist of receiving deposits or holding assets on behalf of individuals residing in Japan who are citizens of countries designated as state sponsors of terrorism, and processing payments to or from entities in or affiliated with these countries on behalf of our customers that may be engaged in transactions or other relationships with such entities. We do not believe these transactions have a material impact on our business or financial condition.

We are aware of initiatives by US governmental entities and non-government entities, including institutional investors such as pension funds, to adopt or consider adopting laws, regulations or policies prohibiting transactions with or investment in, or requiring divestment from, entities

doing business with Iran and other



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**Table of Contents**

countries identified as state sponsors of terrorism. It is possible that such initiatives may result in our being unable to gain or retain entities subject to such prohibitions as customers, counter-parties or investors in our shares. In addition, depending on socio-political developments, our reputation may suffer due to our transactions with counterparties in or affiliated with these countries. The above circumstances could have an adverse effect on our business and financial condition.

The US federal government and some state governments in the United States have enacted legislation designed to limit economic and financial transactions with Iran by limiting the ability of financial institutions that may have engaged in any one of a broad range of activities related to Iran to conduct various transactions in the relevant jurisdictions. The Japanese government has also implemented a series of measures under the Foreign Exchange and Foreign Trade Act, such as freezing the assets of designated financial institutions and others that could contribute to Iran's nuclear activities, and our most recently modified policies and procedures take into account the new Japanese regulatory requirements. There remains a risk of potential US regulatory action against us, however, if US regulators perceive the modified policies and procedures not to be in compliance with applicable regulations.

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

We, as a holding company, and our Japanese banking subsidiaries are required to maintain risk-weighted capital ratios above the levels specified in the capital adequacy guidelines of the Financial Services Agency of Japan. As of March 31, 2012, our total risk-adjusted capital ratio was 14.91% compared to the minimum risk-adjusted capital ratio required of 8.00%, and our Tier I capital ratio was 12.31% compared to the minimum Tier I capital ratio required of 4.00%. Our capital ratios are calculated in accordance with Japanese banking regulations based on information derived from our financial statements prepared in accordance with Japanese GAAP. In addition, some of our subsidiaries are also subject to the capital adequacy rules of various foreign countries, including the United States where each of MUFG, The Bank of Tokyo-Mitsubishi UFJ, Ltd., or BTMU, Mitsubishi UFJ Trust and Banking Corporation, or MUTB and UNBC is a financial holding company under the US Bank Holding Company Act. We or our banking subsidiaries may be unable to continue to satisfy the capital adequacy requirements because of:

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

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

declines in the value of our or our subsidiaries' securities portfolio;

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

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

adverse changes in foreign currency exchange rates; or

other adverse developments discussed in these risk factors.

The Group of Central Bank Governors and Heads of Supervision has made a series of announcements regarding the new global regulatory framework, which has been referred to as Basel III, to strengthen the regulation, supervision and risk management of the banking sector. Various Basel III measures are expected to be introduced in phases starting in calendar 2013, including those designed to raise the level of minimum capital requirements and to establish an internationally harmonized leverage ratio and a global minimum liquidity standard. In addition, in July 2011, the Basel Committee on Banking Supervision proposed additional loss absorbency requirements to supplement the common equity Tier I capital requirement ranging from 1% to 2.5% for global systemically important banks, depending on the bank's systemic importance, to be introduced in

## **Table of Contents**

phases starting in calendar 2016. In November 2011, the Financial Stability Board tentatively identified us as a globally systemically important financial institution, or G-SIFI. Based on the Basel III framework, the Japanese capital ratio framework, which is currently based on Basel II, has been revised to implement the more stringent requirements, which will be effective as of March 31, 2013. Likewise, local banking regulators outside of Japan, such as those in the United States, are expected to revise the capital and liquidity requirements imposed on our subsidiaries and operations in those countries to implement the more stringent requirements of Basel III as adopted in those countries.

If our capital ratios fall below required levels, the Financial Services Agency of Japan could require us to take a variety of corrective actions, including withdrawal from all international operations or suspension of all or part of our business operations. In addition, if the capital ratios of our subsidiaries subject to capital adequacy rules of foreign jurisdictions fall below the required levels, the local regulators could also take action against them that may result in reputational damage or financial losses to us. Since maintaining our capital ratios at acceptable levels is crucial to our business, our management devotes a significant amount of attention and resources to capital ratio related issues and may also significantly alter our business strategy or operations if our capital ratios decline to unacceptable levels. For a discussion of our capital ratios and the related regulatory guidelines, see [Item 4.B. Information on the Company Business Overview Supervision and Regulation](#) and [Item 5.B. Operating and Financial Review and Prospects Liquidity and Capital Resources Capital Adequacy](#).

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

In accordance with US GAAP, we account for our business combinations using the acquisition 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. As of March 31, 2012, the balance of goodwill was ¥354.3 billion.

We may be required to record additional impairment losses 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 losses will negatively affect our financial results, and the price of our securities could be adversely affected. For a detailed discussion of our periodic testing of goodwill for impairment and the goodwill recorded, see [Item 5. Operating and Financial Review and Prospects Critical Accounting Estimates Accounting for Goodwill and Intangible Assets](#).

***A further downgrade of our credit ratings could trigger additional collateral obligations under our derivative contracts and increase our funding costs.***

In August 2011, Moody's announced that it downgraded the long-term credit ratings of BTMU and MUTB by one-notch from Aa2 to Aa3, and the long-term credit rating of Mitsubishi UFJ Securities Holding Co., Ltd, or MUSHD, by one-notch from A1 to A2. On July 20, 2012, Fitch downgraded the ratings assigned to BTMU and MUTB by one-notch from A to A-. A further credit rating downgrade by Moody's, Fitch, Standard & Poor's Ratings Services LLC or any other credit rating agency may have an adverse impact on us. Substantially all of the derivative contracts with collateral obligations entered into by BTMU, MUTB and MUSHD are subject to a Credit Support Annex, or CSA, as published by the International Swaps and Derivatives Association, Inc., or ISDA. Following the downgrades by Moody's in August 2011, some of our existing CSAs were modified to require, and some of the new CSAs that we entered into required, additional collateral at lower thresholds. The downgrades by Fitch on July 20, 2012 may result in additional modifications in the future.

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Assuming all of the relevant credit rating agencies downgraded the credit ratings of BTMU, MUTB and MUSHD by one-notch on March 31, 2012, we estimate that our three main subsidiaries under their derivative contracts as of the same date, would have been required to provide additional collateral of approximately ¥9.6 billion. Assuming a two-notch downgrade by all of the relevant credit rating agencies occurred on the same

## **Table of Contents**

date, we estimate that the additional collateral requirements for BTMU, MUTB and MUSHD under their derivative contracts as of the same date would have been approximately ¥17.0 billion. In addition, a further downgrade of the credit ratings of our major subsidiaries could result in higher funding costs. For additional information on the impact of recent downgrades, see Item 5. Operating and Financial Review and Prospects Liquidity and Capital Resources Financial Condition Sources of Funding and Liquidity.

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

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

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

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

the jurisdiction of the foreign court be recognized under laws, regulations, treaties or conventions;

proper service of process be made on relevant defendants, or relevant defendants be given appropriate protection if such service is not received;

the judgment and proceedings of the foreign court not be repugnant to public policy as applied in Japan; and

there exist reciprocity as to the recognition by a court of the relevant foreign jurisdiction of a final judgment of a Japanese court.

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

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

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

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

Pursuant to the deposit agreement among us, the depositary and a holder of ADSs, the depositary will make efforts to exercise voting or any other rights associated with shares underlying ADSs in accordance with the instructions given by ADS holders, and to pay to ADS holders dividends and distributions collected from us. However, the depositary can exercise reasonable discretion in carrying out the instructions or making distributions, and is not liable for failure to do so as long as it has acted in good faith. Therefore, ADS holders may not be able to exercise voting or any other rights in the manner that they had intended, or may lose some or

## **Table of Contents**

all of the value of the dividends or the distributions. Moreover, the depositary agreement that governs the obligations of the depositary may be amended or terminated by us and the depositary without your consent, notice, or any reason. As a result, you may be prevented from having the rights in connection with the deposited shares exercised in the way you had wished or at all.

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

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

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

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

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

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

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

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

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

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

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

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



## **Table of Contents**

Pursuant to an agreement between us and Morgan Stanley on April 21, 2011, we converted all of the Morgan Stanley's convertible preferred stock we previously held into Morgan Stanley's common stock on June 30, 2011, resulting in our holding approximately 22.4% of the voting rights in Morgan Stanley, and appointed a second representative to Morgan Stanley's board of directors on July 20, 2011. Following the conversion on June 30, 2011, Morgan Stanley became our equity-method affiliate. As of March 31, 2012, we held approximately 21.8% of the voting rights in Morgan Stanley, and had two representatives appointed to Morgan Stanley's board of directors. We and Morgan Stanley continue to pursue a variety of business opportunities in Japan and abroad in accordance with the global strategic alliance.

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.

## **Table of Contents**

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 its manufacturing industries, especially automobiles.

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

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

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

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

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

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

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

MUSHD is a wholly owned subsidiary of MUFG. MUSHD functions as an intermediate holding company of MUFG's global securities business. MUSHD's registered head office is located at 5-2, Marunouchi 2-chome, Chiyoda-ku, Tokyo 100-0005, Japan, and its telephone number is 81-3-6213-2550. MUSHD is a joint stock company (*kabushiki kaisha*) incorporated in Japan under the Company Law. MUSHD has major overseas subsidiaries in London, New York, Hong Kong, Singapore, Shanghai and Geneva.

In April 2010, MUSHD, which was previously called Mitsubishi UFJ Securities Co., Ltd., or MUS, became an intermediate holding company by spinning off its securities and investment banking business operations to a wholly owned operating subsidiary established in December 2009,

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currently MUMSS. Upon the consummation of the corporate spin-off transaction, the intermediate holding company was renamed Mitsubishi UFJ Securities Holdings Co., Ltd. and the operating subsidiary was renamed Mitsubishi UFJ Securities Co., Ltd. The operating subsidiary was subsequently renamed MUMSS in May 2010 upon integration of our securities operations in Japan with those of Morgan Stanley.

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

## **Table of Contents**

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

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

MUMSS is our core securities and investment banking subsidiary. MUMSS was created as one of the two Japanese joint venture securities companies in May 2010 between Morgan Stanley and us as part of our global strategic alliance. MUMSS succeeded to the investment banking operations conducted in Japan by a subsidiary of Morgan Stanley and the wholesale and retail securities businesses conducted in Japan by MUS. MUFG, through MUSHD, holds 60% voting and economic interests in MUMSS. MUMSS's registered head office is located at 5-2 Marunouchi 2-chome, Chiyoda-ku, Tokyo, 100-0005 Japan, and its telephone number is 81-3-6213-8500. MUMSS is a joint stock company (*kabushiki kaisha*) incorporated in Japan under the Company Law. For more information on our global strategic alliance with Morgan Stanley, see B. Business Overview Global Strategic Alliance with Morgan Stanley and Item 5. Operating and Financial Review and Prospects Recent Developments.

### **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.

On August 1, 2008, Mitsubishi UFJ NICOS became a wholly owned subsidiary of MUFG through a share exchange transaction. On the same day, we entered into a share transfer agreement with The Norinchukin Bank, or Norinchukin, under which we sold some of our shares of Mitsubishi UFJ NICOS common stock to Norinchukin. Currently, Mitsubishi UFJ NICOS is a consolidated subsidiary of MUFG. In March 2011, we and Norinchukin made additional equity investments in Mitsubishi UFJ NICOS in proportion to our and Norinchukin's respective beneficial ownership of approximately 85% and 15%, respectively.

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

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

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

**B. Business Overview**

We are one of the world's largest and most diversified financial groups with total assets of ¥215 trillion as of March 31, 2012. The Group is comprised of BTMU, MUTB, MUMSS (through MUSHD), Mitsubishi UFJ NICOS and other subsidiaries and affiliates, for which we are the holding company. As a bank holding company, we are regulated under the Banking Law of Japan. Our services include commercial banking, trust banking,

## **Table of Contents**

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, in more than 40 countries.

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

establish a more diversified financial services group operating across business sectors;

leverage the flexibility afforded by our organizational structure to expand our business;

benefit from the collective expertise of BTMU, MUTB, MUMSS (through MUSHD) and Mitsubishi UFJ NICOS;

achieve operational efficiencies and economies of scale; and

enhance the sophistication and comprehensiveness of the Group's risk management expertise.

In April 2004, we introduced an integrated business group system comprising three core business areas: Retail, Corporate, and Trust Assets. These three businesses serve as the Group's core sources of net operating profit. In March 2011, the sales and trading business of MUMSS was transferred from the Integrated Corporate Banking Business Group to Global Markets, as described below. In July 2011, we added the Integrated Global Business Group (MUFG Global) as a fourth area by shifting some of our global operations mainly from the Integrated Corporate Banking Business Group. This change in our business segment was implemented to more effectively coordinate and enhance our group-wide efforts to strengthen and expand overseas operations. Our remaining business areas are grouped into Global Markets and Other. In addition, MUFG's role as the holding company has expanded from strategic coordination to integrated strategic management. Group-wide strategies are determined by the holding company and executed by the banking subsidiaries and other subsidiaries.

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

### *MUFG Management Policy*

The MUFG Group put in place a management philosophy when the Group was formed. This has now been reworked to become the Group Corporate Vision, outlined below. Throughout the Group, the individuals at the MUFG Group are working under three shared values Integrity and Responsibility, Professionalism and Teamwork, and Challenge Ourselves to Grow while aiming to be the world's most trusted financial group.





## **Table of Contents**

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 we 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, MUMSS and other affiliate companies of MUFG.

*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 by the Deposit Insurance Corporation of Japan without a maximum amount limitation.

We 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 money trusts, and other investment products, such as investment 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 diverse lineup of investment trust products allowing our customers to choose products according to their investment needs through BTMU, MUTB and MUMSS as well as kabu.com Securities Co., Ltd., which specializes in online financial services. For example, as of March 31, 2012, BTMU offered our clients a total of 90 investment trusts. Moreover, BTMU has placed significant importance on providing after-sales advice to all of our customers who have purchased our investment trust products.

*Insurance.* We offer insurance products to meet the needs of our customers as a sales agent of third party insurance companies. Our current lineup of insurance products consists of investment-type individual annuity insurance, fixed-amount annuity insurance, single-premium whole-life insurance and level-payment insurance. BTMU has been offering life, medical and cancer insurance since December 2007, nursing-care insurance since April 2008 and car insurance since July 2009. As of March 31, 2012, BTMU offered 40 varieties of insurance products at 448 BTMU branches. MUTB also offers whole life insurance and medical insurance at all of its branches.

*Financial products intermediation services.* We offer financial products intermediation services through BTMU acting as an agent with three MUFG securities companies (MUMSS, Mitsubishi UFJ Merrill Lynch PB Securities Co., Ltd., and kabu.com Securities) and through MUTB acting as an agent with MUMSS. We offer securities, including publicly offered stocks, foreign and domestic investment trusts, Japanese government bonds, foreign bonds and various other products.

*Loans.* We offer housing loans, card loans, and other loans to individuals. With respect to housing loans, in addition to housing loans incorporating health insurance for seven major illnesses, BTMU began offering in June 2009 preferential interest rates under its Environmentally Friendly Support program to customers who

## **Table of Contents**

purchase environment-conscious houses (e.g., houses with solar electric systems) which meet specific criteria in response to increasing public interest in environmental issues. BTMU also offers a card loan service called BANQUIC, for which applications can be accepted through the internet, telephone, video counter and mobile phone. A customer who has an account with BTMU can obtain loans through the BANQUIC service by having the loan proceeds directly remitted to the customer's BTMU account.

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

*Retail securities business.* We conduct our retail securities business in Japan through MUMSS which was formed in May 2010 through the integration of the domestic wholesale and retail securities business previously conducted by MUS and the investment banking business previously conducted by Morgan Stanley Japan Securities Co., Ltd., or Morgan Stanley Japan. See Global Strategic Alliance with Morgan Stanley below.

*Domestic Network.* We offer products and services through a wide range of channels, including branches, ATMs, video counters, and, Mitsubishi-Tokyo UFJ Direct (telephone, internet and mobile phone banking).

We offer integrated financial services combining our banking, trust banking and securities services at MUFG Plazas. These Plazas provide retail customers with an integrated and flexible suite of services at one-stop outlets. As of March 31, 2012, we provided those services through 31 MUFG Plazas.

To provide exclusive membership services to high net worth individual customers, we have Private Banking Offices featuring lounges and private rooms where we provide wealth management advice and other services to our customers in a relaxing and comfortable setting. As of March 31, 2012, we had 29 Private Banking Offices in Japan.

To improve customer convenience, BTMU has enhanced its ATM network and ATM related services. BTMU has also ceased to charge ATM transaction fees from customers of BTMU and MUTB for certain transactions. Furthermore, BTMU currently shares its ATM network with 7 Japanese local banks, AEON Bank, Ltd. and the banks belonging to the Japan Agricultural Cooperatives bank group. BTMU has also ceased to charge ATM transaction fees from customers who use these banks' ATMs for certain transactions.

*Trust agency operations.* We offer MUTB's trust related products and advisory services through our trust agency system not only for MUTB customers but also for BTMU and MUMSS customers. As of March 31, 2012, BTMU engaged in 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. MUMSS engaged in the following three businesses as the trust banking agent for MUTB: testamentary trusts, inheritance management and asset succession planning. Because of Japan's aging society, customer demand for inheritance-related advice is increasing, and we aim to significantly strengthen our ability to cross-sell the inheritance products to our existing customers.

*Integrated Corporate Banking Business Group*

The Integrated Corporate Banking Business Group covers domestic and overseas corporate businesses, including commercial banking, investment banking, trust banking and securities businesses. Through the integration of these business lines, diverse financial products and services are provided mainly to our Japanese 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.

## **Table of Contents**

### *Commercial Banking*

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

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

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

A large part of our investment banking business in Japan is provided by MUMSS which was formed in May 2010 through the integration of the domestic wholesale and retail securities business previously conducted by MUS and the investment banking business conducted by Morgan Stanley Japan. See Global Strategic Alliance with Morgan Stanley below.

### *Transaction Banking*

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

### *Trust Banking*

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

### *Integrated Trust Assets Business Group*

The Integrated Trust Assets Business Group covers asset management and administration services for products such as pension trusts and security trusts by integrating the trust banking expertise of MUTB and the international strengths of BTMU. The business group provides a full range of services to corporate and pension funds, including stable and secure pension fund management and administration, advice on pension schemes, and payment of benefits to scheme members. The business group offers asset management products developed by our affiliated partners outside of Japan in order to meet diverse customer needs for asset management. With the aim of further enhancing the business, in

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December 2011, MUTB entered into a strategic business and capital alliance with AMP Capital Holdings Limited, an asset management company in Australia. For more information, see Item 5. Operating and Financial Review and Prospects Recent Developments.

Our Integrated Trust Assets Business Group combines MUTB's trust assets business, comprising trust assets management services, asset administration and custodial services, and the businesses of Mitsubishi UFJ Global Custody S.A., Mitsubishi UFJ Asset Management Co., Ltd. and KOKUSAI Asset Management Co., Ltd.

Mitsubishi UFJ Global Custody 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 individual customers and corporate clients in Japan.

## **Table of Contents**

### ***Integrated Global Business Group ( MUFG Global )***

The Integrated Global Business Group ( MUFG Global ) was established on July 1, 2011, to effectively coordinate and enhance our group-wide efforts to strengthen and expand overseas operations. MUFG Global is designed to clarify the leadership in, and enhance the coordination for, our overseas strategies on a group-wide basis.

Overseas business development has been an important pillar of our growth strategy. Aiming to further raise our presence in the global financial market, we are shifting our approach where each of our group companies individually promotes its overseas business to a more group-wide approach. The new approach is designed to enable us to exercise our comprehensive expertise to provide our overseas customers with value-added services more effectively.

As global financial regulations have become increasingly stringent following the recent global financial crisis, the realignment in the global financial industry has accelerated with financial institutions merging and entering into alliances particularly in Europe and the United States. Moreover, the importance of emerging markets in Asia and other regions has been rapidly growing, and the business environment surrounding the international financial industry is becoming more complex. In addition, customers' financing needs are becoming more diverse and sophisticated as their activities are becoming more globalized.

Amidst this dynamic environment, MUFG Global covers our overseas businesses, including commercial banking services such as loans, deposits and cash management services, retail banking, trust assets and securities businesses (with the retail banking and trust assets businesses being conducted through Union Bank), through a global network of more than 500 offices outside of Japan to provide customers with financial products and services that meet their increasingly diverse and sophisticated financing needs.

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

Our CIB business primarily serves large corporations, financial institutions, and sovereign and multinational organizations with a comprehensive set of solutions for their financing needs. Through our global network of offices and branches, we provide a full range of services, including corporate banking services such as providing credit commitments and arranging the issuance of asset-backed commercial paper, investment banking services such as debt/equity issuance, and M&A advisory services, to help clients develop financial strategies. To meet clients' expectations for their various financing needs, we have established a client-oriented coverage business model and coordinate our product experts who can offer innovative finance services all around the world. With our acquisition from The Royal Bank of Scotland Group plc of project finance assets consisting of loans for natural resources, power and other infrastructure projects in Europe, the Middle-East and Africa, and related assets in December 2010, we continue to seek to strengthen our project finance business, which is one of the core businesses of CIB. For more information on our transaction with The Royal Bank of Scotland Group, see Item 5. Operating and Financial Review and Prospects' Recent Developments.

### ***Transaction Banking***

We have Transaction Banking offices around the world through which we provide commercial banking products and services for corporations and financial institutions in managing and processing domestic and cross-border payments, mitigating risks in international trade, and performing asset and liability management. We provide customers with support for their domestic, regional and global trade finance and cash

management programs through our extensive global network.

*Union Bank*

UNBC is a wholly owned indirect subsidiary of MUFG. UNBC is a US bank holding company with Union Bank being its primary subsidiary. Union Bank is a leading regional bank headquartered in California, ranked by



## **Table of Contents**

the Federal Deposit Insurance Corporation, or FDIC, as the 21st largest bank in the United States in terms of total deposits as of March 2012. Union Bank provides a wide range of financial services to consumers, small businesses, middle-market companies and major corporations, primarily in California, Oregon, Washington, and Texas as well as nationally and internationally. In April 2010, Union Bank acquired loans and other assets and assumed deposits and other liabilities of Tamalpais Bank, a California-based bank, and Frontier Bank, a Washington-based bank, from the FDIC in separate FDIC-assisted transactions. In March 2012, UNBC entered into a definitive agreement to acquire Pacific Capital Bancorp, a bank holding company based in California with approximately \$5.9 billion in total assets and approximately \$4.6 billion in deposits. In May 2012, Union Bank entered into a definitive agreement with PNC Bank, N.A. to acquire Smartstreet, an Atlanta-based financial services division of PNC Bank that has approximately \$1 billion in deposits and provides banking services in the United States to homeowners associations and community association management companies. For more information, see Item 5. Operating and Financial Review and Prospects Recent Developments.

## ***Global Markets***

Global Markets covers the asset and liability management and strategic investments of BTMU and MUTB, and sales and trading of financial products of BTMU, MUTB and MUMSS.

## ***Other***

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

## **Global Strategic Alliance with Morgan Stanley**

As of March 31, 2011, we held a total of approximately 47 million shares of Morgan Stanley's common stock, Series B Non-Cumulative Non-Voting Perpetual Convertible Preferred Stock ( Series B Preferred Stock ) with a face value of approximately \$7.9 billion, or ¥808.3 billion, and a 10% dividend, and Perpetual Non-Cumulative Non-Convertible Preferred Stock ( Series C Preferred Stock ) with a face value of approximately \$0.5 billion, or ¥53.6 billion, and a 10% dividend.

On June 30, 2011, we converted all of the Series B Preferred Stock held by us for approximately 385 million shares of Morgan Stanley's common stock, resulting in us holding approximately 432 million shares of Morgan Stanley's common stock, which represented approximately 22.4% of the voting rights in Morgan Stanley based on the number of shares of Morgan Stanley's common stock outstanding as of June 30, 2011. As of March 31, 2012, we held approximately 21.8% of the voting rights in Morgan Stanley and held a total of approximately 432 million shares of Morgan Stanley's common stock and Series C Preferred Stock with a face value of approximately \$0.5 billion, or ¥53.6 billion, and a 10% dividend. As of the same date, we had two representatives appointed to Morgan Stanley's board of directors. We adopted the equity method of accounting for our investment in Morgan Stanley for the fiscal year ended March 31, 2012. For more information, see Item 5. Operating and Financial Review and Prospects Recent Developments.

In May 2010, we and Morgan Stanley integrated our respective Japanese securities companies by forming two securities joint venture companies. We converted the wholesale and retail securities businesses conducted in Japan by MUS into MUMSS. Morgan Stanley contributed the investment banking operations conducted in Japan by its former wholly-owned subsidiary, Morgan Stanley Japan, to MUMSS, and converted the sales and trading and capital markets businesses conducted in Japan by Morgan Stanley Japan into an entity called Morgan Stanley

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MUFG Securities, Co., Ltd., or MSMS. We hold a 60% economic interest in MUMSS and MSMS, and Morgan Stanley holds a 40% economic interest in MUMSS and MSMS. We hold a 60% voting interest and Morgan Stanley holds a 40% voting interest in MUMSS, and we hold a 49% voting interest and Morgan Stanley holds a 51% voting interest in MSMS. Morgan Stanley's and our economic and voting interests in the securities joint venture companies are held through intermediate holding companies. We have retained control of MUMSS and we account for our interest in MSMS under the equity method due to our significant influence over MSMS. The board of directors of MUMSS has fifteen members, nine of whom are designated by us and six of whom are

## **Table of Contents**

designated by Morgan Stanley. The board of directors of MSMS has ten members, six of whom are designated by Morgan Stanley and four of whom are designated by us. The CEO of MUMSS is designated by us and the CEO of MSMS is designated by Morgan Stanley. For a discussion of our recent capital contributions to MUMSS, see Item 5. Operating and Financial Review and Prospects Recent Developments.

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

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

## **Competition**

We face strong competition in all of our principal areas of operations. The structural reforms in the regulation of the financial industry and recent developments in the financial market have resulted in some significant changes in the Japanese financial system and prompted banks to merge or reorganize their operations, thus changing the nature of competition from other financial institutions as well as from other types of businesses.

### ***Japan***

Since their formation in 2000 and 2001, the so-called Japanese mega bank groups, including us, the Mizuho Financial Group, and the Sumitomo Mitsui Financial Group have continued to expand their businesses and financial group capabilities. Heightened competition among the mega bank groups is currently expected in the securities sector as they have recently announced plans to expand, or have expanded, their respective securities businesses. In May 2010, we and Morgan Stanley created two securities joint venture companies in Japan, MUMSS and MSMS, by integrating the operations of MUS and Morgan Stanley Japan. In May 2009, Mizuho Securities Co., Ltd. acquired Shinko Securities Co., Ltd. In September 2011, the Norinchukin Bank, Mizuho Corporate Bank, Ltd. and Mizuho Securities entered into definitive agreements to expand areas of business cooperation and enhance collaborative relationships. In May 2012, Mizuho Securities and Mizuho Investors Securities Co., Ltd. entered into a merger agreement, pursuant to which the merger is expected to become effective on January 4, 2013. In October 2009, the Sumitomo Mitsui Financial Group acquired the former Nikko Cordial Securities Inc. and other businesses from Citigroup Inc. For a discussion of the two securities joint venture companies created by us and Morgan Stanley, see B. Business Overview Global Strategic Alliance with Morgan Stanley.

The mega bank groups face heightened competition with other financial groups. For example, the Nomura Group acquired Lehman Brothers Holdings Inc.'s franchise in the Asia-Pacific region and investment banking businesses in Europe and the Middle East in October 2008. In addition, various Japanese non-bank financial institutions, non-financial companies as well as foreign financial institutions entered into the Japanese domestic market. For example, Orix Corporation, a non-bank financial institution, and the Seven & i Holdings group and Sony Corporation, which were both non-financial companies, began to offer various banking services, often through non-traditional distribution channels. Citigroup Inc. conducts its banking business in Japan through a locally incorporated banking subsidiary.

In the retail banking sector, customers often seek a broad range of financial products and services, such as investment trusts and insurance products. Recently, competition has increased due to the development of new products and distribution channels. For example, Japanese banks have started competing with one another by

## **Table of Contents**

developing innovative proprietary computer technologies that allow them to deliver basic banking services in a more efficient manner, such as internet banking services, and to create sophisticated new products in response to customer demand.

In recent years, the Japanese government has identified several governmental financial institutions as candidates to privatize. In particular, the privatization of the Japan Post Group companies could substantially increase competition within the financial services industry as Japan Post Bank Co., Ltd. is the world's largest holder of deposits. Although the Japanese government's privatization plan for the Japan Post Group companies was suspended in December 2009, a revised postal privatization law became effective in May 2012, allowing the government to commence its sales of shares in the Japan Post Group companies. The revised law only requires Japan Post Holdings Co., Ltd. to make efforts to sell its shares in Japan Post Bank and Japan Post Insurance Co., Ltd. as soon as possible with no specific deadline. Additionally, under the revised law, Japan Post Bank and Japan Post Insurance may enter into new businesses upon obtaining government approvals, and if the government's equity holdings decrease to a certain level, the two companies will be allowed to enter into new businesses upon submission of a notice to the government. As a result, the Japan Post Group companies may seek to enter into new businesses, including sales of various types of insurance and housing loans. The privatization of the Japan Post Group companies remains subject to political negotiations and government action. See Item 3.D. Key Information Risk Factors Risks Related to Our Business 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 and B. Business Overview The Japanese Financial System Government Financial Institutions.

In the consumer finance sector, new regulatory reforms and legal developments have negatively impacted the business environment, resulting in failures of a large number of consumer finance companies, including a major consumer finance company's filing for corporate reorganization in September 2010. In April 2012, Promise Co., Ltd. became a wholly-owned subsidiary of the Sumitomo Mitsui Financial Group. See Item 3.D. Key Information Risk Factors Risks Related to Our Business Because of our loans to consumers and our shareholdings in companies engaged in consumer lending, changes in the business or regulatory environment for consumer finance companies in Japan may further adversely affect our financial results.

The trust assets business is a growth area that is becoming increasingly competitive because of regulatory changes in the industry that have expanded the products and services that can be offered since the mid-2000s. In addition, there is growing corporate demand for changes in the trust regulatory environment, such as reforms of the pension system and related accounting regulations under Japanese GAAP. Competition may increase in the future as changes are made to respond to such corporate demand and regulatory barriers to entry are lowered. In October 2009, The Sumitomo Trust and Banking Co., Ltd. acquired Nikko Asset Management Co., Ltd. from Citigroup Inc. In April 2011, Sumitomo Trust and Banking and Chuo Mitsui Trust Holdings, Inc. established Sumitomo Mitsui Trust Holdings, Inc., a holding company, to integrate their operations. In April 2012, Sumitomo Trust and Banking, The Chuo Mitsui Trust and Banking Company, Limited and Chuo Mitsui Asset Trust and Banking Company, Limited, the three trust bank subsidiaries of Sumitomo Mitsui Trust Holdings, merged and were renamed Sumitomo Mitsui Trust Bank, Limited. As a result, competition is expected to intensify in the asset management and trust assets businesses.

## ***Foreign***

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

## **Table of Contents**

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

### **The Japanese Financial System**

Japanese financial institutions may be categorized into three types:

the central bank, namely the Bank of Japan;

private banking institutions; and

government financial institutions.

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

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

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

Private banking institutions in Japan are commonly classified into two categories (the following numbers are based on information published by the Financial Services Agency of Japan available as of May 7, 2012:

ordinary banks (128 ordinary banks and 57 foreign commercial banks with ordinary banking operations); and

trust banks (16 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 107 and other banks, of which there are 16. Of the five city banks, Mizuho Bank, Ltd. and Mizuho Corporate Bank have announced a plan to merge, effective July 1, 2013. 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, 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. 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 in some cases, with trust banks. Integration among these banks was achieved, in most cases, through the use of a bank holding company.

## **Table of Contents**

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

Among them are the following:

The Development Bank of Japan, which was established for the purpose of contributing to the economic development of Japan by extending long-term loans, mainly to primary and secondary sector industries, and which was reorganized as a joint stock company in October 2008 as part of its ongoing privatization process, the target completion date for which has been postponed until some time between April 2020 and March 2022;

Japan Finance Corporation, which was formed in October 2008, through the merger of the International Financial Operations of the former Japan Bank for International Cooperation, National Life Finance Corporation, Agriculture, Forestry and Fisheries Finance Corporation, and Japan Finance Corporation for Small and Medium Enterprise, the primary purposes of which are to supplement and encourage the private financing of exports, imports, overseas investments and overseas economic cooperation, and to supplement private financing to the general public, small and medium enterprises and those engaged in agriculture, forestry and fishery. In April 2012, Japan Finance Corporation spun off international operations to create Japan Bank for International Cooperation as a separate government-owned entity;

Japan Housing Finance Agency, which was originally established in June 1950 as the Government Housing Loan Corporation for the purpose of providing housing loans to the general public, was reorganized as an incorporated administrative agency and became specialized in securitization of housing loans in April 2007; and

The Japan Post Group companies, a group of joint stock companies including Japan Post Bank, which were formed in October 2007 as part of the Japanese government's privatization plan for the former Japan Post, a government-run public services corporation, which had been the Postal Service Agency until March 2003. The Japanese government's privatization plan for the Japan Post Group companies was suspended in December 2009. In May 2012, a revised postal privatization law became effective, allowing the government to commence its sales of shares in the Japan Post Group companies.

### **Supervision and Regulation**

#### ***Japan***



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

*The Banking Law.* Among the various laws that regulate financial institutions, the Banking Law and its subordinated orders and ordinances are regarded as the fundamental law for ordinary banks and other private financial institutions. The Banking Law addresses capital adequacy, inspections and reporting to banks and bank holding companies, as well as the scope of business activities, disclosure, accounting, limitation on granting credit and standards for arm's length transactions for them. As a result of the amendment to the Banking Law and

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## Table of Contents

the Financial Instruments and Exchange Law, effective as of June 2009, firewall regulations that separate bank holding companies or banks from affiliated securities companies have become less stringent. On the other hand, bank holding companies, banks and other financial institutions are required to establish an appropriate system to better cope with conflicts of interest that may arise from their business operations.

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

*Capital adequacy.* The capital adequacy guidelines adopted by the FSA that are applicable to Japanese bank holding companies and banks with international operations closely follow the risk-weighted approach introduced by the Basel Committee on Banking Supervision of the Bank for International Settlements, or BIS. Since March 2007, Japanese banks have been subject to standards reflecting the Basel Committee standards called International Convergence of Capital Measurement and Capital Standards: A Revised Framework, or Basel II.

Under the FSA guidelines reflecting Basel II, we and our banking subsidiaries currently use the Advanced Internal Ratings-Based Approach, or the AIRB approach, to calculate capital requirements for credit risk as of March 31, 2011 and 2012. The Standardized Approach is used for some subsidiaries that are considered to be immaterial to the overall MUFU capital requirements, and UNBC has adopted a phased rollout of the internal ratings-based approach. Market risk is reflected in the risk-weighted assets by applying the Internal Models Approach to calculate general market risk and the Standardized Methodology to calculate specific risk. Under the Internal Models Approach, we principally use a historical simulation model to calculate value-at-risk amounts by estimating the profit and loss on our portfolio by applying actual fluctuations in historical market rates and prices over a fixed period. Under the FSA guidelines reflecting Basel II, we reflected operational risk in the risk-weighted assets by applying the Standardized Approach as of March 31, 2011 and the Advanced Measurement Approach as of March 31, 2012, respectively. For more information, see Item 11. Quantitative and Qualitative Disclosures about Credit, Market and Other Risk Operational Risk Management.

The capital adequacy guidelines are in accordance with the Basel II standards 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 MUFU. Modified risk-weighted assets is the sum of risk-weighted assets compiled for credit risk purposes, market risk equivalent amount divided by 8% and operational risk equivalent amount divided by 8%.

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

the amount (up to a maximum of 0.6% of credit risk-weighted assets) by which eligible reserves for credit losses exceed expected losses in the internal ratings-based approach, and general reserves for credit losses, subject to a limit of 1.25% of modified risk-weighted assets determined by the partial use of the Standardized Approach (including a phased rollout of the internal ratings-based approach),

45% of the unrealized gains on investment securities classified as securities available for sale under Japanese GAAP,

**Table of Contents**

45% of the land revaluation excess,

the balance of perpetual subordinated debt, and

the balance of subordinated term debt with an original maturity of over five years and preferred stock with a maturity up to 50% of Tier I capital.

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

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

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

raising the quality, consistency and transparency of the capital base,

strengthening the risk coverage of the capital framework,

introducing a leverage ratio as a supplementary measure to the Basel II risk-based framework with a view to migrating to a minimum capital requirement treatment based on appropriate review and calibration,

introducing a series of measures to promote the build-up of capital buffers in good times that can be drawn upon in periods of stress, and

introducing a global minimum liquidity standard for internationally active banks that includes a 30-day liquidity coverage ratio requirement underpinned by a longer-term structural liquidity ratio.

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

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In regards to the proposals, the Group of Central Bank Governors and Heads of Supervision reached an agreement on the new global regulatory framework, which has been referred to as Basel III, in July and September 2010. In December 2010, the Basel Committee agreed on the details of the Basel III rules. The agreement on Basel III includes the following:

raising the quality of capital to ensure banks are able to better absorb losses on both a going concern and a gone concern basis,

increasing the risk coverage of the capital framework, in particular for trading activities, securitizations, exposures to off-balance sheet vehicles and counterparty credit exposures arising from derivatives,

raising the level of minimum capital requirements, including an increase in the minimum common equity requirement from 2% to 4.5%, which is planned to be phased in between January 1, 2013 and January 1, 2015, and a capital conservation buffer of 2.5%, which is planned to be phased in between January 1, 2016 and year end 2018, bringing the total common equity requirement to 7%,

## **Table of Contents**

introducing an internationally harmonized leverage ratio to serve as a backstop to the risk-based capital measure and to contain the build-up of excessive leverage in the system,

raising standards for the supervisory review process (Pillar 2) and public disclosures (Pillar 3), together with additional guidance in the areas of sound valuation practices, stress testing, liquidity risk management, corporate governance and compensation,

introducing minimum global liquidity standards consisting of both a short term liquidity coverage ratio and a longer term, structural net stable funding ratio, and

promoting the build up of capital buffers that can be drawn down in periods of stress, including both a capital conservation buffer and a countercyclical buffer to protect the banking sector from periods of excess credit growth.

In January 2011, the Basel Committee issued its final minimum requirements to ensure loss absorbency at the point of non-viability. The requirements are designed to ensure that all classes of capital instruments fully absorb losses at the point of non-viability before taxpayers are exposed to loss, and require, among other things, that all non-common Tier I and Tier II instruments, such as non-cumulative perpetual preferred stock and subordinated debt, issued by an internationally active bank, be either written-off or converted into common equity upon the occurrence of certain trigger events. Instruments issued on or after January 1, 2013, must meet the new requirements to be included in regulatory capital. Instruments issued prior to January 1, 2013, that do not meet the requirements, but that meet all of the entry criteria for additional Tier I or Tier II capital, will be considered as instruments that no longer qualify as additional Tier I or Tier II capital and will be phased out from January 1, 2013 in accordance with the above Basel III framework.

In July 2011, the Basel Committee on Banking Supervision proposed additional loss absorbency requirements to supplement the common equity Tier I capital requirement ranging from 1% to 2.5% for global systemically important banks, depending on the bank's systemic importance. The additional loss absorbency requirements are expected to be phased in between January 1, 2016 and December 31, 2018, and will become fully effective on January 1, 2019.

In November 2011, the Financial Stability Board tentatively identified us as a G-SIFI. The banks that are included in the group of G-SIFIs will be subject to stricter capital requirements. The group of G-SIFIs is expected to be updated annually, and the first group of G-SIFIs to which the stricter capital requirements will initially be applied is expected to be identified in 2014. The stricter capital requirements are expected to be implemented in phases from 2016.

Based on the Basel III framework, the Japanese capital ratio framework, which is currently based on Basel II, has been revised to implement the more stringent requirements, which will be effective as of March 31, 2013. Likewise, local banking regulators outside of Japan such as those in the United States are expected to revise the capital and liquidity requirements imposed on our subsidiaries and operations in those countries to implement the more stringent requirements of Basel III as adopted in those countries. The new risk-weighted asset structure expected to be proposed under Basel III may also encourage us to modify our business model to focus more on flow-based client market businesses, such as transactional banking and asset management. We will continue to assess the potential impact of Basel III and other regulatory standards related thereto.

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

*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, or 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

## **Table of Contents**

(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: (1) optimal combination of rules-based and principles-based supervisory approaches; (2) timely recognition of priority issues and effective response; (3) encouraging voluntary efforts by financial firms and placing greater emphasis on providing them with incentives; and (4) improving the transparency and predictability of regulatory actions, in pursuit of improvement of the quality of financial regulation and supervision.

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

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

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

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

Banks are also prohibited from holding shares in other companies exceeding their Tier I capital amount. For a detailed discussion on the capital requirements for Japanese banks, see Item 5.B. Operating and Financial Review and Prospects Liquidity and Capital Resources Capital Adequacy Capital Requirements for Banking Institutions in Japan.

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

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

*Anti-money laundering laws.* Under the Act on Prevention of Transfer of Criminal Proceeds, banks and other financial institutions are required to report to the 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 activities.



*Law concerning trust business conducted by financial institutions.* Under the Trust Business Act, joint stock companies that are licensed by the Prime Minister as trust companies, including non-financial companies, are allowed to conduct trust business. In addition, under the Act on Concurrent Operation for Trust Business by Financial Institutions, banks and other financial institutions, as permitted by the Prime Minister, are able to

## Table of Contents

conduct trust business. The Trust Business Act provides for a separate type of registration for trustees who conduct only administration type trust business. The Trust Business Act also provides for various duties imposed on the trustee in accordance with and in addition to the Trust Act.

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

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

Under the Deposit Insurance Act, the maximum amount of protection is ¥10 million per customer within one bank. 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). Deposits in settlement accounts are fully protected without a maximum amount limitation. Certain types of deposits are not covered by the deposit insurance system, such as foreign currency deposits and negotiable certificates of deposit. As of April 1, 2012, the Deposit Insurance Corporation charges insurance premiums equal to 0.107% on the deposits in the settlement accounts, which are fully protected as mentioned above, and premiums equal to 0.082% on the deposits in other accounts. If no financial institutions become insolvent during the year ending on March 31, 2013, the premiums will be retrospectively revised to 0.089% and 0.068%, respectively, and the balance will be returned.

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

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

In response to the Great East Japan Earthquake on March 11, 2011, the act was revised in July 2011, adding the special case for the financial institutions suffering damage from the disaster. Under the case, the requirement to create the improvement plan of profitability and efficiency is eased. Moreover, the application deadline has been extended from March 31, 2012 to March 31, 2017.

*The Act on the Temporary Measures for the Facilitation of Finance to Small and Medium-sized Firms and Others.* In December 2009, the Act on the Temporary Measures for the Facilitation of Finance to Small and Medium-sized Firms and Others became effective, requiring financial

institutions, among other things, to make an effort to reduce their customers' burden of loan repayment by employing methods such as modifying the term

## Table of Contents

of loans at the request of eligible borrowers, including small and medium-sized firms and individual home loan borrowers. The new legislation also requires financial institutions to internally establish a system to implement the requirements of the legislation and periodically make public disclosure of and report to the relevant authority on the status of implementation. This legislation has been extended to March 31, 2013.

*The Personal Information Protection Act.* With regard to protection of personal information, the Personal Information Protection Act requires, among other things, 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. In addition, the Banking Law and the Financial Instruments and Exchange Law provide certain provisions with respect to appropriate handling of customer information.

*Law Concerning Protection of Depositors from Illegal Withdrawals Made by Counterfeit or Stolen Cards.* The Act on Protection, etc. of Depositors and Postal Saving Holders from Unauthorized Automated Withdrawal, etc. Using Counterfeit Cards, etc. and Stolen Cards, etc. requires financial institutions to establish internal systems to prevent illegal withdrawals of deposits made using counterfeit or stolen bank cards. The act also requires 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.

*Government Reforms to Restrict Maximum Interest Rates on Consumer Lending Business.* In December 2006, the Diet passed legislation to reform the regulations relating to the consumer lending business, including amendments to the Act Regulating the Receipt of Contributions, Receipt of Deposits and Interest Rates which, effective June 18, 2010, reduced the maximum permissible interest rate from 29.2% per annum to 20% per annum. The regulatory reforms also included amendments to the Law Concerning Lending Business which, effective June 18, 2010, abolished the so-called gray-zone interest. Gray-zone interest refers to interest rates exceeding the limits stipulated by the Interest Rate Restriction Law (between 15% per annum to 20% per annum depending on the amount of principal). Prior to June 18, 2010, gray-zone interests were permitted under certain conditions set forth in the Law Concerning Lending Business. As a result of the regulatory reforms, all interest rates are now subject to the lower limits imposed by the Interest Rate Restriction Law, compelling lending institutions, including our consumer finance subsidiaries and equity method investees, to lower the interest rates they charge borrowers. Furthermore, the new regulations, which became effective on June 18, 2010, require, among other things, consumer finance companies to limit their lending to a single customer to a maximum of one third of the customer's annual income regardless of the customer's repayment capability.

In addition, as a result of decisions made by the Supreme Court of Japan prior to June 18, 2010, imposing stringent requirements for charging such gray-zone interest rates, consumer finance companies have been responding to borrowers' claims for reimbursement of previously collected interest payments in excess of the limits stipulated by the Interest Rate Restriction Law. We continue to carefully monitor future developments and trends of the claims. See Item 3.D. Key Information Risk Factors Risks Related to Our Business. Because of our loans to consumers and our shareholdings in companies engaged in consumer lending, changes in the business or regulatory environment for consumer finance companies in Japan may further adversely affect our financial results.

*Recent Regulatory Actions.* In December 2011, JACCS Co., Ltd., an equity-method investee, received a business improvement order from the Kanto Bureau of Economy, Trade and Industry of the Ministry of Economy, Trade and Industry of Japan under the Installment Sales Act of Japan in connection with extensions of credit to individuals without conducting a credit examination to determine the individual's repayment ability as required by the Act when JACCS experienced a system failure, resulting in loans extended to individuals in excess of their respective estimated repayment abilities. JACCS has implemented measures designed to prevent the recurrence of similar incidents and ensure an appropriate compliance framework. For further information, see Item 11. Quantitative and Qualitative Disclosures about Credit, Market and Other Risk Compliance.



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## **Table of Contents**

### *United States*

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

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

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

authorized qualifying bank holding companies to opt to become financial holding companies, and thereby acquire the authority to engage in an expanded list of activities; and

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

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

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



## Table of Contents

*US branches and agencies of subsidiary Japanese banks.* Under the authority of the IBA, our banking subsidiaries, BTMU and MUTB, operate four branches, one agency and eight representative offices in the United States. BTMU operates branches in Los Angeles, California; Chicago, Illinois; New York, New York; an agency in Houston, Texas; and representative offices in Washington, D.C; San Francisco, California; Seattle, Washington; Atlanta, Georgia; 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 each 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 US 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 safe and 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 Department of Financial Services, 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 Department of Financial Services. 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 two US banks:

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

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

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

The FDIC is the primary federal agency responsible for the supervision, examination and regulation of the 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



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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 both of our US banking subsidiaries up to legally specified maximum amounts. In the event of a failure of an FDIC-insured bank, the FDIC is virtually certain to be appointed as receiver, and would

**Table of Contents**

resolve the failure under provisions of the Federal Deposit Insurance Act. An FDIC-insured institution that is affiliated with a failed or failing FDIC-insured institution can be required to indemnify the FDIC for losses resulting from the insolvency of the failed institution, even if this causes the affiliated institution also to become insolvent. In the liquidation or other resolution of a failed FDIC-insured depository institution, deposits in its US offices and other claims for administrative expenses and employee compensation are afforded priority over other general unsecured claims, including deposits in offices outside the United States, non-deposit claims in all offices and claims of a parent company. Moreover, under longstanding Federal Reserve Board policy, a bank holding company is expected to act as a source of financial strength for its banking subsidiaries and to commit resources to support such banks.

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

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

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

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

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**Table of Contents**

*Foreign Corrupt Practices Act.* In recent years, US regulatory and enforcement agencies including the US Securities and Exchange Commission and the US Department of Justice have significantly increased their enforcement efforts of the Foreign Corrupt Practices Act, or the FCPA. The FCPA prohibits US securities issuers, US domestic entities, and parties doing substantial business within the United States (including their shareholders, directors, agents, officers, and employees) from making improper payments to non-US government officials in order to obtain or retain business. The FCPA also requires US securities issuers to keep their books and records in detail, accurately, and in such a way that they fairly reflect all transactions and dispositions of assets. Those enforcement efforts have targeted a wide range of US and foreign-based entities and have been based on a broad variety of alleged fact patterns, and in a number of cases have resulted in the imposition of substantial criminal and civil penalties or in agreed payments in settlement of alleged violations. Failure of a financial institution doing business in the United States to maintain adequate policies, procedures, internal controls, and books and records on a global basis that address compliance with FCPA requirements could in some cases have serious legal and reputational consequences for the institution, including the incurrence of expenses to enhance the relevant programs and the imposition of fines and other monetary penalties.

*Regulatory Reform Legislation.* In response to the global financial crisis and the perception that lax supervision of the financial industry in the United States may have been a contributing cause, new legislation designed to reform the system for supervision and regulation of financial firms doing business in the United States, the so-called Dodd-Frank Act, was signed into law on July 21, 2010. The Dodd-Frank Act is complex and extensive in its coverage and contains a wide range of provisions that would affect financial institutions operating in the United States, including our US operations. Included among these provisions are sweeping reforms designed to reduce systemic risk presented by very large financial firms, promote enhanced supervision, regulation, and prudential standards for financial firms, establish comprehensive supervision of financial markets, impose new limitations on permissible financial institution activities and investments, expand regulation of the derivatives markets, protect consumers and investors from financial abuse, and provide the government with the tools needed to manage a financial crisis. Many aspects of the legislation require subsequent regulatory action by supervisory agencies for full implementation and, to date, a number of proposals for regulatory rule-making have been issued by those supervisory agencies that, if finally adopted, would have an impact on our operations. Since those rules are, for the most part, not yet adopted in final form, at this time we are unable to assess with certainty the potential impact of the Dodd-Frank Act on our operations.

Currently, the components of the Dodd-Frank Act that may impact our operations are the provisions relating to the Volcker Rule, enhanced prudential standards (including capital requirements, resolution plans, and credit reporting), derivatives regulation (including the swap push-out provisions), incentive-based compensation, the establishment of the Consumer Financial Protection Bureau, and debit interchange fees. Although most of the regulatory rules regarding the foregoing components are still pending, based on information currently available to us, other than as discussed below, the impact of these components is expected to be mainly limited to our US operations and not to be material to us on a consolidated basis. We intend to continue to monitor developments relating to the Dodd-Frank Act and the potential impact on our activities inside and outside of the United States.

Under the Volcker Rule, we would be required to cease conducting certain proprietary trading activities (i.e., trading in securities and financial instruments for our own account) subject to certain exceptions including market-making, hedging, and underwriting activities if such activities are conducted within a rigorous compliance framework. While the Volcker Rule was intended to exclude restrictions on proprietary trading activities conducted solely outside of the United States, US regulators have not yet finalized rules or guidance on the application of this intended limitation. Most of our proprietary trading activities are generally executed outside of the United States, and we have only limited proprietary trading activity in our US subsidiaries. Accordingly, if the US regulators limit the extraterritorial application of the Volcker Rule to exclude our proprietary trading activities conducted outside of the United States, we do not expect the proprietary trading revenues attributable to our US subsidiaries as a result of the implementation of the Volcker Rule to be material to our operations based on our current revenues attributable to the proprietary trading activities conducted in our US subsidiaries.

**Table of Contents**

US regulators have also begun to issue final regulations governing swaps and derivatives markets as contemplated by the Dodd-Frank Act. We expect that the swaps activities of some of our subsidiaries and their branches will require such subsidiaries and branches to register as swap dealers with the US Commodity Futures Trading Commission and the US Securities and Exchange Commission during 2012. The regulations will impose substantial new requirements governing the conduct of swaps activities subject to the Dodd-Frank Act. US regulators have issued proposed guidance on the application of US regulations to activities of registered swap dealers outside of the United States. The potential extraterritorial application of swap dealer regulatory requirements, as proposed, could impose significant operational and compliance burdens on our swaps activities outside of the United States.

*Foreign Account Tax Compliance Act.* The Hiring Incentives to Restore Employment Act was enacted in March 2010 and contains provisions commonly referred to as FATCA. The US Department of the Treasury, or the US Treasury, acting through the Internal Revenue Service, is responsible for issuing regulations implementing FATCA. Although the US Treasury has issued preliminary guidance for implementation, including proposed regulations, final comprehensive rules and regulations governing implementation of FATCA have not yet been issued. Moreover, the United States and Japan have agreed to pursue a framework for intergovernmental cooperation to facilitate the implementation of FATCA. However, the details of this framework have not yet been finalized. FATCA is likely to require non-US financial institutions to develop extensive systems capabilities and internal processes to identify and report US persons who are subject to FATCA requirements. Developing and implementing those capabilities and processes is likely to be a complex and costly process and failure to do so in an adequate manner may subject any institution that fails to do so to serious legal and reputational consequences, including the imposition of fines and other monetary penalties. At this time we are unable to assess with certainty the potential impact of FATCA on our operations.

*Recent Regulatory and Other Legal Developments.* We have received requests and subpoenas for information from government agencies in some jurisdictions, including the United States and Europe, which are conducting investigations into past submissions made by panel members, including us, to the bodies that set various interbank offered rates. We are cooperating with these investigations. In addition, we and other panel members have been named as defendants in a number of civil lawsuits, including putative class actions, in the United States relating to similar matters. See Item 3. Key Information Risk Factors Risks Related to Our Business Regulatory matters and any future regulatory matters or regulatory changes could have a negative impact on our business and results of operations.

**Table of Contents**

**C. Organizational Structure**

The following chart presents our corporate structure summary as of March 31, 2012:

Note:

(1) Consumer finance subsidiaries

**Table of Contents**

Set forth below is a list of our principal consolidated subsidiaries at March 31, 2012:

Note:

(1) Includes shares held in trading accounts, custody accounts and others.

**Table of Contents****D. Property, Plant and Equipment**

Premises and equipment at March 31, 2011 and 2012 consisted of the following:

	At March 31,	
	2011	2012
	(in millions)	
Land	¥ 391,602	¥ 381,977
Buildings	694,384	708,223
Equipment and furniture	667,073	687,228
Leasehold improvements	225,407	233,123
Construction in progress	15,007	19,330
Total	1,993,473	2,029,881
Less accumulated depreciation	1,030,925	1,042,407
Premises and equipment net	¥ 962,548	¥ 987,474

Our registered address is 7-1, Marunouchi 2-chome, Chiyoda-ku, Tokyo 100-8330, Japan. At March 31, 2012, we and our subsidiaries conducted our operations either in premises we owned or in properties we leased.

The following table presents the book values of our material offices and other properties at March 31, 2012:

	Book value (in millions)
Owned land	¥ 381,977
Owned buildings	219,846

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

During the fiscal year ended March 31, 2012, we invested approximately ¥131.2 billion, primarily for office renovations and relocation.

**Item 4A. Unresolved Staff Comments.**

None.

**Table of Contents**

**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.*

	<b>Page</b>
<u>Introduction</u>	50
<u>Business Environment</u>	56
<u>Recent Developments</u>	64
<u>Critical Accounting Estimates</u>	69
<u>Accounting Changes and Recently Issued Accounting Pronouncements</u>	76
<b>A. <u>Operating Results</u></b>	76
<u>Results of Operations</u>	76
<u>Business Segment Analysis</u>	89
<u>Geographic Segment Analysis</u>	95
<u>Effect of Change in Exchange Rates on Foreign Currency Translation</u>	96
<b>B. <u>Liquidity and Capital Resources</u></b>	97
<u>Financial Condition</u>	97
<u>Capital Adequacy</u>	119
<u>Non-exchange Traded Contracts Accounted for at Fair Value</u>	124
<b>C. <u>Research and Development, Patents and Licenses, etc.</u></b>	124
<b>D. <u>Trend Information</u></b>	124
<b>E. <u>Off-Balance Sheet Arrangements</u></b>	125
<b>F. <u>Tabular Disclosure of Contractual Obligations</u></b>	126
<b>G. <u>Safe Harbor</u></b>	126



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

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

**Key Income and Expense Figures**

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

	Fiscal years ended March 31,		
	2010	2011	2012
	(in billions, except per share data)		
Net interest income <sup>(1)</sup>	¥ 1,983.5	¥ 1,879.5	¥ 1,955.8
Provision for credit losses	647.8	292.0	223.8
Non-interest income	2,469.4	1,694.8	1,440.6
Non-interest expense	2,508.1	2,460.5	2,322.7
Net income before attribution of noncontrolling interests	884.0	388.1	420.7
Net income attributable to Mitsubishi UFJ Financial Group	868.7	452.6	416.2
Diluted earnings per common share net income available to common shareholders of Mitsubishi UFJ Financial Group	68.59	30.43	28.09
Total assets (at end of fiscal year)	200,081.5	202,850.2	215,202.5

Note:

(1) Interest income for the fiscal year ended March 31, 2012 includes a gain of ¥139.3 billion on conversion rate adjustment of convertible preferred stock. Exclusive of the one-time gain associated with the conversion, interest income for the fiscal year ended March 31, 2012 would have been lower.

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

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

the amount of interest-earning assets,

the amount of interest-bearing liabilities,

the general level of interest rates,

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

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

Our net interest income for the fiscal year ended March 31, 2012 increased compared to that for the prior fiscal year, mainly due to the recognition as interest income of a ¥139.3 billion gain realized from an adjustment to the conversion rate associated with the conversion of Morgan Stanley's preferred stock into Morgan Stanley's common stock. The average lending volumes, however, slightly decreased. Although there was a slight improvement in interest rate spread due to the recognition of the gain stated above, the low global interest rate environment continued to affect our overall interest rate spread during the fiscal year ended March 31, 2012. Excluding the effect of the gain realized in connection with our conversion of Morgan Stanley's preferred stock of ¥139.3 billion for the fiscal year ended March 31, 2012 and the related preferred dividends of ¥66.0 billion for the fiscal year ended March 31, 2011, the average interest rate spread decreased 0.01 percentage points from

**Table of Contents**

0.96% for the fiscal year ended March 31, 2011 to 0.95% for the fiscal year ended March 31, 2012. For more information on the conversion of Morgan Stanley's preferred stock, see Recent Developments below.

The following table shows changes in our net interest income by changes in volume and by changes in rates for the fiscal year ended March 31, 2011 compared to the fiscal year ended March 31, 2010 and the fiscal year ended March 31, 2012 compared to the fiscal year ended March 31, 2011:

	Fiscal year ended March 31, 2010			Fiscal year ended March 31, 2011		
	versus			versus		
	fiscal year ended March 31, 2011			fiscal year ended March 31, 2012		
	Increase (decrease) due to changes in					
	Volume <sup>(1)</sup>	Rate <sup>(1)</sup>	Net change	Volume <sup>(1)</sup>	Rate <sup>(1)</sup>	Net change
	(in millions)					
Domestic	¥ (41,926)	¥ (56,372)	¥ (98,298)	¥ (51,014)	¥ (36,835)	¥ (87,849)
Foreign <sup>(2)</sup>	35,377	(41,074)	(5,697)	43,905	120,290	164,195
<b>Total</b>	<b>¥ (6,549)</b>	<b>¥ (97,446)</b>	<b>¥ (103,995)</b>	<b>¥ (7,109)</b>	<b>¥ 83,455</b>	<b>¥ 76,346</b>

Notes:

- (1) Volume/rate variance is allocated based on the percentage relationship of changes in volume and changes in rate to the total net change.  
(2) Interest income on foreign activities for the fiscal year ended March 31, 2012 includes a gain of ¥139.3 billion on conversion rate adjustment of convertible preferred stock. Exclusive of the one-time gain associated with the conversion, the increases would have been smaller for the fiscal year ended March 31, 2012 compared to the fiscal year ended March 31, 2011. For more information, see Selected Statistical Data.

The following is a summary of the amount of interest-earning assets and interest-bearing liabilities average interest rates, the interest rate spread and non-interest-bearing liabilities for the fiscal years ended March 31, 2010, 2011 and 2012:

	2010		Fiscal years ended March 31, 2011		2012	
	Average balance	Average rate	Average balance	Average rate	Average balance	Average rate
	(in billions, except percentages)					
<b>Interest-earning assets:</b>						
Domestic	¥ 127,830.2	1.34%	¥ 130,922.3	1.16%	¥ 130,856.7	1.07%
Foreign <sup>(1)</sup>	47,540.5	2.20	49,338.1	2.08	53,322.4	2.24
<b>Total</b>	<b>¥ 175,370.7</b>	<b>1.57%</b>	<b>¥ 180,260.4</b>	<b>1.41%</b>	<b>¥ 184,179.1</b>	<b>1.41%</b>
<b>Financed by:</b>						
<b>Interest-bearing liabilities:</b>						
Domestic	¥ 124,431.3	0.37%	¥ 126,908.2	0.29%	¥ 130,916.6	0.26%
Foreign	33,725.1	0.93	34,436.5	0.87	34,504.0	0.88
<b>Total</b>	<b>158,156.4</b>	<b>0.49</b>	<b>161,344.7</b>	<b>0.42</b>	<b>165,420.6</b>	<b>0.39</b>
Non-interest-bearing liabilities	17,214.3		18,915.7		18,758.5	

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Total	¥ 175,370.7	0.44%	¥ 180,260.4	0.37%	¥ 184,179.1	0.35%
Interest rate spread		1.08%		0.99%		1.02%
Net interest income as a percentage of total interest-earning assets		1.13%		1.04%		1.06%

Note:  
 (1) Interest income on foreign activities for the fiscal year ended March 31, 2012 includes a gain of ¥139.3 billion on conversion rate adjustment of convertible preferred stock. Exclusive of the one-time gain associated with the conversion, the average rate for the fiscal year ended March 31, 2012 would have been lower. For more information, see Selected Statistical Data.

**Table of Contents**

***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 the description of the approach and methodology used to establish the allowance for credit losses, see B. Liquidity and Capital Resources Financial Condition Loan Portfolio Allowance policy.

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

fees and commissions income, 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 net, which include gains (losses) on foreign exchange derivative contracts (for example, foreign exchange gains and losses on currency derivatives), foreign exchange gains (losses) other than derivative contracts (for example, gains and losses on foreign exchange transactions), and foreign exchange gains (losses) related to the fair value option (for example, foreign exchange gains (losses) on securities under the fair value option);

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trading account profits net, which primarily include net profits (losses) on trading account securities and interest rate derivative contracts entered into for trading purposes, including assets relating to the following activities:

trading purpose activities, which are conducted mainly for the purpose of generating profits either through transaction fees or arbitrage gains and involve frequent and short-term selling and buying of securities, commodities or others; and

trading account assets relating to application of certain accounting rules, which are generally not related to trading purpose activities, but are classified as trading accounts due to application of certain accounting rules, such as assets that are subject to fair value option accounting treatment or investment securities held by variable interest entities that are classified as trading account securities;

Of the two categories, trading purpose activities represent a smaller portion of our trading accounts profits;

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

equity in losses of equity method investees net, which includes our equity interest in the earnings of our equity investees and impairment losses on our investments in equity method investees;

gains on sales of loans; and

other non-interest income.

**Table of Contents**

The following table is a summary of our non-interest income for the fiscal years ended March 31, 2010, 2011 and 2012:

	Fiscal years ended March 31,		
	2010	2011	2012
	(in billions)		
Fees and commissions income	¥ 1,139.5	¥ 1,128.4	¥ 1,100.0
Foreign exchange gains net	216.7	260.7	34.3
Trading account profits net	761.5	133.9	667.3
Investment securities gains net	223.0	121.8	19.4
Equity in losses of equity method investees net	(83.9)	(113.0)	(499.4)
Gains on sales of loans	21.2	14.5	15.6
Other non-interest income	191.4	148.5	103.4
<b>Total non-interest income</b>	<b>¥ 2,469.4</b>	<b>¥ 1,694.8</b>	<b>¥ 1,440.6</b>

**Core Business Areas**

We operate our main businesses under an integrated business group system, which integrates the operations of BTMU, MUTB, MUMSS (through MUSHD), Mitsubishi UFJ NICOS and other subsidiaries in the following four areas Retail, Corporate, Trust Assets, and Global. Of these four, the Integrated Global Business Group was added as of July 1, 2011 by shifting most of our global operations mainly from the Integrated Corporate Banking Group to more effectively coordinate and enhance group-wide efforts to strengthen and expand our overseas operations. These four 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. For further information, see A. Operating Results Business Segment Analysis.

Our business segment information is based on financial information prepared in accordance with Japanese GAAP, as adjusted in accordance with internal management accounting rules and practice and is not consistent with our consolidated financial statements included elsewhere in this Annual Report, which have been prepared in accordance with US GAAP. For information on a reconciliation of operating profit under our internal management reporting system to income before income tax expense shown on the consolidated statements of income, see Note 27 to our consolidated financial statements included elsewhere in this Annual Report. The following table sets forth the relative contributions to operating profit for the fiscal year ended March 31, 2012 of the four core business areas and the other business areas based on our business segment information:

	Integrated Retail Banking Business Group	Integrated Corporate Banking Business Group	Integrated Trust Assets Business Group	Integrated Global Business Group		Global Markets	Other	Total	
				Other than UNBC	UNBC				
	(in billions)								
Net revenue	¥ 1,274.1	¥ 884.8	¥ 140.5	¥ 401.1	¥ 252.0	¥ 653.1	¥ 690.7	¥ (49.7)	¥ 3,593.5
Operating expenses	903.6	447.7	87.3	225.1	173.0	398.1	96.6	165.4	2,098.7
<b>Operating profit (loss)</b>	<b>¥ 370.5</b>	<b>¥ 437.1</b>	<b>¥ 53.2</b>	<b>¥ 176.0</b>	<b>¥ 79.0</b>	<b>¥ 255.0</b>	<b>¥ 594.1</b>	<b>¥ (215.1)</b>	<b>¥ 1,494.8</b>

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

We reported net income attributable to Mitsubishi UFJ Financial Group of ¥416.2 billion for the fiscal year ended March 31, 2012, compared to ¥452.6 billion for the fiscal year ended March 31, 2011. Our diluted earnings per share of common stock (net income available to common shareholders of Mitsubishi UFJ Financial Group) for the fiscal year ended March 31, 2012 was ¥28.09, compared to diluted earnings per share of common



**Table of Contents**

stock of ¥30.43 for the fiscal year ended March 31, 2011. Income before income tax expense for the fiscal year ended March 31, 2012 was ¥849.9 billion, compared to income before income tax expense of ¥821.8 billion for the fiscal year ended March 31, 2011.

Our business and results of operations as well as our assets are heavily influenced by trends in economic conditions particularly in Japan. In the first half of fiscal year ended March 31, 2012, the Japanese economy demonstrated modest recovery from the Great East Japan Earthquake and ensuing tsunami in the northern region of Japan that occurred on March 11, 2011 as well as the subsequent accidents at the Fukushima Daiichi Nuclear Power Plants, with a quarter-on-quarter real GDP growth rate of 1.9% in the July-September 2011 period, following a negative quarter-on-quarter growth rate of 0.4% in the April-June 2011 period. The growth in the July-September 2011 period particularly reflected a recovery in the supply chains disrupted by the earthquake, an increase in exports supported by increased manufacturing activities and improved consumer sentiment. The Japanese economy slowed down again with marginal quarter-on-quarter GDP growth in the October-December 2011 period, mainly due to a decrease in net exports reflecting the weak overseas economy and an increase in fuel imports for thermal electricity generation. The January-March 2012 period, however, demonstrated an upward trend again with a quarter-on-quarter real GDP growth rate of 1.2%, particularly supported by stronger consumer spending, backed partially by the restart of government subsidies for environmentally friendly car purchases, and an increase in public project spending as a result of the full implementation of the government's supplementary budget for post-earthquake restoration projects. Due to the weak overseas economy and persistent appreciation of the Japanese yen, the Japanese economy as a whole has not recovered fully, and remains vulnerable to negative external factors.

Reflecting the weak economic fundamentals, the closing price of the Nikkei Stock Average fluctuated throughout the fiscal year ended March 31, 2012. The Nikkei Stock Average moved around ¥10,000 until late July 2011, followed by a declining trend towards late November 2011 when it reached the low ¥8,000s. It then improved to the ¥10,000s in late March 2012, followed then by a decline to the mid ¥8,000s to low ¥9,000s range through early July 2012. On top of the uncertainties overlaying the Japanese economy, fluctuations in the Nikkei Stock Average have mainly reflected volatility in the global economy and weak investor sentiment that remains cautious in light of uncertainties surrounding the global financial and capital markets and, to some extent, the appreciating Japanese yen and the growing global competition adversely affecting Japanese companies. See [Business Environment](#) below.

For the fiscal year ended March 31, 2012, our domestic revenue, which consists of interest income and non-interest income attributable to our operations in Japan, was ¥2,936.9 billion, while our total foreign revenue, which consists of interest income and non-interest income attributable to our operations outside Japan, was ¥1,099.6 billion, with revenue attributable to our operations in the United States contributing ¥192.8 billion, Asia and Oceania excluding Japan contributing ¥450.6 billion, and Europe contributing ¥290.5 billion. As a percentage of total revenue, domestic revenue has declined for the three fiscal years ended March 31, 2012. For the fiscal year ended March 31, 2012, domestic revenue represented 72.8% of total revenue.

For the fiscal year ended March 31, 2012, domestic net income attributable to Mitsubishi UFJ Financial Group was ¥163.3 billion. Foreign net income attributable to Mitsubishi UFJ Financial Group was ¥252.9 billion for the same period. In particular, Asia and Oceania excluding Japan contributed ¥192.8 billion, more than half of which was derived from net income from China, while Europe contributed ¥113.6 billion, reflecting improvements in net trading gains and net interest income. This was mainly due to reductions in losses in our securities and consumer finance companies. In light of these trends, we plan to seek growth opportunities particularly in Asia and Europe.

More specifically, our net income attributable to Mitsubishi UFJ Financial Group for the fiscal year ended March 31, 2012 mainly reflected the following:

Net interest income was ¥1,955.8 billion, an increase of ¥76.3 billion from ¥1,879.5 billion for the previous fiscal year mainly due to the recognition as interest income of the ¥139.3 billion gain realized



**Table of Contents**

from the adjustment to the conversion rate when we converted the Morgan Stanley's preferred stock into Morgan Stanley's common stock. Exclusive of this one-time factor for the fiscal year ended March 31, 2012 and the related preferred dividends of ¥66.0 billion for the fiscal year ended March 31, 2011, net interest income was ¥1,816.5 billion, an increase of ¥3.0 billion compared to the previous fiscal year;

Provision for credit losses was ¥223.8 billion, a decrease of ¥68.2 billion from ¥292.0 billion for the previous fiscal year, primarily due to a decrease in domestic provision for credit losses, reflecting a smaller increase in restructured residential mortgage loans for the fiscal year ended March 31, 2012 compared to the fiscal year ended March 31, 2011, when we experienced a higher than usual increase in such restructured residential mortgage loans;

Fees and commissions income for the fiscal year ended March 31, 2012 was ¥1,100 billion, a decrease of ¥28.4 billion from ¥1,128.4 billion for the fiscal year ended March 31, 2011. This decrease was primarily due to a decrease of ¥10.5 billion in fees and commissions from our securities business, reflecting the slowdown of the domestic market. The decrease in fees and commissions income was also due to decreases in trust fees, service charges on deposits, guarantee fees and fees from our investment funds business, reflecting a general decrease in the volume of these businesses;

Net foreign exchange gains for the fiscal year ended March 31, 2012 were ¥34.3 billion, a decrease of ¥226.4 billion from ¥260.7 billion for the fiscal year ended March 31, 2011. During the fiscal year ended March 31, 2012, fluctuations in the exchange rate between the Japanese yen and the US dollar remained relatively small compared to the previous fiscal year. As a result, foreign exchange gains other than derivative contracts decreased from the previous fiscal year, mainly due to a decrease in translation gains on monetary liabilities denominated in foreign currencies. On the other hand, foreign exchange losses related to the fair value option improved from the previous fiscal year, mainly due to translation gains on securities denominated in foreign currencies;

Net trading account profits for the fiscal year ended March 31, 2012 were ¥667.3 billion, an increase of ¥533.4 billion from ¥133.9 billion for the fiscal year ended March 31, 2011. The increase in net trading account profits was largely due to an increase in net profits on trading account securities, excluding derivatives. In particular, net profits on trading account securities under the fair value option increased to ¥439.9 billion for the fiscal year ended March 31, 2012 from ¥68.6 billion for the fiscal year ended March 31, 2011, mainly due to an increase in gains on valuation of foreign currency denominated debt securities;

Net investment securities gains for the fiscal year ended March 31, 2012 were ¥19.4 billion, a decrease of ¥102.4 billion from ¥121.8 billion for the fiscal year ended March 31, 2011. This decrease was mainly due to a decrease of ¥53.3 billion in gains on sales of marketable equity securities, and an increase ¥60.5 billion in impairment losses on marketable equity securities for the fiscal year ended March 31, 2012, reflecting the weakness in the Japanese domestic stock prices following the Great East Japan Earthquake; and

Net equity in losses of equity method investees for the fiscal year ended March 31, 2012 were ¥499.4 billion, an increase of ¥386.4 billion from ¥113.0 billion for the fiscal year ended March 31, 2011, mainly due to an impairment loss of ¥579.5 billion on our investment in Morgan Stanley's common stock, resulting from a decline in the quoted market price of Morgan Stanley's common stock that we determined to be other than temporary in light of the increasingly stringent regulatory environment and the existing adverse economic events in Europe. For further information, see Note 2 to our consolidated financial statements included elsewhere in this Annual Report.

Our total loans outstanding at March 31, 2012 were ¥92.30 trillion, an increase of ¥4.80 trillion from ¥87.50 trillion at March 31, 2011. Before unearned income, net unamortized premiums and net deferred loan fees, our loan balance at March 31, 2012 consisted of ¥68.20 trillion of domestic loans and ¥24.19 trillion of

**Table of Contents**

foreign loans. Between March 31, 2011 and March 31, 2012, domestic loans increased ¥0.65 trillion while foreign loans increased ¥4.14 trillion. The increase in domestic loans was primarily due to an increase in our loans outstanding to the other industries category, which includes the government sector, toward the end of the fiscal year ended March 31, 2012, although the average total loan balance for the fiscal year ended March 31, 2012 decreased compared to the previous fiscal year. The increase in foreign loans was mainly due to higher loan volume reflecting our increased activities in Asia excluding Japan, as well as the expansion of the foreign operations of our banking subsidiaries.

Total allowance for credit losses at March 31, 2012 was ¥1,285.5 billion, an increase of ¥45.0 billion from ¥1,240.5 billion at March 31, 2011. This increase mainly reflected the deteriorating credit quality of our domestic borrowers in the manufacturing industry and the wholesale and retail industry. Following the Great East Japan Earthquake in March 2011, domestic industrial production weakened, which was adversely affecting many of our borrowers in the manufacturing industry. Although the overall private consumption in Japan gradually improved, the prices of most goods remained exposed to downward pressure, which had a negative impact on many of our borrowers in the wholesale and retail industry, particularly small and medium-sized companies. These factors contributing to the increase in total allowance were partially offset by the improved credit quality of the loan portfolio of the UnionBanCal Corporation, or UNBC, and Card segments. The total allowance for credit losses represented 1.39% of our total loan portfolio at March 31, 2012, a decrease of 0.03 percentage points from 1.42% at March 31, 2011. The decrease in the ratio of the total allowance for credit losses to our total loan portfolio primarily reflected the improved credit quality of the loan portfolio of the UNBC and Card segments. For more information, see B. Liquidity and Capital Resources Financial Condition Loan Portfolio.

Total investment securities increased ¥1.99 trillion to ¥61.04 trillion at March 31, 2012 from ¥59.05 trillion at March 31, 2011, primarily due to an increase of ¥4.16 trillion in Japanese national government and Japanese government agency bonds available for sale, partially offset by a ¥0.61 trillion decrease in corporate bonds and a ¥0.22 trillion decrease in marketable equity securities, reflecting the general decline in Japanese stock prices and weak market fundamentals. Our investments in Japanese national government and government agency bonds increased as part of our asset and liability management policy with respect to investing the amount of yen-denominated deposit funds exceeding our net loans. As a result, our holdings of Japanese national and government and Japanese government agency bonds as a percentage of our total assets have increased to relatively high levels, accounting for 23.0% of our total assets as of March 31, 2012.

The amortized cost of securities being held to maturity decreased ¥631.8 billion compared to the previous fiscal year mainly due to a ¥436.3 billion decrease in Japanese national government and Japanese government agency bonds and a ¥266.4 billion decrease in foreign governments and official institutions bonds as a result of the redemption of multiple tranches of bonds at maturity, partially offset by an increase in asset backed securities being held to maturity.

Other investment securities, consisting of nonmarketable equity securities, were primarily carried at cost of ¥0.91 trillion at March 31, 2012, compared to ¥1.70 trillion at March 31, 2011. The decrease reflected the conversion of Morgan Stanley's preferred stock into Morgan Stanley's common stock which was reclassified from Other investment securities to an investment in an equity method investee included in Other assets as of March 31, 2012.

Our financial results for the fiscal year ending March 31, 2013, as well as our financial condition at the end of that period, are expected to be affected to a large extent by how our borrowers and the Japanese economy respond to the effects of the Great East Japan Earthquake in March 2011 and changes in the global economic conditions. The credit quality of some of our borrowers may deteriorate further than we currently expect, which could affect our credit costs and loan portfolio. See Item 3.D. Key Information Risk Factors Risks related to Our Business Because a large portion of our assets are located in Japan and our business operations are conducted primarily in Japan, we may incur further losses if economic conditions in Japan worsen. and Business Environment below.

**Business Environment**

We engage, through our subsidiaries and affiliated companies, in a broad range of financial businesses and services, including commercial banking, investment banking, trust banking and asset management services,

## **Table of Contents**

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***

In the first half of fiscal year ended March 31, 2012, the Japanese economy demonstrated modest recovery from the Great East Japan Earthquake and ensuing tsunami in the northern region of Japan that occurred on March 11, 2011 as well as the subsequent accidents at the Fukushima Daiichi Nuclear Power Plants. A quarter-on-quarter real GDP growth rate in the July-September 2011 period was 1.9%, following a negative quarter-on-quarter growth rate of 0.4% in the April-June 2011 period. The growth in the July-September 2011 period particularly reflected a recovery in the supply chains disrupted by the earthquake, an increase in exports supported by increased manufacturing activities and improved consumer sentiment.

The Japanese economy slowed down again with only a marginal quarter-on-quarter GDP growth in the October-December 2011 period, mainly due to a decrease in net exports reflecting the weak overseas economy and an increase in fuel imports for thermal electricity generation.

The January-March 2012 period, however, demonstrated an upward trend again with a quarter-on-quarter real GDP growth rate of 1.2%, particularly supported by stronger consumer spending, backed partially by the restart of government subsidies for environmentally friendly car purchases, and an increase in public project spending as a result of the full implementation of the government's supplementary budget for post-earthquake restoration projects. Due to the weak overseas economy and persistent appreciation of the Japanese yen, the Japanese economy as a whole has not yet recovered fully, and remains vulnerable to negative external factors.

Selected indicators for the most recent Japanese economy are discussed below:

Corporate Production: Industrial production plunged by 15.5% in March 2011 following the earthquake especially led by an approximately 50% drop in production relating to transportation machinery (such as automobiles). Although industrial production recovered slightly in the subsequent months, the supply chains and networks for plants and other supplies were not fully restored, and production levels for transportation machinery remained below pre-earthquake levels during the fiscal year ended March 31, 2012. Industrial production has been demonstrating improvement since the beginning of calendar 2012 in tandem with the gradual recovery in the Japanese economy supported by solid private consumption and government support to accelerate the recovery. The Industrial Production Index surged by 1.3% in March 2012 compared to February 2012, continuing its upward trend following the earthquake in

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March 2011. Transportation machinery, chemical engineering, and information and communication industry contributed to the growth, while electronic device, paper and pulp, and textile industry plunged. Although small, inventory investment by corporations also contributed by 0.3% to the real GDP growth in the January-March 2012 period. Careful attention is warranted as to how the economy and production levels will evolve going forward, which may be influenced by both positive factors such as restoration demand in the northern region of Japan and negative factors such as a weak European economy.

Net exports: Japan has experienced a trade deficit for the first time in 31 years in calendar 2011, mainly due to a decrease in exports following the earthquake and a high level of imports of oil and natural gas, along with persistent appreciation of the Japanese yen. Although gross exports significantly decreased

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**Table of Contents**

following the earthquake in March 2011, gross exports started to increase in the January-March 2012 period. Gross exports rose by 3.0% quarter-on-quarter in the January-March 2012 period, mainly due to an increase in automobile exports to the United States, and an increase in general and electric machinery exports to Asia. Although imports also increased by 1.9% quarter-on-quarter in the January-March 2012 period mainly due to an increase in imports of fuels for thermal electricity generation, growth in exports exceeded that of imports, which, in turn, led to an increase in net exports by 1.1% quarter-on-quarter in the January-March 2012 period.

**Employment Conditions:** Employment conditions have been modest throughout calendar 2011 with stable yet lower than prior year unemployment rate of around 4.5% in calendar 2011 compared to that of 5.0% in calendar 2010. The number of employed workers and the average labor hours per employee have also demonstrated gradual and steady improvement since the July-September 2011 period. The unemployment rate in March 2012 remained as low as 4.5%.

**Private Consumption:** Since the April-June 2011 period, private consumption, particularly that of durable goods, has been increasing steadily reflecting the gradual improvement in household disposable income and employment condition. Real private consumption increased 1.2% quarter-on-quarter in the January-March 2012 period, a fourth consecutive quarter of growth since the April-June 2011 period. The growth was mainly led by an increase in consumption of durable goods, particularly supported by an increase in consumption of cars partially attributable to the restart of government subsidies for environmentally friendly cars. Improved consumer confidence also supported service industries such as restaurant, leisure and travel. Private consumption is expected to be affected by the increases in the consumption tax rate if the relevant proposed legislation is approved by the Japanese Diet, which would raise the consumption tax rate from the current rate of 5% to 8% in April 2014, and to 10% in October 2015.

**Public Spending:** Since the April-June 2011 period, public spending has been increasing partially due to the implementation of a supplementary budget for the ongoing restoration initiatives in the northern region of Japan. Public spending increased 1.3% quarter-on-quarter in the January-March 2012 period, a fourth consecutive quarter of growth since the April-June 2011 period. The increase was mainly due to an increase in government spending in public goods and infrastructure, and multiple public projects supported by the full implementation of the government's supplementary budget for the post-earthquake restoration projects.

The Bank of Japan maintained a monetary easing policy during the fiscal year ended March 31, 2012 to stimulate the economy that has been persistently weak since the financial crisis. In October 2010, the Bank of Japan lowered its target interest rate to between 0% and 0.1% from 0.1% to support the economy and stimulate sustainable growth. Furthermore, at the Monetary Policy Meeting held in February 2012, the Bank of Japan introduced the price stability goal in the medium to long term, stating that the inflation rate that the Bank of Japan judges to be consistent with price stability sustainable in the medium to long term is within a positive range of 2% or lower in terms of the year-on-year rate of change in the Consumer Price Index, or CPI, and it set the target inflation rate at 1% for the time being. At the April 2012 meeting, the Bank of Japan agreed to expand the Asset Purchase Program, which is a program established to encourage a decline in longer-term interest rates and risk premiums to enhance monetary easing by purchasing various financial assets and conducting funds-supplying operations against pooled collateral. For example, the Bank of Japan agreed to increase the purchase of Japanese government bonds by approximately ¥10 trillion. Along with the monetary easing policy, the Bank of Japan has maintained a very low policy rate (uncollateralized overnight call rate) of 0.10% or lower in an effort to improve the economy.

Euro-yen 3-month TIBOR was around 0.33% as of early July 2012, the lowest level since 2006. Long-term interest rates have also remained at the historical low level, due to uncertainty in the global economy, weakness in stock prices and low expectations for a near-term rate increase in the United States, as the US government has maintained a monetary easing policy. The yield on newly-issued ten-year Japanese government bonds fell to around 0.81% as of early July 2012.



**Table of Contents**

The following chart shows the interest rate trends in Japan since April 2010:

Reflecting the weak economic fundamentals, the closing price of the Nikkei Stock Average fluctuated throughout the fiscal year ended March 31, 2012. The Nikkei Stock Average moved around ¥10,000 until late July 2011, followed by a declining trend towards late November 2011 when it reached the low ¥8,000s. It then improved to the ¥10,000s in late March 2012, followed then by a decline to the mid ¥8,000s to low ¥9,000s range through early July 2012. In addition to the uncertainties overlaying the Japanese economy, fluctuations in the Nikkei Stock Average have mainly reflected volatility in the global economy and weak investor sentiment that remains cautious in light of uncertainties surrounding the global financial and capital markets and, to some extent, the appreciating Japanese yen and the growing global competition adversely affecting Japanese companies. The closing price of the Tokyo Stock Price Index, or TOPIX, a composite index of all stocks listed on the First Section of the Tokyo Stock Exchange, has also been following the similar trend. It was around 850s until late July 2011, followed by a declining trend until late November 2011 when it reached the 700s. It then moved upward to the high 800s towards the end of March 2012, followed by a persistent decline to the mid to high 700s range through early July 2012.

**Table of Contents**

Despite the Bank of Japan's policy to increase monetary supply, investor sentiment in the Japanese stock market remains cautious due in part to uncertainty regarding the Japanese political leadership, the continuing appreciation of the Japanese yen, the growing global competition adversely affecting Japanese companies, the weakness in the global economy, and the continuing uncertainties on how the global financial market will evolve in response to the sovereign financial crisis in some European countries. As of July 10, 2012, the closing price of the Nikkei Stock Average was ¥8,857.73 and the TOPIX closed at 758.60. The following chart shows the daily closing price of the Nikkei Stock Average since April 2010:

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**Table of Contents**

The Japanese yen appreciated against other currencies throughout the fiscal year ended March 31, 2012. The Japanese yen appreciated from ¥83.15 to US\$1 as of March 31, 2011 to ¥82.19 to US\$1 as of March 30, 2012, and then to ¥79.50 to US\$1 as of July 10, 2012. The strong Japanese yen appears to reflect rising risk aversion sentiment among Japanese investors and the lower interest rates outside of Japan, which led to lower capital outflow from Japan. The Japanese yen has also appreciated against the Euro during the period, as a result of the sovereign debt crisis and the subsequent tightening of monetary policies in Europe. The Japanese yen stood at ¥109.80 to 1 as of March 30, 2012 as compared to ¥117.57 to 1 as of March 31, 2011. As of July 10, 2012, the Japanese yen was at ¥79.50 to US\$1 and ¥97.75 to 1. The following chart shows the foreign exchange rates expressed in Japanese yen per US dollar since April 2010:

In calendar 2011, the average prices for both residential and commercial real estate experienced declines for the fourth consecutive year, although the pace of decline softened compared to the last year, reflecting the slight recovery in the Japanese economy. According to a survey conducted by the Japanese government, the average residential land price declined by 2.3% between January 1, 2011 and January 1, 2012. The average commercial land price declined by 3.1% during the same period. In the three major metropolitan areas of Tokyo, Osaka and Nagoya, the average residential land price declined by 1.3% between January 1, 2011 and January 1, 2012, while the average commercial land price declined by 1.6% during the same period. In the local regions other than the major metropolitan areas in Japan, the average residential and commercial land prices continued to decline for the eighth consecutive year with the rates of decline between January 1, 2011 and January 1, 2012 being 3.3% and 4.3%, respectively.

According to Teikoku Databank, a Japanese research institution, the number of companies that filed for legal bankruptcy in Japan from April 2011 to March 2012 was 11,435, a decrease by 0.5% from the previous fiscal year, reflecting a moderate recovery of the Japanese economy for the fiscal year ended March 31, 2012. More specifically, the decrease in the number of companies that filed for legal bankruptcy was mainly due to the positive effects of the Japanese government's economic stimulus measures which financially supported various industries' restoration processes. The aggregate amount of liabilities subject to bankruptcy filings between April 2011 and March 2012 was approximately ¥3.92 trillion, a 14.1% decrease attributable to a decrease in the number of large bankruptcy filings (with the amount of liabilities ¥10 billion or higher) although the number of small bankruptcy filings (the amount of liabilities ¥50 million or less) increased.

## **Table of Contents**

### ***International Financial Markets***

#### *US Economy:*

The US economy continued to improve with the annualized real GDP growth rate averaging 1.7% in calendar 2011. Real GDP grew at an annualized rate of 3.0% quarter-on-quarter in the October-December 2011 period, the highest in six consecutive quarters. As a whole, exports have been declining and capital expenditures slowing, but consumption has been firm and residential and commercial investments have contributed to the growth. This trend continued throughout the January-March 2012 period with annualized quarter-on-quarter real GDP growth rate of 1.9%, particularly supported by strong momentum in consumer consumption with annualized quarter-on-quarter growth of 2.5%. However, uncertainties still remain over whether the US economy will continue to improve, especially in light of the volatility in the global financial markets.

Selected indicators for the most recent status of the US economy are discussed below:

According to the US Bureau of Labor Statistics, the unemployment rate decreased from its cyclical high at around 10% in April 2010 to 8.2% in May 2012. Productivity growth remained weak and work hours have just recovered to the pre-financial crisis level, leaving potential for improvement in employment conditions.

Consumption, which accounts for approximately 70% of the US real GDP, grew 2.5% quarter-on-quarter in the January-March 2012 period, mainly due to an increase in spending on durable goods, such as cars, and leisure spending, such as dining out or sports goods reflecting warm weather and improved employment conditions, partially offset by the negative wealth effect and an increase in energy prices such as gasoline. The University of Michigan consumer sentiment index improved to the high 70s in May 2012 after a precipitous drop to the 50s in mid 2011.

Business sentiment, overall, has been improving since the fall of 2011. Capital expenditures grew 3.1% annualized quarter-on-quarter in the January-March 2012 period mainly due to an increase in investment in machinery and software industries, partially offset by a decrease in investment in mining industries. Investment in inventory grew 0.1% annualized quarter-on-quarter in the same period, demonstrating weaker growth than capital expenditures, mainly due to an accumulation of inventory levels since the October-December 2011 period.

The Consumer Price Index for All Urban Consumers, or CPI-U, for all items increased by 2.7% before seasonal adjustment over the 12 months ended March 2012. It remained unchanged in April 2012 and decreased by 0.3% in May 2012 from that of the preceding month on a seasonally adjusted basis. CPI-U for all items less food and energy increased 2.3% before seasonal adjustment over the 12 months ended March 2012. It increased 0.2% in both April and May 2012 from that of the preceding month on a seasonally adjusted basis.

With the US economy demonstrating moderate improvement but still lacking strong evidence of sustained growth, the Federal Reserve Bank, or the FRB, has kept in place its zero-interest rate policy a policy to maintain the federal funds target rate between zero and 0.25%. In November 2011, the Federal Open Market Committee, or the FOMC, reconfirmed its monetary policy, which was announced in September 2011, under which the FOMC will maintain the zero interest rate policy until mid 2013 and implement so-called twist operation through which the FOMC will purchase \$400 billion of long-term US treasury securities and sell an equal amount of short-term treasury securities to lower long-term interest rates and to support sustained economic growth.

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Subsequently, at the March 2012 FOMC meeting, the FRB raised its prospect for the US economy by referencing improvement in employment conditions and business activities, and extended the zero interest rate policy until late 2014.

Major equity market indices, such as the Dow Industrial Average, have been performing better than other major equity indices in other regions of the globe. From the beginning of calendar 2011, the Dow Industrial Average rose until mid 2011, when it experienced, as other major indices across the globe, a sharp decline due to

## **Table of Contents**

significant concerns over the sovereign debt crisis in some European countries. The Dow Industrial Average moved upward again through the end of March 2012 as the state of the US economy improved and concerns over the European financial crisis decreased due to the formation of comprehensive financial supporting measures extended by international bodies such as the European Central Bank, or the ECB, and the International Monetary Fund. The index experienced a decline again in May 2012 as concerns over Greek budgetary issues engulfed the market.

### *Eurozone Economy:*

The Eurozone economy remained stagnant with no growth in the January-March 2012 period after experiencing a contraction in the October-December 2011 period. In the October-December 2011 period, the quarter-on-quarter real GDP growth rate was negative 0.3%, reflecting weak economic fundamentals triggered by budgetary crisis in some European countries.

Consumer confidence has been impacted by the government's fiscal austerity measures and a rise in unemployment rates, which has in turn weakened consumer spending significantly in some countries. Industrial production, represented by the Industrial Purchasing Manager's Index, or PMI, has been declining since the beginning of calendar 2012 as well. This trend may continue if the economic fundamentals remain weak and budgetary crisis lacks fundamental solutions in the near term.

In peripheral European countries, despite the approval of the second Greek bailout and the winning of the party supporting the austerity measures in the Greek legislative election in June 2012, there remains a concern over political leadership in executing austerity measures. Concerns over Spanish budgetary issues also cast doubt in the near term recovery of the Eurozone economy.

Selected indicators for the status of the Eurozone economy are discussed below:

Consumer spending in the January-March 2012 period increased only marginally by 0.1% quarter-on-quarter reflecting weak employment conditions and consumer confidence, the trend which has continued since the fall of 2011. Retail sales have been below prior year levels for seven consecutive months through May 2012, with May 2012 decreasing 1.7% as compared to May 2011.

The average unemployment rate in the Eurozone countries has been on an upward trend, standing at 11.1% in May 2012. Labor market conditions have been deteriorating mainly in peripheral countries, such as Spain and Portugal, with unemployment rates of 24.6% and 15.2%, respectively, as of May 2012. However, the increase in unemployment rates has been moderate in northern European countries such as Germany or the Netherlands, and thus employment disparities amongst Eurozone countries have been widening.

Real purchasing power decreased as a result of fiscal austerity. A rise in inflation and an increase in energy prices have been pushing household consumption down significantly. The consumer confidence index in May 2012 stood at negative 19.3, one of the lowest levels since late 2009.

Industrial production contracted 0.4% annualized quarter-on-quarter in the January-March 2012 period. More recently, industrial production in May 2012 contracted 2.8% year-on-year, marking the sixth month of negative growth. New orders showed negative growth, given the contraction in Germany. The PMI for the manufacturing sector in May 2012 was 45.1, remaining below 50 which indicates a contraction in the sector, for ten months in a row.

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Exports increased in the January-March 2012 period for the second consecutive quarter, supported by growth in Germany due to high demand from non-Eurozone economies, especially China, and weakness in the Euro currency. Net trade remained positive in the January-March 2012 period partially due to weak Eurozone economy, which in turn led to lower demand in imports.

Although CPI for all products increased 2.7% in the January-March 2012 period as compared to the same period of the prior year, CPI for all products has been growing at a slower pace compared to preceding quarters, mainly due to lower inflationary pressures from the demand side, particularly in energy and food, reflecting weak domestic economies in Europe.

## **Table of Contents**

Core CPI, excluding food and energy, increased by 1.5% in the January-March 2012 period as compared to the same period of the prior year.

The ECB, at its July 5, 2012 meeting, lowered its policy rate by 0.25% to 0.75%, the lowest level ever in its entire history, to stimulate the Eurozone economy. Mario Draghi, the president of ECB, reiterated that in the Eurozone economy, there are prevailing uncertainties and downside risks that may materialize given the current financial instability and turmoil.

## **Recent Developments**

We continue to pursue global growth opportunities, including opportunities to strengthen our strategic alliance with Morgan Stanley and expand Union Bank's business through acquisitions of community banks in the United States during the fiscal year ended March 31, 2012. We plan to continue to selectively review and consider growth opportunities that will enhance our global competitiveness. We will monitor regulatory developments and pursue prudent transactions that will create a strong capital structure to enable us to contribute to the real economy, both domestically and globally, as a provider of a stable source of funds and high quality financial services.

## ***Exposures to Selected European Countries***

During the fiscal year ended March 31, 2012, several European countries, including Italy, Spain, Portugal, Ireland and Greece, have experienced severe weaknesses in their economic and fiscal situations. We are closely monitoring our exposures in these countries.



**Table of Contents**

The following table sets forth information about our exposure on a consolidated basis, based on the aggregated exposure of BTMU, MUTB and MUSHD, which were the subsidiaries holding the exposure, as of March 31, 2012. The information in the table is categorized by counterparties, consisting of sovereign, non-sovereign financial institutions and non-sovereign non-financial institutions, and by type of financial instruments, which include loans, securities, derivatives and CDS protections (sold and bought). The securities exposure includes available for sale, held to maturity and trading securities. The information included in the table below is based on information compiled for internal risk management purposes only, and not for financial accounting purposes. The exposures are determined based on the country in which the borrower's head office is located. However, in case of a subsidiary located in a country different from that in which its parent company is located, the country exposure is determined based on the country in which the subsidiary is located.

	At March 31, 2012						
	Loans (funded & unfunded)	Securities	Derivatives	CDS protection sold (in billions)	Gross exposure (funded & unfunded)	CDS protection bought	Net exposure
Italy	\$ 5.9	\$ 2.9	\$ 1.3	\$ 0.1	\$ 10.2	\$ 0.6	\$ 9.6
Sovereign		2.7			2.7		2.7
Financial Institutions	0.1	0.2	0.0	0.0	0.3	0.0	0.3
Others	5.8	0.0	1.3	0.1	7.2	0.6	6.6
Spain	5.8	0.7	0.2	0.0	6.7	0.2	6.5
Sovereign		0.7			0.7		0.7
Financial Institutions	0.0	0.0	0.1	0.0	0.1	0.0	0.1
Others	5.8	0.0	0.1	0.0	5.9	0.2	5.7
Portugal	0.5	0.0	0.0		0.5	0.1	0.4
Sovereign							
Financial Institutions	0.0	(0.0)			(0.0)		(0.0)
Others	0.5	0.0	0.0		0.5	0.1	0.4
Ireland	0.3	(0.0)	0.0		0.3		0.3
Sovereign							
Financial Institutions		(0.0)	0.0		0.0		0.0
Others	0.3	0.0	0.0		0.3		0.3
Greece	0.2	0.1			0.3	0.0	0.3
Sovereign							
Financial Institutions							
Others	0.2	0.1			0.3	0.0	0.3
Total	\$ 12.7	\$ 3.7	\$ 1.5	\$ 0.1	\$ 18.0	\$ 0.9	\$ 17.1
Sovereign		3.4			3.4		3.4
Financial Institutions	0.1	0.2	0.1	0.0	0.4	0.0	0.4
Others	12.6	0.1	1.4	0.1	14.2	0.9	13.3

## Notes:

- (1) Net exposure represents gross exposure (funded & unfunded), net of CDS protection bought.
- (2) Securities amounts represent book values. Derivatives amounts represent current exposures, taking into consideration legally enforceable master netting agreements. CDS protection amounts represent notional amounts.
- (3) To the extent financial instruments are originally denominated in currencies other than US dollars, the exposure amounts have been translated into US dollars at an internal exchange rate used for our internal risk management purposes as of March 31, 2012.
- (4) Negative amounts represent short positions.

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Based on information collected for internal risk management purposes as of March 31, 2012, our consolidated exposure to Italy, Spain, Portugal, Ireland and Greece, which consisted of the aggregate, on a gross basis, of the funded loans and unfunded commitments to, held to maturity, available for sale and trading securities issued by, derivatives exposures to, and credit default protection sold for exposures to, sovereign government entities of and financial institutions and other corporate entities located in these countries, that BTMU, MUTB and MUSHD held, was less than 1% of our total assets.

## **Table of Contents**

As of March 31, 2012, other than BTMU, MUFG group companies had limited exposures to those European countries, except such other group companies' exposures to sovereign bonds issued by those countries as discussed below. As of the same date, BTMU held no sovereign bonds issued by those European countries.

As of March 31, 2012, we had a total balance of \$3.4 billion of sovereign bonds of the European peripheral countries identified in the table above on a consolidated basis. Among these countries, we had no Portuguese, Irish or Greek government bonds as of March 31, 2012. Approximately two-thirds of our Italian and Spanish government bonds were held in our trading accounts as of March 31, 2012.

As of March 31, 2012, we had a total of \$13.7 billion of exposures relating to the European peripheral countries identified in the table above, excluding sovereign bonds. These exposures mainly consisted of commercial loan exposures to corporations and structured finance transactions. Our exposures to Italy and Spain mainly related to the infrastructure sector, such as electricity, gas and telecommunications. Our loan-related exposures to financial institutions in those countries were limited and therefore not material.

### ***Effects of the Great East Japan Earthquake***

On March 11, 2011, the Tohoku region in northeastern Japan experienced a major earthquake and tsunami, which caused major property damage in the region. The Great East Japan Earthquake disrupted economic activity in the region and also indirectly affected Japan nationwide. Infrastructure and facilities in the region suffered damage, causing supply chain disruptions relating to parts and supplies manufactured in the region. Our loans outstanding to borrowers in the Tohoku region as of March 31, 2012 represented less than 1% of our total loans outstanding.

The Great East Japan Earthquake also triggered accidents at the Fukushima Daiichi Nuclear Power Plants, coupled with a limited number of government authorizations for the resumption of operations of nuclear power plants in Japan resulting in an electricity power supply shortage. The nation-wide electricity supply shortages posed challenges to the recovery efforts during the summer of 2011, and further electricity supply shortages affected some regions of Japan during the following winter. Electricity supply is expected to fall short again during the summer of 2012 due to reduced electricity production resulting from the nuclear power plants accidents which led to continued shut down of other nuclear power plants in Japan. In addition, electricity rates have been raised and are expected to be further raised.

The Great East Japan Earthquake has resulted in, and will likely further cause, indirect adverse effects on our financial results such as an increase in credit costs as the credit quality of some of our borrowers may deteriorate.

In addition, the Great East Japan Earthquake has partially contributed to impairment losses on investment securities for the fiscal year ended March 31, 2012, though we are unable to quantify the loss directly caused by the earthquake separately from losses caused by other economic factors.

Legislative measures have been adopted in response to the earthquake and nuclear accidents, including the Act to Establish the Nuclear Damage Compensation Facilitation Corporation as well as the tax reform legislation to fund recovery efforts. The effectiveness and impact of these recent legislative measures adopted in response to the earthquake and nuclear accidents are uncertain at this time. For further information on the tax reform legislation, see B. Financial Condition Deferred Tax Assets.

Since the accidents at the Fukushima Daiichi Nuclear Power Plants in March 2011, the Japanese electric utility industry has been experiencing significant difficulties and has been influenced by evolving public policy. In particular, TEPCO and the Nuclear Damage Liability Facilitation Fund, which is a government-supported fund, drafted a Comprehensive Special Business Plan to address TEPCO's problems following the accidents at the Fukushima Daiichi Nuclear Power Plants. That plan was approved by the Minister of Economy, Trade and Industry in May 2012. The plan provides for a ¥1 trillion capital injection into TEPCO by the Nuclear Damage

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**Table of Contents**

Liability Facilitation Fund in July 2012. In addition, as part of the plan, TEPCO has requested its primary lenders, which includes us, to (1) maintain all existing credit lines until TEPCO can procure financing independently through corporate bond issuances, (2) re-lend any previous loans that TEPCO may have repaid between March 11 and September 30, 2011, and (3) provide additional debt financing of up to approximately ¥1 trillion in aggregate (including the amount provided in response to the request as described in (2) above). No request for debt-forgiveness was made to the lenders as part of the plan. We are carefully monitoring TEPCO's progress under the plan, and are currently considering providing the requested financial support to TEPCO if TEPCO's operations and financial standing are in accordance with the plan without any material change. Assuming that we had provided the additional debt financing requested by TEPCO under the plan as of March 31, 2012, our aggregate loans outstanding to the Japanese electric utility industry would have been approximately 2% of our total outstanding loans as of such date.

***Update on Investment in Morgan Stanley***

Pursuant to an agreement we entered into with Morgan Stanley in April 2011, we converted all of the Morgan Stanley convertible preferred stock that we previously held into Morgan Stanley's common stock on June 30, 2011. Under the terms of the transaction, we exchanged convertible preferred stock with a face value of approximately \$7.9 billion, or ¥808.3 billion, and a 10% per annum dividend for approximately 385 million shares of Morgan Stanley's common stock, including approximately 75 million additional shares of Morgan Stanley's common stock resulting from the adjustment to the conversion rate pursuant to the agreement. The adjustment to the conversion rate was recognized as a gain of \$1.7 billion, or ¥139.3 billion, and was included in interest income on investment securities for the fiscal year ended March 31, 2012. We also appointed a second representative to Morgan Stanley's board of directors. This conversion further strengthens the global strategic alliance between Morgan Stanley and us.

We held approximately 21.8% of the common shares in Morgan Stanley as of March 31, 2012, and our investment in Morgan Stanley's common stock was included in Other assets as an investment in an equity method investee at March 31, 2012. Prior to the conversion, our investment in Morgan Stanley's common stock represented 3.0% of the common shares in Morgan Stanley and was included in investment securities available for sale, and our Morgan Stanley's convertible preferred stock was included in Other investment securities.

We adopted the equity method of accounting for our investment in Morgan Stanley for the fiscal year ended March 31, 2012. Our investments, results of operations and retained earnings have been adjusted retroactively on a step-by-step basis as if the equity method of accounting had been in effect during the previous reporting periods covered by this Annual Report. Our retroactive adjustment was applied to the existing approximately 3.0% investment in Morgan Stanley's common stock through June 30, 2011, the date of the conversion.

As a result of the decline in the quoted market price of Morgan Stanley's common stock after the conversion that we determined to be other than temporary in light of the increasingly stringent regulatory environment and the existing adverse economic events in Europe, we recognized an impairment loss of ¥579.5 billion on our investment in the Morgan Stanley's common stock, as of September 30, 2011, which was included in Equity in losses of equity method investees-net for the fiscal year ended March 31, 2012. For further information, see Note 2 to our consolidated financial statements included elsewhere in this Annual Report.

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

As part of our strategic alliance with Morgan Stanley, we have conducted securities operations in Japan in collaboration with Morgan Stanley through a joint ownership structure. In May 2010, Morgan Stanley and we integrated our respective Japanese securities companies by forming securities joint ventures. We converted the wholesale and retail securities businesses in Japan conducted by the former Mitsubishi UFJ Securities Co., Ltd., or MUS, into Mitsubishi UFJ Morgan Stanley Securities Co., Ltd., or MUMSS. Morgan Stanley contributed its Japanese investment

banking operations conducted by its former wholly-owned subsidiary, Morgan Stanley

**Table of Contents**

Japan Securities Co., Ltd., or Morgan Stanley Japan, to MUMSS. Morgan Stanley Japan was renamed Morgan Stanley MUFG Securities, Co., Ltd., or MSMS. We hold a 60% economic interest in MUMSS and MSMS, and Morgan Stanley holds a 40% economic interest in MUMSS and MSMS. We hold a 60% voting interest and Morgan Stanley holds a 40% voting interest in MUMSS, and we hold a 49% voting interest and Morgan Stanley holds a 51% voting interest in MSMS. Morgan Stanley's and our economic and voting interests in the companies are held through intermediate holding companies. MUMSS and MSMS collaborate in providing capital markets services to investment banking clients of MUFG and Morgan Stanley and in offering a wide range of products and services, including Morgan Stanley's global products and services to our retail and middle market customers in Japan as well as to investment banking clients of both parties. The two joint venture companies have continued to offer products and services in sales, trading and research areas separately.

Per the shareholders' agreement between Morgan Stanley and us, to the extent that losses incurred by MUMSS or MSMS result in a requirement to restore its capital level, the controlling shareholder is solely responsible for providing additional capital to a minimum level and the noncontrolling shareholder is not obligated to contribute additional capital. In April 2011, due to losses incurred by MUMSS in the fiscal year ended March 31, 2011, we contributed ¥30 billion of new capital to MUMSS by acquiring newly issued shares of MUMSS. In October 2011, MUMSS implemented an early retirement program to reduce expenditures and improve operating performance. MUMSS recorded employee termination expenses of ¥20 billion in the second half of the fiscal year ended March 31, 2012. In November 2011, we contributed ¥20 billion of new capital to MUMSS by acquiring newly issued shares of MUMSS in order to improve and strengthen its capital base and restore its capital adequacy level. The new MUMSS shares have no voting rights and do not change the proportion of the voting interests in MUMSS or change the right to participate in MUMSS's earnings. In order to reflect our existing 60% economic interest in MUMSS after our capital contributions, 40% of the new share issuances in April 2011 and November 2011, or ¥12 billion and ¥8 billion, respectively, were recognized as increases in noncontrolling interest and reductions in capital surplus, given that the rights to participate in the residual assets of MUMSS will be distributed to us and Morgan Stanley in proportion to our respective percentages of ownership interests.

Per the shareholders' agreement between Morgan Stanley and us, to the extent that MUMSS is required to increase its capital level due to factors other than losses, such as future regulatory capital change, both we and Morgan Stanley are required to contribute the necessary capital based upon our respective economic interests as set forth above. In this context, to meet an anticipated change in regulatory capital requirements for MUMSS, we contributed ¥15 billion and Morgan Stanley contributed ¥10 billion of additional capital in November 2011, and the contribution by Morgan Stanley was recognized as an increase in noncontrolling interest.

For further information, see Note 2 to our consolidated financial statements included elsewhere in this Annual Report.

***Redemption of Preferred Securities issued by an Overseas Special Purpose Company***

In July 2011, we redeemed a total of ¥120 billion of non-cumulative and non-dilutive perpetual preferred securities issued by a special purpose company in the Cayman Islands called MUFG Capital Finance 3 Limited. These securities were previously accounted for as part of our Tier I capital as of March 31, 2011.

***Acquisition of The Royal Bank of Scotland Group's Project Finance Related Assets***

In December 2010, we entered into a sale and purchase agreement with The Royal Bank of Scotland Group plc, or RBS, to acquire from RBS approximately £3.3 billion of project finance related assets consisting of loans for natural resources, power and other infrastructure projects in Europe, the Middle-East and Africa, and related assets. In connection with this acquisition, we also agreed to acquire associated derivatives through one of our subsidiaries, Mitsubishi UFJ Securities International plc (London). The transaction contemplated by the agreement has been

completed as of March 31, 2012.



## **Table of Contents**

### ***UNBC's Acquisition of Pacific Capital Bancorp***

In March 2012, UNBC entered into a definitive agreement to acquire Pacific Capital Bancorp, a bank holding company headquartered in California where its primary subsidiary, Santa Barbara Bank & Trust, N.A., conducts its banking activities, for approximately \$1.5 billion in cash. At March 31, 2012, Pacific Bancorp had total assets of approximately \$5.9 billion and deposits of approximately \$4.6 billion. The acquisition is expected to be completed in the quarter ending December 31, 2012, subject to certain customary closing conditions, including approvals from banking regulators.

### ***Union Bank's Acquisition of Smartstreet***

In May 2012, Union Bank entered into a definitive agreement with PNC Bank, N.A. to acquire Smartstreet, an Atlanta-based financial services division of PNC Bank that has approximately \$1 billion in deposits and provides banking services nationwide to homeowners associations and community association management companies. The acquisition is expected to be completed in the fall of 2012, subject to certain customary closing conditions, including approvals from banking regulators.

### ***MUTB's Strategic Business and Capital Alliance with AMP Holdings***

In December 2011, MUTB entered into a strategic business and capital alliance with AMP Capital Holdings Limited, a subsidiary of AMP Limited, a financial services provider in Australia. As part of this alliance, in March 2012, MUTB acquired a 15% interest in AMP Capital Holdings, and appointed a representative to the board of directors of AMP Capital Holdings as a non-executive director.

## **Critical Accounting Estimates**

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

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

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

Effective from the fiscal year ended March 31, 2011, we adopted new accounting guidance regarding disclosures about the credit quality of financing receivables and the allowance for credit losses. The new disclosure guidance defines a portfolio segment as the level at which an entity develops and documents a systematic methodology to determine the allowance for credit losses and a class of financing receivables as the level of disaggregation of portfolio segments based on the initial measurement attribute, risk characteristics and methods for assessing risk. We have divided our allowance for loan losses into four portfolio segments Commercial, Residential, Card and UNBC. We further divide the Commercial segment into classes. The classes within the Commercial segment are domestic, foreign, and loans acquired with deteriorated credit quality. Within the domestic class, we further disaggregate into the industry type based on our approach to monitoring and

## **Table of Contents**

assessing credit risks. Under this new disclosure guidance, the allowance is presented by portfolio segment. Specific items regarding activity that occurs during a reporting period, such as the allowance roll-forward disclosure, became effective during the fiscal year ended March 31, 2012. The adoption of this new disclosure guidance did not affect overall methodologies or policies used to establish our allowance for credit losses during the fiscal years ended March 31, 2011 and 2012.

We determine the appropriate level of the allowance for credit losses for each of our loan portfolios by evaluating various factors and assumptions, such as the borrower's credit rating, collateral value, historical loss experience, and probability of insolvency based on the number of actual delinquencies as well as existing economic conditions. We update these various factors and assumptions on a regular basis and upon the occurrence of unexpected changes in the economic environment.

For the Commercial and UNBC segments, our allowance for credit losses primarily consists of allocated allowances. The allocated allowance comprises (1) an allowance for individual loans specifically identified for evaluation, (2) an allowance for large groups of smaller-balance homogeneous loans, and (3) a formula allowance. The allocated allowance within the Commercial segment also includes an allowance for country risk exposure. The allowance for country risk exposure within the Commercial segment covers transfer risk which is not specifically covered by other types of allowance. Both the allowance for country risk exposure and the formula allowance are provided for performing loans that are not subject to either the allowance for individual loans specifically identified for evaluation or the allowance for large groups of smaller-balance homogeneous loans.

The allowance for credit losses within the UNBC segment also includes an unallocated allowance which captures losses that are attributable to economic events in various industry or geographic sectors whose impact on our loan portfolio in this segment have occurred but have yet to be recognized in the allocated allowance.

For the Residential and Card segments, the loans are smaller-balance homogeneous loans that are pooled by the risk ratings based on the number of delinquencies. We principally determine the allowance for credit losses based on the probability of insolvency by the number of actual delinquencies and historical loss experience.

For all portfolio segments, key elements relating to the policies and discipline used in determining the allowance for credit losses are our credit classification and the related borrower categorization process. Each of these components is determined based on estimates subject to change when actual events occur. The categorization is based on conditions that may affect the ability of borrowers to service their debt, taking into consideration current financial information, historical payment experience, credit documentation, public information, analyses of relevant industry segments and current trends. In determining the appropriate level of allowance, we evaluate the probable loss by category of loan based on its type and characteristics.

In addition to the allowance for credit losses on our loan portfolio, we maintain an allowance for credit losses on off-balance sheet credit instruments, including commitments to extend credit, a variety of guarantees and standby letters of credit and other financial instruments. This allowance is included in other liabilities.

Determining the adequacy of the allowance for credit losses requires the exercise of considerable judgment and the use of estimates, such as those discussed above. Our actual losses could be more or less than the estimates. To the extent that actual losses differ from management's estimates, additional provisions for credit losses may be required that would adversely impact our operating results and financial condition in future periods. For further information regarding our methodologies used in establishing the allowance for credit losses by portfolio segments and allowance for credit losses policies, see Note 1 to our consolidated financial statements included elsewhere in this Annual Report and B.

Liquidity and Capital Resources Financial Condition Loan Portfolio.

## **Table of Contents**

For more information on our credit and borrower ratings, see Item 11. Quantitative and Qualitative

Disclosures about Credit, Market and Other Risk Credit Risk Management.

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

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

*Debt and marketable equity securities.* In determining whether a decline in fair value below cost is other than temporary for a particular equity security, we generally consider factors such as the ability and positive intent to hold the investments for a period of time sufficient to allow for any anticipated recovery in fair value. In addition, an other-than-temporary impairment is recognized in earnings for marketable equity securities when one of the following criteria is met:

the fair value of investments is 20% or more below cost as of the end of the reporting period,

due to the financial condition and near-term prospects of the issuer, the issuer is categorized as Likely to Become Bankrupt, Virtually Bankrupt or Bankrupt or de facto Bankrupt status under the Japanese banking regulations,

the fair value of the investment has been below cost for six months or longer, or

the fair value of the securities is below cost and a decision has been made to sell the securities.

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

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

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

*Nonmarketable equity securities.* Nonmarketable equity securities include equity securities of companies that are not publicly traded or are thinly traded. Such securities consist of cost-method investments, which are primarily carried at cost because their fair values were not readily determinable, and investment securities carried at their fair values, which are held by certain subsidiaries subject to specialized industry accounting principles for investment companies and brokers and dealers.

Nonmarketable equity securities issued by public companies and the remaining nonmarketable equity securities are generally carried at cost, subject to impairment.

## **Table of Contents**

For certain nonmarketable equity securities issued by public companies, such as preferred stock convertible to marketable common stock in the future, we have estimated fair value using 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 repayments as appropriate, to determine if the investment is impaired in each reporting period. If the fair value of the investment is less than the cost of the investment, we proceed to evaluate whether the impairment is other than temporary. When the decline is other than temporary, those nonmarketable equity securities issued by public companies are written down to fair value estimated by commonly accepted valuation models.

With respect to the remaining nonmarketable equity securities, we perform a test to determine whether any impairment indicator exists with respect to each cost-method investment in each reporting period. The primary method we use to identify impairment indicators is a comparison of our share in an investee's net assets to the carrying amount of our investment in the investee. We also consider whether significant adverse changes in the regulatory, economic or technological environment have occurred with respect to the investee. We periodically monitor the status of each investee including the credit ratings, which are generally updated once a year based on the annual financial statements of issuers. In addition, if an event that could impact the credit rating of an issuer occurs, we reassess the appropriateness of the credit rating assigned to the issuer in order to maintain an updated credit rating. If an impairment indicator exists, we estimate the fair value of the cost-method investment. If the fair value of the investment is less than the cost of the investment, we proceed to conduct the other-than-temporary impairment evaluation. When we determine that the decline is other than temporary, such remaining 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.

*Equity method investees.* We determine whether loss in value of investments is other than temporary, in consideration of various factors, such as the length of time and the extent to which the fair value has been less than cost, the financial condition and near-term prospects of the investees, and the intent and ability to retain its investment in the investees for a period of time sufficient to allow for any anticipated recovery in the fair value. We also evaluate additional factors, such as the condition and trend of the economic cycle, and trends in the general market.

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 3 to our consolidated financial statements included elsewhere in this Annual Report.

### *Allowance for Repayment of Excess Interest*

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





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## **Table of Contents**

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

For further information, see Note 24 to our consolidated financial statements included elsewhere in this Annual Report and Item 3.D. Key Information Risk Factors Risks Related to Our Business. Because of our loans to consumers and our shareholdings in companies engaged in consumer lending, changes in the business or regulatory environment for consumer finance companies in Japan may further adversely affect our financial results.

### ***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 and the applicable income tax rates in future periods.

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

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 and assumptions on future income tax rates are 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 losses generated prior to April 1, 2008 and nine years for losses generated in fiscal years ending after April 1, 2008. For further information on the amount of operating loss carryforwards and the expiration dates, see Note 7 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 valuation allowance may not be sufficient. If the estimated valuation allowance is not sufficient, we will incur additional deferred tax expenses, which could materially affect our operating results and financial condition in future periods.



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**Table of Contents**

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

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

US GAAP requires us to test goodwill for impairment at least annually, or more frequently if events or changes in circumstances indicate that goodwill may be impaired, using a two-step process that begins with an estimation of the fair value of a reporting unit of our business, which is to be compared with the carrying amount of the unit, to identify potential impairment of goodwill. A reporting unit is an operating segment or component of an operating segment that constitutes a business for which discrete financial information is available and is regularly reviewed by management. The fair value of a reporting unit is defined as the amount at which the unit as a whole could be bought or sold in a current transaction between willing parties. For a reporting unit for which an observable quoted market price is not available, the fair value is determined using an income approach. In the income approach, the present value of expected future cash flows is calculated by taking the net present value based on each reporting unit's internal forecasts. The discount rate reflects current market capitalization. A control premium factor is also considered in relation to market capitalization.

If the carrying amount of a reporting unit exceeds its estimated fair value, the second step of the goodwill impairment test is performed to measure the amount of impairment loss recorded in our consolidated statements of 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.

We evaluate the remaining useful life of an intangible asset at each reporting period to determine whether events and circumstances warrant a revision to the remaining useful life. When the useful life of intangible assets not subject to amortization is no longer determined to be indefinite, such as when unanticipated competition enters a market, the intangible asset is amortized over the remaining period that it is expected to contribute to positive cash flows. During the year ended March 31, 2012, we reevaluated the useful lives of our intangible assets related to our customer relationships from fund contracts, which had been previously recorded as intangible assets not subject to amortization. Due to the global financial downturn, including the recent financial market disruption in Europe and the downgrade of the US treasury bonds' credit rating, the downward trend of customer assets under management, which was previously on an upward trend, is not expected to recover in the near future and therefore is no longer expected to support indefinite useful lives of the intangible assets.

## **Table of Contents**

associated with the customer relationships from fund contracts. As a result of the reevaluation, we reclassified our intangible assets related to the customer relationships of ¥42.2 billion from intangible assets not subject to amortization to those subject to amortization. For the details of these intangible assets, see Note 6 to our consolidated financial statements included elsewhere in this Annual Report.

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

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

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

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

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

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

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

The guidance on the measurement of fair value defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. We have an established and documented process for determining fair value in accordance with the guidance. To determine fair value, we use quoted market prices which include those provided from pricing vendors, where available. We generally obtain one price or quote per instrument and do not adjust it to determine fair value of the instrument. Certain asset-backed securities are valued based on non-binding quotes provided by independent broker-dealers where no or few observable inputs are available to measure fair value. We do not adjust such broker-dealer quotes to the extent that there is no evidence that would indicate that the quotes are not indicative of the fair values of the securities. We perform internal price verification procedures to ensure that the quotes provided from the independent broker-dealers are reasonable. Such verification procedures include analytical review of periodic price changes, comparison analysis between periodic price changes and changes of indices such as a credit default swap index, or inquiries regarding the underlying inputs and assumptions used by the broker-dealers such as probability of default, prepayment rate and discount margin. These

verification procedures are periodically performed by independent risk management departments. For collateralized loan obligations, or CLOs, backed by general corporate loans, the fair value is determined by weighting the internal model valuation and the non-binding broker-dealer quotes. If quoted market prices are not available to determine fair value of derivatives, the fair value is based upon valuation techniques that use, where possible, current market-based or independently sourced parameters, such as interest rates, yield curves, foreign exchange rates,

**Table of Contents**

volatilities and credit curves. The fair values of trading liabilities are determined by discounting future cash flows at a rate which incorporates our own creditworthiness. In addition, valuation adjustments may be made to ensure that the financial instruments are recorded at fair value. These adjustments include, but are not limited to, amounts that reflect counterparty credit quality, liquidity risk, and model risk. Our financial models are validated and periodically reviewed by risk management departments independent of divisions that created the models.

For a further discussion of the valuation techniques or models applied to the material assets or liabilities, see Note 29 to our consolidated financial statements included elsewhere in this Annual Report.

**Accounting Changes and Recently Issued Accounting Pronouncements**

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

**A. Operating Results****Results of Operations**

The following table sets forth a summary of our results of operations for the fiscal years ended March 31, 2010, 2011 and 2012:

	Fiscal years ended March 31,		
	2010	2011 (in billions)	2012
Interest income <sup>(1)</sup>	¥ 2,757.9	¥ 2,550.2	¥ 2,595.9
Interest expense	774.4	670.7	640.1
Net interest income	1,983.5	1,879.5	1,955.8
Provision for credit losses	647.8	292.0	223.8
Non-interest income	2,469.4	1,694.8	1,440.6
Non-interest expense	2,508.1	2,460.5	2,322.7
Income before income tax expense	1,297.0	821.8	849.9
Income tax expense	413.0	433.7	429.2
Net income before attribution of noncontrolling interests	¥ 884.0	¥ 388.1	¥ 420.7
Net income (loss) attributable to noncontrolling interests	15.3	(64.5)	4.5
Net income attributable to Mitsubishi UFJ Financial Group	¥ 868.7	¥ 452.6	¥ 416.2

Note:

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- (1) Interest income for the fiscal year ended March 31, 2012 includes a gain of ¥139.3 billion on conversion rate adjustment of convertible preferred stock. Exclusive of the one-time gain associated with the conversion, interest income for the fiscal year ended March 31, 2012 would have been lower.

We reported net income attributable to Mitsubishi UFJ Financial Group of ¥416.2 billion for the fiscal year ended March 31, 2012, a decrease of ¥36.4 billion from ¥452.6 billion for the fiscal year ended March 31, 2011. Our diluted earnings per share of common stock (net income available to common shareholders of Mitsubishi UFJ Financial Group) for the fiscal year ended March 31, 2012 was ¥28.09, a decrease of ¥2.34 from ¥30.43 for the fiscal year ended March 31, 2011. Income before income tax expense for the fiscal year ended March 31, 2012 was ¥849.9 billion, an increase of ¥28.1 billion from ¥821.8 billion for the fiscal year ended March 31, 2011.

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

The following is a summary of the interest rate spread for the fiscal years ended March 31, 2010, 2011 and 2012:

	2010		Fiscal years ended March 31, 2011		2012	
	Average balance	Average rate	Average balance	Average rate	Average balance	Average rate
(in billions, except percentages)						
<b>Interest-earning assets:</b>						
Domestic	¥ 127,830.2	1.34%	¥ 130,922.3	1.16%	¥ 130,856.7	1.07%
Foreign <sup>(1)</sup>	47,540.5	2.20	49,338.1	2.08	53,322.4	2.24
<b>Total</b>	<b>¥ 175,370.7</b>	<b>1.57%</b>	<b>¥ 180,260.4</b>	<b>1.41%</b>	<b>¥ 184,179.1</b>	<b>1.41%</b>
<b>Financed by:</b>						
<b>Interest-bearing liabilities:</b>						
Domestic	¥ 124,431.3	0.37%	¥ 126,908.2	0.29%	¥ 130,916.6	0.26%
Foreign	33,725.1	0.93	34,436.5	0.87	34,504.0	0.88
<b>Total</b>	<b>158,156.4</b>	<b>0.49</b>	<b>161,344.7</b>	<b>0.42</b>	<b>165,420.6</b>	<b>0.39</b>
Non-interest-bearing liabilities	17,214.3		18,915.7		18,758.5	
<b>Total</b>	<b>¥ 175,370.7</b>	<b>0.44%</b>	<b>¥ 180,260.4</b>	<b>0.37%</b>	<b>¥ 184,179.1</b>	<b>0.35%</b>
Interest rate spread		1.08%		0.99%		1.02%
Net interest income as a percentage of total interest-earning assets		1.13%		1.04%		1.06%

Note:  
 (1) Interest income on foreign activities for the fiscal year ended March 31, 2012 includes a gain of ¥139.3 billion on conversion rate adjustment of convertible preferred stock. Exclusive of the one-time gain associated with the conversion, the average rate for the fiscal year ended March 31, 2012 would have been lower.

We use interest rate and other derivative contracts to manage the risks affecting the values of our financial assets and liabilities. Although these contracts are generally entered into for risk management purposes, a majority of them do not meet the specific conditions to qualify for hedge accounting under US GAAP and thus are accounted for as trading assets or liabilities. Any gains or losses resulting from such derivative instruments are recorded as part of net trading account profits or losses. Therefore, our net interest income for each of the fiscal years ended March 31, 2010, 2011 and 2012 was not materially affected by gains or losses resulting from such derivative instruments. For a detailed discussion of our risk management activities, see A. Operating Results Results of Operations Non-Interest Income and Item 11. Quantitative and Qualitative Disclosures about Credit, Market and Other Risk.

**Fiscal Year Ended March 31, 2012 Compared to Fiscal Year Ended March 31, 2011**

Net interest income for the fiscal year ended March 31, 2012 was ¥1,955.8 billion, an increase of ¥76.3 billion from ¥1,879.5 billion for the fiscal year ended March 31, 2011. The increase in our net interest income mainly reflected the recognition as interest income of the ¥139.3



billion gain realized from the adjustment to the conversion rate associated with our conversion of Morgan Stanley's preferred stock into Morgan Stanley's common stock, and a decrease in the interest expense on deposits due to the impact of the low interest rate environment that continued throughout the fiscal year ended March 31, 2012. In Japan, the Bank of Japan maintained a monetary easing policy throughout the fiscal year ended March 31, 2012. Exclusive of the gain associated with the conversion of our Morgan Stanley's preferred stock of ¥139.3 billion for the fiscal year ended March 31, 2012 and the related preferred dividends of ¥66.0 billion for the fiscal year ended March 31, 2011, net interest income was ¥1,816.5 billion, an increase of ¥3.0 billion compared to the previous fiscal year.

**Table of Contents**

Inclusive of the gain associated with the conversion of our Morgan Stanley's preferred stock and the related preferred dividends, the average interest rate spread (average interest rate for interest-earning assets minus average interest rate for interest-bearing liabilities) increased three basis points from 0.99% for the fiscal year ended March 31, 2011 to 1.02% for the fiscal year ended March 31, 2012. For the fiscal year ended March 31, 2012, the average rate on interest-bearing liabilities decreased from 0.42% to 0.39% mainly due to the lower average rate on domestic deposits.

Exclusive of the gain associated with the conversion of our Morgan Stanley's preferred stock of ¥139.3 billion for the fiscal year ended March 31, 2012 and the related preferred dividends of ¥66.0 billion for the fiscal year ended March 31, 2011, the average interest rate spread decreased one basis point from 0.96% for the fiscal year ended March 31, 2011 to 0.95% for the fiscal year ended March 31, 2012. In particular, the average rate on domestic loans and domestic investment securities decreased because of the low interest environment in Japan, resulting in a tighter average interest rate spread. If the Bank of Japan continues to maintain its zero interest rate policy as well as other monetary easing policies, our interest rate spread on domestic loans will likely continue to be under severe pressure. Moreover, if additional monetary easing policies are adopted in the United States and European countries, our interest rate spread on foreign loans may also be negatively impacted.

Average interest-earning assets for the fiscal year ended March 31, 2012 were ¥184,179.1 billion, an increase of ¥3,918.7 billion from ¥180,260.4 billion for the fiscal year ended March 31, 2011. This increase in average interest-earning assets was primarily attributable to an increase of ¥3,067.7 billion in domestic investment securities and an increase of ¥2,701.8 billion in foreign trading account assets, partially offset by a decrease of ¥2,706.6 billion in domestic loans. The increase in investment securities was mainly due to an increase in our investment in Japanese national government and government agency bonds as part of our asset and liability management policy applicable to the yen-denominated deposited funds exceeding our net loans. The increase both in the average balance of and the average rate on investment securities resulted in an increase in our interest income in investment securities for the fiscal year ended March 31, 2012 by ¥62.0 billion compared to the prior fiscal year.

Average interest-bearing liabilities for the fiscal year ended March 31, 2012 were ¥165,420.6 billion, an increase of ¥4,075.9 billion from ¥161,344.7 billion for the fiscal year ended March 31, 2011. This increase was mainly due to an increase of ¥2,473.4 billion in domestic other short-term borrowings and trading account liabilities and an increase of ¥2,018.3 billion in domestic call money, funds purchased, and payables under repurchase agreements and securities lending transactions, partially offset by a decrease of ¥885.2 billion in long-term debt. The increase in payables under repurchase agreements and securities lending transactions was mainly attributable to increases in repurchase and reverse repurchase transactions as our holdings of Japanese government bonds increased. The decrease in long-term debt was mainly due to a decrease in obligations under loan securitization transactions. Despite the increase in the average balance of interest-bearing liabilities, the decrease in the average rate resulted in a decrease in our interest expense for the fiscal year ended March 31, 2012 by ¥30.6 billion compared to the prior fiscal year.

***Fiscal Year Ended March 31, 2011 Compared to Fiscal Year Ended March 31, 2010***

Net interest income for the fiscal year ended March 31, 2011 was ¥1,879.5 billion, a decrease of ¥104.0 billion from ¥1,983.5 billion for the fiscal year ended March 31, 2010. The decrease in our net interest income mainly reflected the decrease of outstanding loans and the impact of the low interest rate environment that continued throughout the fiscal year ended March 31, 2011. In Japan, the Bank of Japan maintained monetary easing policies, including its zero interest rate policy, throughout the fiscal year ended March 31, 2011. In this environment, the average interest rate on domestic interest-earning assets decreased more than the decrease in the average interest rate on domestic interest-bearing liabilities. Central banks outside of Japan also continued to reduce or maintained their base interest rates at low levels to counter deflationary pressures caused by the financial crisis and the economic recession.

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The average interest rate spread (average interest rate for interest-earning assets minus average interest rate for interest-bearing liabilities) decreased nine basis points from 1.08% for the fiscal year ended March 31, 2010

**Table of Contents**

to 0.99% for the fiscal year ended March 31, 2011. For the fiscal year ended March 31, 2011, the average rate on interest-bearing liabilities decreased from 0.49% to 0.42% mainly due to the lower average rate on total deposits. However, the average rate on loans and investment securities decreased further due to lower domestic interest rates, which resulted in a decrease in the average interest rate spread. Consequently, net interest income decreased ¥104.0 billion due to changes in interest rates.

Average interest-earning assets for the fiscal year ended March 31, 2011 were ¥180,260.4 billion, an increase of ¥4,889.7 billion from ¥175,370.7 billion for the fiscal year ended March 31, 2010. This increase in average interest-earning assets was primarily attributable to an increase of ¥13,417.9 billion in investment securities, partially offset by a ¥7,717.3 billion decrease in both domestic and foreign loans. The increase in investment securities was mainly due to an increase in investment in Japanese national government and government agency bonds as part of our asset and liability management policy applicable to the increased amount of yen-denominated deposited funds. The increase in the average balance of investment securities and decrease in the average rate resulted in a slight increase in our interest income in investment securities for the fiscal year ended March 31, 2011 by ¥16.8 billion compared to the prior fiscal year, which was more than offset by a decrease in interest income from domestic and foreign loans of ¥249.9 billion due to a decrease of outstanding loans and lower average domestic interest rate.

Average interest-bearing liabilities for the fiscal year ended March 31, 2011 were ¥161,344.7 billion, an increase of ¥3,188.3 billion from ¥158,156.4 billion for the fiscal year ended March 31, 2010. The increase was primarily attributable to an increase of ¥2,351.8 billion in domestic interest-bearing deposits and ¥1,571.9 billion in domestic other short-term borrowings and trading account liabilities, partially offset by a decrease of ¥1,009.0 billion in due to trust account. The increase in domestic interest-bearing deposits was mainly due to increases in deposits from retail markets. Despite the increase in the average balance of interest-bearing liabilities, the decrease in the average rate resulted in a decrease of our interest expense for the fiscal year ended March 31, 2011 by ¥103.7 billion compared to the prior fiscal year.

***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 the description of the approach and methodology used to establish the allowance for credit losses, see [B. Liquidity and Capital Resources](#) [Financial Condition](#) [Loan Portfolio](#) [Allowance policy](#).

***Fiscal Year Ended March 31, 2012 Compared to Fiscal Year Ended March 31, 2011***

Provision for credit losses for the fiscal year ended March 31, 2012 was ¥223.8 billion, a decrease of ¥68.2 billion from ¥292.0 billion for the fiscal year ended March 31, 2011. The provision for credit losses decreased ¥149.6 billion in our domestic loan portfolio and increased ¥81.4 billion in our foreign loan portfolio.

The decrease in the domestic portfolio was mainly due to a smaller increase in restructured residential mortgage loans for the fiscal year ended March 31, 2012 compared to the fiscal year ended March 31, 2011, when we experienced a higher than usual increase in such restructured residential mortgage loans. Domestic restructured residential loans, however, continued to increase, though at a reduced rate, in the fiscal year ended March 31, 2012. See [B. Liquidity and Capital Resources](#) [Financial Condition](#) [Loan Portfolio](#) [Nonaccrual and restructured loans and accruing loans contractually past due 90 days or more](#).

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The provision for credit losses in our foreign portfolio for the fiscal year ended March 31, 2012 was ¥4.1 billion, compared to a reversal of provision for credit losses of ¥77.3 billion for the previous fiscal year. The reversal in the previous fiscal year was mainly due to a decrease in the provisions in UNBC and other overseas offices as a result of a slight recovery of the global market, particularly in the United States.

### *Fiscal Year Ended March 31, 2011 Compared to Fiscal Year Ended March 31, 2010*

Provision for credit losses for the fiscal year ended March 31, 2011 was ¥292.0 billion, a decrease of ¥355.8 billion from ¥647.8 billion for the fiscal year ended March 31, 2010. The provision for credit losses decreased ¥132.1 billion and ¥223.7 billion in our domestic and foreign loan portfolio, respectively. While the

**Table of Contents**

decrease in the domestic portfolio was mainly due to the absence of a large amount of provisions for a few borrowers with large exposure observed in the previous fiscal year, the decrease in the foreign portfolio was mainly attributable to a decrease in the provisions relating to Union Bank and other overseas offices as a result of the slight recovery in the world economy, particularly in the United States.

**Non-Interest Income**

The following table is a summary of our non-interest income for the fiscal years ended March 31, 2010, 2011 and 2012:

	Fiscal years ended March 31,		
	2010	2011 (in billions)	2012
Fees and commissions income:			
Trust fees	¥ 107.2	¥ 100.5	¥ 95.0
Fees on funds transfer and service charges for collections	145.9	142.5	139.8
Fees and commissions on international business	61.2	58.5	57.7
Fees and commissions on credit card business	137.4	146.6	149.9
Service charges on deposits	27.4	22.2	18.2
Fees and commissions on securities business	129.7	138.9	128.4
Fees on real estate business	19.9	22.6	23.6
Insurance commissions	22.9	27.5	33.7
Fees and commissions on stock transfer agency services	53.0	51.9	49.3
Guarantee fees	70.5	64.3	58.4
Fees on investment funds business	127.3	130.4	126.6
Other fees and commissions	237.1	222.5	219.4
<b>Total</b>	<b>1,139.5</b>	<b>1,128.4</b>	<b>1,100.0</b>
Foreign exchange gains net	216.7	260.7	34.3
Trading account profits net:			
Net profits (losses) on interest rate and other derivative contracts	(88.5)	(3.1)	77.7
Net profits on trading account securities, excluding derivatives	850.0	137.0	589.6
<b>Total</b>	<b>761.5</b>	<b>133.9</b>	<b>667.3</b>
Investment securities gains net:			
Net gains on sales of securities available for sale:			
Debt securities	83.7	147.0	142.9
Marketable equity securities	213.5	87.4	34.1
Impairment losses on securities available for sale:			
Debt securities	(29.8)	(20.5)	(13.8)
Marketable equity securities	(62.9)	(115.6)	(176.1)
Other	18.5	23.5	32.3
<b>Total</b>	<b>223.0</b>	<b>121.8</b>	<b>19.4</b>
Equity in losses of equity method investees net	(83.9)	(113.0)	(499.4)
Gains on sales of loans	21.2	14.5	15.6
Other non-interest income	191.4	148.5	103.4
<b>Total non-interest income</b>	<b>¥ 2,469.4</b>	<b>¥ 1,694.8</b>	<b>¥ 1,440.6</b>

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Net foreign exchange gains are comprised of foreign exchange gains (losses) related to derivative contracts, foreign exchange gains (losses) other than derivative contracts and foreign exchange gains (losses) related to the fair value option.

Foreign exchange gains (losses) related to derivative contracts were net gains (losses) primarily on currency derivative instruments entered into for trading purposes. For the details of derivative contracts, see Note 21 to our consolidated financial statements included elsewhere in this Annual Report. Foreign exchange gains other than derivative contracts include transaction gains (losses) on the translation into Japanese yen of monetary assets and

## Table of Contents

liabilities denominated in foreign currencies. The transaction gains (losses) on the translation into Japanese yen fluctuate from period to period depending upon the spot rates at the end of each fiscal year. In principle, all transaction gains (losses) on translation of monetary assets and liabilities denominated in foreign currencies are included in current earnings. Foreign exchange gains (losses) related to the fair value option include transaction gains (losses) on translation into Japanese yen for securities under fair value option. For the details of the fair value option, see Note 29 to our consolidated financial statements included elsewhere in this Annual Report.

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

trading purpose activities, which are conducted mainly for the purpose of generating profits either through transaction fees or arbitrage gains and involve frequent and short-term selling and buying of securities, commodities or others; and

trading account assets relating to application of certain accounting rules, which are generally not related to trading purpose activities, but simply classified as trading accounts due to application of certain accounting rules.

Of the two categories, trading purpose activities represent a smaller portion of our trading account profits.

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

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

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

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

*Equity contracts:* Equity contracts are mainly utilized to manage the risk that would arise from price fluctuations of stocks held in connection with customer transactions; and

*Credit derivatives:* Credit derivatives are mainly utilized as a part of our credit portfolio risk management.



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Derivative instruments for trading purposes also include those used as hedges of net exposures rather than for specifically identified assets or liabilities, which do not meet the specific criteria for hedge accounting.

Net profits on trading account securities, excluding derivatives, are comprised of net profits (losses) on trading account securities and net profits (losses) on trading account securities under the fair value option. Net profits (losses) on trading account securities primarily constitute gains and losses on trading and valuation of trading securities which relate to trading purpose activities. Investment securities held by certain consolidated variable interest entities are included in accordance with the applicable accounting treatments. Net profits

**Table of Contents**

(losses) on securities under the fair value option are classified into trading accounts profits (losses) in accordance with certain accounting treatments. For the details of the fair value option, see Note 29 to our consolidated financial statements included elsewhere in this Annual Report.

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

***Fiscal Year Ended March 31, 2012 Compared to Fiscal Year Ended March 31, 2011***

Non-interest income for the fiscal year ended March 31, 2012 was ¥1,440.6 billion, a decrease of ¥254.2 billion from ¥1,694.8 billion for the fiscal year ended March 31, 2011. This decrease was mainly due to an impairment loss of ¥579.5 billion on our investment in Morgan Stanley's common stock resulting from a decline in the quoted market price of Morgan Stanley's common stock that we determined to be other than temporary in light of the increasingly stringent regulatory environment and the existing adverse economic events in Europe. This was partially offset by an increase in gains on valuation of foreign currency denominated debt securities.

***Fees and commissions income***

Fees and commissions income for the fiscal year ended March 31, 2012 was ¥1,100.0 billion, a decrease of ¥28.4 billion from ¥1,128.4 billion for the fiscal year ended March 31, 2011. This decrease was primarily due to a decrease of ¥10.5 billion in fees and commissions from our securities business, reflecting the slowdown of the domestic market. The decrease in fees and commissions income was also due to decreases in trust fees, service charges on deposits, guarantee fees and fees from our investment funds business, reflecting a general decrease in the volume of these businesses.

***Net foreign exchange gains***

Net foreign exchange gains for the fiscal year ended March 31, 2012 were ¥34.3 billion, compared to net foreign exchange gains of ¥260.7 billion for the fiscal year ended March 31, 2011. During the fiscal year ended March 31, 2012, fluctuations in the exchange rate between the Japanese yen and the US dollar remained relatively small compared to the previous fiscal year. The foreign exchange gains other than derivative contracts decreased from the previous fiscal year, mainly due to a decrease in translation gains on monetary liabilities denominated in foreign currencies. On the other hand, foreign exchange gains (losses) related to the fair value option improved from the previous fiscal year, mainly due to translation gains on securities denominated in foreign currencies, which were acquired during periods of appreciation of the Japanese yen.

	<b>Fiscal years ended March 31,</b>	
	<b>2011</b>	<b>2012</b>
	<b>(in billions)</b>	
Foreign exchange gains net:		
Foreign exchange gains (losses) derivative contracts	¥ 79.8	¥ (94.9)
Foreign exchange gains on other than derivative contracts	1,018.4	72.1
Foreign exchange gains (losses) related to the fair value option	(837.5)	57.1

Total	¥ 260.7	¥ 34.3
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**Table of Contents***Net trading account profits*

The following table sets forth the details of our trading account profits and losses for the fiscal years ended March 31, 2011 and 2012:

	<b>Fiscal years ended March 31,</b>	
	<b>2011</b>	<b>2012</b>
	<b>(in billions)</b>	
<b>Trading account profits net:</b>		
Net profits (losses) on interest rate and other derivative contracts		
Interest rate contracts	¥ (27.4)	¥ 160.4
Equity contracts	20.8	(46.8)
Commodity contracts	2.1	(1.3)
Credit derivatives	(5.9)	1.6
Other	7.3	(36.2)
<b>Total</b>	<b>¥ (3.1)</b>	<b>¥ 77.7</b>
<b>Net profits on trading account securities, excluding derivatives</b>		
Trading account securities	¥ 68.4	¥ 149.7
Trading account securities under the fair value option	68.6	439.9
<b>Total</b>	<b>¥ 137.0</b>	<b>¥ 589.6</b>
<b>Total</b>	<b>¥ 133.9</b>	<b>¥ 667.3</b>

Net trading account profits for the fiscal year ended March 31, 2012 were ¥667.3 billion, compared to ¥133.9 billion for the fiscal year ended March 31, 2011. The increase in net trading account profits was largely due to an increase in net profits on trading account securities, excluding derivatives. Net profits on trading account securities, excluding derivatives, are comprised of two items – net profits (losses) on trading account securities and net profits (losses) on trading account securities under the fair value option. Net profits on trading account securities under the fair value option increased to ¥439.9 billion for the fiscal year ended March 31, 2012 from ¥68.6 billion for the fiscal year ended March 31, 2011, mainly due to an increase in gains on valuation of foreign currency denominated debt securities.

On the other hand, we recorded net loss on equity contracts of ¥46.8 billion for the fiscal year ended March 31, 2012, compared to net profit on equity contracts ¥20.8 billion for the fiscal year ended March 31, 2011. Net loss was mainly due to valuation losses on equity futures and options reflecting the downward trend in the equity market. We, however, recorded net profit on interest rate contracts of ¥160.4 billion for the fiscal year ended March 31, 2012, compared to net loss on interest rate contracts of ¥27.4 billion for the fiscal year ended March 31, 2011, when our securities subsidiary recorded large losses on interest rate swap trading.

*Net investment securities gains*

Net investment securities gains for the fiscal year ended March 31, 2012 were ¥19.4 billion, a decrease of ¥102.4 billion from ¥121.8 billion for the fiscal year ended March 31, 2011. This decrease was mainly due to a decrease of ¥53.3 billion in gains on sales of marketable equity securities to ¥34.1 billion for the fiscal year ended March 31, 2012 from ¥87.4 billion for the previous fiscal year, and an increase of ¥60.5 billion in impairment losses on marketable equity securities to ¥176.1 billion for the fiscal year ended March 31, 2012 from ¥115.6 billion for

the previous fiscal year, reflecting the weakness in the Japanese domestic stock prices following the Great East Japan Earthquake in March 2011. These factors were offset by a decrease in impairment losses on debt securities to ¥13.8 billion for the fiscal year ended March 31, 2012 from ¥20.5 billion for the fiscal year ended March 31, 2011, which reflected the low interest rate environment due to Japan's long-stagnant economy and the monetary easing policy of the Bank of Japan.

**Table of Contents***Net equity in losses of equity method investees*

Net equity in losses of equity method investees for the fiscal year ended March 31, 2012 was ¥499.4 billion, an increase of ¥386.4 billion from ¥113.0 billion for the fiscal year ended March 31, 2011. This increase was mainly due to an impairment loss of ¥579.5 billion on our investment in Morgan Stanley's common stock resulting from a decline in the quoted market price of Morgan Stanley's common stock that we determined to be other than temporary in light of the increasingly stringent regulatory environment and the existing adverse economic events in Europe. This was partially offset by the improvement of ¥83.7 billion in equity in profits of equity method investees relating to our investments in the consumer finance industry. For further information, see Note 2 to our consolidated financial statements included elsewhere in this Annual Report.

*Fiscal Year Ended March 31, 2011 Compared to Fiscal Year Ended March 31, 2010*

Non-interest income for the fiscal year ended March 31, 2011 was ¥1,694.8 billion, a decrease of ¥774.6 billion, from ¥2,469.4 billion for the fiscal year ended March 31, 2010. This decrease was primarily due to a decrease in net trading account profits of ¥627.6 billion from ¥761.5 billion for the fiscal year ended March 31, 2010 to ¥133.9 billion for the fiscal year ended March 31, 2011 and a decrease in net investment securities profits of ¥101.2 billion from ¥223.0 billion for the fiscal year ended March 31, 2010 to ¥121.8 billion for the fiscal year ended March 31, 2011.

*Fees and commissions income*

Fees and commissions income for the fiscal year ended March 31, 2011 was ¥1,128.4 billion, a decrease of ¥11.1 billion from ¥1,139.5 billion for the fiscal year ended March 31, 2010. This decrease was primarily due to a decrease of ¥14.6 billion in other fees and commissions, a decrease of ¥6.7 billion in trust fees, and a decrease of ¥6.1 billion in guarantee fees, reflecting a general decrease in the volume of these businesses. The decrease in fees and commissions income was partially offset by an increase of ¥9.2 billion in fees and commissions on credit card business mainly from member stores as the use of credit cards increased and an increase of ¥9.1 billion in fees on securities businesses as the trading volume of securities recovered from the prior year.

*Net foreign exchange gains*

Net foreign exchange gains for the fiscal year ended March 31, 2011 were ¥260.7 billion, compared to net foreign exchange gains of ¥216.7 billion for the fiscal year ended March 31, 2010. During the fiscal year ended March 31, 2011, the yen accelerated its appreciation against the US dollar. Foreign exchange gains other than derivative contracts increased from the previous fiscal year, mainly due to the translation gains on monetary liabilities denominated in foreign currencies. On the other hand, foreign exchange losses related to the fair value option increased from the previous fiscal year, mainly due to the translation losses on securities denominated in foreign currencies. Gains on foreign exchange derivative contracts increased mainly due to the improvement of our position in currency derivative contracts. The following table sets forth the details of our foreign exchange gains and losses for the fiscal years ended March 31, 2010 and 2011:

Fiscal years ended March 31,	
2010	2011
(in billions)	

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Foreign exchange gains net:		
Foreign exchange derivative contracts	¥ 31.2	¥ 79.8
Foreign exchange gains other than derivative contracts	557.2	1,018.4
Foreign exchange losses related to the fair value option	(371.7)	(837.5)
Total	¥ 216.7	¥ 260.7

**Table of Contents***Net trading account profits*

Net trading account profits of ¥133.9 billion were recorded for the fiscal year ended March 31, 2011, compared to net trading account profits of ¥761.5 billion for the fiscal year ended March 31, 2010. The following table sets forth the details of our trading account profits and losses for the fiscal years ended March 31, 2010 and 2011:

	Fiscal years ended March 31, 2010                      2011 (in billions)	
Trading account profits net:		
Net profits (losses) on interest rate and other derivative contracts		
Interest rate contracts	¥ 213.4	¥ (27.4)
Equity contracts	(217.2)	20.8
Commodity contracts	(9.0)	2.1
Credit derivatives	(97.3)	(5.9)
Other	21.6	7.3
 Total	 ¥ (88.5)	 ¥ (3.1)
Net profits on trading account securities, excluding derivatives		
Trading account securities	¥ 522.7	¥ 68.4
Trading account securities under the fair value option	327.3	68.6
 Total	 ¥ 850.0	 ¥ 137.0
 Total	 ¥ 761.5	 ¥ 133.9

The decrease in net trading account profits was largely due to a decrease of net profits on trading account securities, excluding derivatives. Net profits on trading account securities, excluding derivatives are comprised of two items – net profits (losses) on trading account securities and net profits (losses) on trading account securities under the fair value option. Net profits on trading account securities decreased from ¥522.7 billion for the fiscal year ended March 31, 2010 to ¥68.4 billion for the fiscal year ended March 31, 2011, mainly due to a decrease in gains on valuation of foreign currency denominated debt securities, resulting from an increase in interest rates for foreign currency denominated trading account securities and a decrease in gains on valuation and sales of domestic equity securities, affected by low stock prices. Net profits on trading account securities under the fair value option decreased from ¥327.3 billion for the fiscal year ended March 31, 2010 to ¥68.6 billion for the fiscal year ended March 31, 2011, mainly due to a decrease in gains on valuation of foreign currency denominated debt securities, resulting from an increase in interest rates for foreign currency denominated trading account securities.

On the other hand, net losses on interest rate and other derivative contracts decreased from ¥88.5 billion for the fiscal year ended March 31, 2010 to ¥3.1 billion for the fiscal year ended March 31, 2011, mainly due to an increase in gains on equity contracts of ¥238.0 billion and a decrease in losses on credit derivatives of ¥91.4 billion, which was partially offset by a decrease in profits on interest rate contracts of ¥240.8 billion. Net profit on equity contracts in the fiscal year ended March 31, 2011, was mainly due to the downward trend in equity stock prices during the period, resulting in a positive impact on the value of our stock futures and options. Net losses on credit derivatives decreased from the previous fiscal year as the credit spreads continued to shrink through the fiscal year ended March 31, 2011. We recorded losses because of our larger net position in protection bought. Profits on interest rate contracts decreased from the previous fiscal year mainly due to a decrease in transaction volume, resulting in a decrease in unrealized gains on interest rate derivative contracts, and our securities subsidiary recording trading losses related to interest rate swaps, which led to net losses on interest rate contracts for the fiscal year ended March 31, 2011.





**Table of Contents***Net investment securities gains*

Net investment securities gains for the fiscal year ended March 31, 2011 were ¥121.8 billion, a decrease of ¥101.2 billion from ¥223.0 billion for the fiscal year ended March 31, 2010. This decrease was mainly due to a decrease in gains on sales of marketable equity securities to ¥87.4 billion, and an increase of impairment losses on marketable equity securities to ¥115.6 billion for the fiscal year ended March 31, 2011, compared to ¥213.5 billion and ¥62.9 billion for the fiscal year ended March 31, 2010, respectively, reflecting the weakness in the Japanese domestic stock prices following the Great East Japan Earthquake in March 2011. The Nikkei Stock Average was ¥9,755.10 as of March 31, 2011, compared to ¥11,089.94 as of March 31, 2010. These factors were offset by an increase in gains on debt securities available for sale of ¥147.0 billion for the fiscal year ended March 31, 2011, an increase of ¥63.3 billion from ¥83.7 billion for the fiscal year ended March 31, 2010, which reflected the low interest rate due to Japan's long-stagnant economy and the monetary easing policy of the Bank of Japan.

*Net equity in losses of equity method investees*

Net equity in losses of equity method investees for the fiscal year ended March 31, 2011 were ¥113.0 billion, an increase of ¥29.1 billion from ¥83.9 billion for the fiscal year ended March 31, 2010. This increase was mainly due to an impairment loss on our investment in Morgan Stanley of ¥27.5 billion for the fiscal year ended March 31, 2011 resulting from retroactive application of the equity method of accounting for our investment in Morgan Stanley.

**Non-Interest Expense**

The following table shows a summary of our non-interest expense for the fiscal years ended March 31, 2010, 2011 and 2012:

	Fiscal years ended March 31,		
	2010	2011 (in billions)	2012
Salaries and employee benefits	¥ 908.2	¥ 864.0	¥ 900.1
Occupancy expenses net	171.1	162.5	150.8
Fees and commissions expenses	196.5	212.5	204.7
Outsourcing expenses, including data processing	215.4	194.8	191.1
Depreciation of premises and equipment	120.3	99.7	94.8
Amortization of intangible assets	225.0	220.0	212.2
Impairment of intangible assets	12.4	26.6	31.0
Insurance premiums, including deposit insurance	112.5	113.9	115.4
Communications	57.1	53.0	49.3
Taxes and public charges	69.1	65.9	65.6
Provision for repayment of excess interest	44.8	85.7	
Impairment of goodwill	0.5		
Other non-interest expenses	375.2	361.9	307.7
Total non-interest expense	¥ 2,508.1	¥ 2,460.5	¥ 2,322.7

**Fiscal Year Ended March 31, 2012 Compared to Fiscal Year Ended March 31, 2011**

Non-interest expense for the fiscal year ended March 31, 2012 was ¥2,322.7 billion, a decrease of ¥137.8 billion from ¥2,460.5 billion for the previous fiscal year. This decrease was mainly due to a decrease in provision for repayment of excess interest to nil for the fiscal year ended March 31, 2012 from ¥85.7 billion for the fiscal year ended March 31, 2011 and a decrease of ¥54.2 billion in other non-interest expenses to ¥307.7 billion for the fiscal year ended March 31, 2012 from ¥361.9 billion for the fiscal year ended March 31, 2011.

## **Table of Contents**

### *Salaries and employee benefits*

Salaries and employee benefits for the fiscal year ended March 31, 2012 were ¥900.1 billion, an increase of ¥36.1 billion from ¥864.0 billion for the previous fiscal year. This increase was mainly due to an increase of additional retirement benefit expenses resulting from the implementation of an early retirement program by MUMSS and increases in retirement benefit expenses at our banking and trust banking subsidiaries.

### *Fees and commissions expenses*

Fees and commissions expenses for the fiscal year ended March 31, 2012 were ¥204.7 billion, a decrease of ¥7.8 billion from ¥212.5 billion for the fiscal year ended March 31, 2011. The decrease reflected the overall decrease in transaction fees recorded in our banking subsidiary as transaction volume decreased.

### *Amortization of intangible assets*

Amortization of intangible assets for the fiscal year ended March 31, 2012 were ¥212.2 billion, a decrease of ¥7.8 billion from ¥220.0 billion for the fiscal year ended March 31, 2011. This was mainly due to an ongoing amortization on intangible assets such as core deposit intangibles, which represent a premium on a favorable and stable source of funds, under declining-balance method.

### *Provision for repayment for excess interest*

Provision for repayment for excess interest for the fiscal year ended March 31, 2012 was nil, compared to ¥85.7 billion for the fiscal year ended March 31, 2011. We believe that we maintain an appropriate level of allowance for repayment of excess interest as of March 31, 2012.

### *Other non-interest expenses*

Other non-interest expenses for the fiscal year ended March 31, 2012 were ¥307.7 billion, a decrease of ¥54.2 billion from 361.9 billion for the fiscal year ended March 31, 2011. This decrease was mainly due to the absence of impairment losses on the deposits with the Special Fund recorded in the fiscal year ended March 31, 2011 associated with a government-led loan restructuring program for failed housing-loan companies. For more information, see *Loans and Allowance for Credit Losses Government-led Loan Restructuring Program* in Note 4 to our consolidated financial statements included elsewhere in this Annual Report.

### ***Fiscal Year Ended March 31, 2011 Compared to Fiscal Year Ended March 31, 2010***

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Non-interest expense for the fiscal year ended March 31, 2011 was ¥2,460.5 billion, a decrease of ¥47.6 billion from ¥2,508.1 billion for the previous fiscal year. This decrease was mainly due to the decrease in salaries and employee benefits of ¥44.2 billion to ¥864.0 billion for the fiscal year ended March 31, 2011 from ¥908.2 billion for the fiscal year ended March 31, 2010. In addition, outsourcing expenses, including data processing expenses, decreased. On the other hand, provision for repayment of excess interest increased to ¥85.7 billion for the fiscal year ended March 31, 2011, compared to ¥44.8 billion for the fiscal year ended March 31, 2010.

### *Salaries and employee benefits*

Salaries and employee benefits for the fiscal year ended March 31, 2011 were ¥864.0 billion, a decrease of ¥44.2 billion from ¥908.2 billion for the previous fiscal year. This decrease was mainly due to a decrease of retirement benefit expense at our banking and trust banking subsidiaries because an improvement of economic circumstances for the fiscal year ended March 31, 2010 resulted in a decrease of amortization of actuarial losses.

### *Fees and commissions expenses*

Fees and commissions expenses for the fiscal year ended March 31, 2011 were ¥212.5 billion, an increase of ¥16.0 billion from ¥196.5 billion for the fiscal year ended March 31, 2010. The increase reflects the overall increase in transaction fees recorded in our banking subsidiary as transaction volume increased.

**Table of Contents***Outsourcing expenses, including data processing*

Outsourcing expenses, including data processings, for the fiscal year ended March 31, 2011 were ¥194.8 billion, a decrease of ¥20.6 billion from ¥215.4 billion for the fiscal year ended March 31, 2010. This decrease was mainly due to a decrease in fees for temporary staff agency and fees for transportation as a result of continuous reviewing of the outsourcing expenses at each of our subsidiary level.

*Provision for repayment for excess interest*

Provision for repayment for excess interest for the fiscal year ended March 31, 2011 was ¥85.7 billion, an increase of ¥40.9 billion from ¥44.8 billion for the fiscal year ended March 31, 2010. This increase was mainly due to a change in accounting estimates in our consumer finance subsidiary. Prior to the fiscal year ended March 31, 2011, Mitsubishi UFJ NICOS, our consumer finance subsidiary had estimated the allowance for repayment of excess interest based primarily on historical reimbursement rates of excess interest. For the fiscal year ended March 31, 2011, Mitsubishi UFJ NICOS revised its estimate by updating management's future forecast to reflect new reimbursement claims information and other data following various legal and industry developments that occurred during the fiscal year.

**Income Tax Expense**

The following table presents a summary of our income tax expense for the fiscal years ended March 31, 2010, 2011 and 2012:

	Fiscal years ended March 31,		
	2010	2011	2012
	(in billions, except percentages)		
Income before income tax expense	¥ 1,297.0	¥ 821.8	¥ 849.9
Income tax expense	¥ 413.1	¥ 433.7	¥ 429.2
Effective income tax rate	31.9%	52.8%	50.5%
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, 2010, 2011 and 2012 are summarized as follows:

	Fiscal years ended March 31,		
	2010	2011	2012
Combined normal effective statutory tax rate	40.6%	40.6%	40.6%
Increase (decrease) in taxes resulting from:			
Nondeductible expenses	0.2	0.3	0.2
Dividends from foreign subsidiaries	0.0	0.1	0.1
Foreign tax credits and payments	0.7	3.3	(2.1)
Lower tax rates applicable to income of subsidiaries	(0.7)	(0.6)	(0.5)
Change in valuation allowance	(5.8)	10.6	2.3
Realization of previously unrecognized tax effects of subsidiaries	(0.9)	(3.7)	0.0
Nontaxable dividends received	(0.1)	(2.7)	(3.4)

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Undistributed earnings of subsidiaries	(1.6)	(1.5)	0.2
Tax and interest expense for uncertainty in income taxes	0.6	0.2	0.1
Expiration of loss carryforward	0.2	6.4	4.8
Effect of changes in tax laws			9.1
Other net	(1.3)	(0.2)	(0.9)
Effective income tax rate	31.9%	52.8%	50.5%

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**Table of Contents**

The effective income tax rate of 50.5% for the fiscal year ended March 31, 2012 was 9.9 percentage points higher than the combined normal effective statutory tax rate of 40.6%. This higher effective income tax rate primarily caused by changes in tax laws that mainly include an approximately 5% reduction in the effective statutory rate of corporate tax from 40.6% to 35.6%, which accounted for 9.1% of the difference between the combined normal effective statutory tax rate and the effective income tax rate. The change in tax laws resulted in an increase of ¥78.0 billion in income tax expense for the fiscal year ended March 31, 2012. For further information on the tax reform laws, see **B. Liquidity and Capital Resources** **Financial Condition** **Deferred Tax Assets**.

The effective income tax rate of 52.8% for the fiscal year ended March 31, 2011 was 12.2 percentage points higher than the combined normal effective statutory tax rate of 40.6%. This higher effective income tax rate primarily reflected an increase in the valuation allowance against deferred tax assets which accounted for 10.6% of the difference between the combined normal effective statutory tax rate and the effective income tax rate. The valuation allowance increased ¥85.2 billion to ¥726.8 billion at March 31, 2011 from ¥641.6 billion at March 31, 2010, as a result of an additional valuation allowance related to operating loss carryforwards by certain subsidiaries that were no longer deemed to be more likely than not to be realized.

The effective income tax rate of 31.9% for the fiscal year ended March 31, 2010 was 8.7 percentage points lower than the combined normal effective statutory tax rate of 40.6%. This lower effective income tax rate primarily reflected a decrease in the valuation allowance against deferred tax assets which accounted for 5.8 percentage points of the difference between the combined normal effective statutory tax rate and the effective income tax rate. The valuation allowance decreased ¥88.3 billion to ¥641.6 billion at March 31, 2010 from ¥729.9 billion at March 31, 2009, as a result of our projected ability to utilize net operating loss carryforward, against future taxable income for the fiscal year ended March 31, 2010 in excess of the previously projected taxable income for the fiscal year ended March 31, 2009 and improved probability of realization of future tax benefits based on increased expected taxable income in future periods.

***Net income (loss) attributable to noncontrolling interests******Fiscal Year Ended March 31, 2012 Compared to Fiscal Year Ended March 31, 2011***

We recorded net income attributable to noncontrolling interests of ¥4.5 billion for the fiscal year ended March 31, 2012, compared to net loss attributable to noncontrolling interests of ¥64.5 billion for the previous fiscal year. This was mainly due to a decrease in net loss recorded at MUMSS in the fiscal year ended March 31, 2012.

***Fiscal Year Ended March 31, 2011 Compared to Fiscal Year Ended March 31, 2010***

We recorded net loss attributable to noncontrolling interests of ¥64.5 billion for the fiscal year ended March 31, 2011, compared to net income attributable to noncontrolling interests of ¥15.3 billion for the previous fiscal year. This was mainly due to the loss recorded at MUMSS in the fiscal year ended March 31, 2011, which resulted mainly from an approximately ¥80.0 billion loss from its fixed income trading business including the cost of withdrawing from the business.

**Business Segment Analysis**



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

## **Table of Contents**

exchange gains (losses) and investment securities gains (losses). We do not use information on the segments' total assets to allocate our resources and assess performance. Accordingly, business segment information on total assets is not presented.

We operate our main businesses under an integrated business group system, which integrates the operations of BTMU, MUTB, MUMSS (through MUSHD), Mitsubishi UFJ NICOS and other subsidiaries in the following four areas: Retail, Corporate, Trust Assets, and Global. Effective March 24, 2011, we changed our managerial accounting method mainly by transferring the sales and trading business of MUMSS from the Integrated Corporate Banking Business Group segment to the Global Markets segment. In addition, effective July 1, 2011, we added the Integrated Global Business Group as a fourth area by shifting most of our global operations mainly from the Integrated Corporate Banking Business Group. This change in our business segments was implemented to change the previous practice of each Group entity's individual promotion of global businesses to a more Group-wide approach. The new approach is designed to enable us to exercise our comprehensive expertise to more effectively provide our customers with value-added services outside of Japan. Effective October 1, 2011, we changed our managerial accounting method applied mainly to fees and commissions, which mainly affected the Integrated Trust Assets Business Group.

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

Prior period business segment information has been reclassified to enable comparisons between the relevant amounts for the fiscal years ended March 31, 2010, 2011 and 2012, respectively.

The following is a brief explanation of our business segments:

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

*Integrated Corporate Banking Business Group* Covers all domestic corporate businesses, including commercial banking, investment banking, trust banking and securities businesses. Through the integration of these business lines, diverse financial products and services are provided to our corporate clients. This business group has clarified strategic domains, sales channels and methods to match the different growth stages and financial needs of our corporate customers.

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

*Integrated Global Business Group* Covers businesses outside Japan, including commercial banking such as loans, deposits and cash management services, investment banking, retail banking, trust banking and securities businesses (with the retail banking and trust assets businesses being conducted through Union Bank), through a global network of more than 500 offices outside Japan to provide customers with financial products and services that meet their increasingly diverse and sophisticated financing needs. Union Bank is one of the largest commercial banks in

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California by both total assets and total deposits. Union Bank provides a wide range of financial services to consumers, small businesses, middle market companies and major corporations, primarily in California, Oregon and Washington but also nationally and internationally. Union Bank's parent company is UNBC, which is a bank holding company in the United States.

**Table of Contents**

*Global Markets* Covers the asset and liability management and strategic investments of BTMU and MUTB, and sales and trading of financial products of BTMU, MUTB and MUMSS.

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

For further information, see Note 27 to our consolidated financial statements included elsewhere in this Annual Report.

Our business segment information, set forth in the following table, is based on financial information prepared in accordance with Japanese GAAP, as adjusted in accordance with internal management accounting rules and practices and is not consistent with our consolidated financial statements included elsewhere in this Annual Report, which have been prepared in accordance with US GAAP. For information on a reconciliation of operating profit under the internal management reporting system to income before income tax expense shown on the consolidated statements of income, see Note 27 to our consolidated financial statements included elsewhere in this Annual Report.

	Integrated Retail Banking Business Group	Integrated Corporate Banking Business Group	Integrated Trust Assets Business Group	Integrated Other than UNBC	Global Business Group UNBC (in billions)	Total	Global Markets	Other	Total
<b>Fiscal year ended March 31, 2010:</b>									
Net revenue:	¥ 1,436.6	¥ 896.5	¥ 152.3	¥ 341.0	¥ 265.3	¥ 606.3	¥ 597.4	¥ (89.0)	¥ 3,600.1
Operating expenses	988.3	473.1	86.3	203.9	166.7	370.6	113.6	167.3	2,199.2
Operating profit (loss)	¥ 448.3	¥ 423.4	¥ 66.0	¥ 137.1	¥ 98.6	¥ 235.7	¥ 483.8	¥ (256.3)	¥ 1,400.9
<b>Fiscal year ended March 31, 2011:</b>									
Net revenue:	¥ 1,348.4	¥ 900.7	¥ 148.6	¥ 338.1	¥ 267.2	¥ 605.3	¥ 560.7	¥ (40.7)	¥ 3,523.0
Operating expenses	945.1	464.2	88.1	200.7	173.3	374.0	105.7	150.9	2,128.0
Operating profit (loss)	¥ 403.3	¥ 436.5	¥ 60.5	¥ 137.4	¥ 93.9	¥ 231.3	¥ 455.0	¥ (191.6)	¥ 1,395.0
<b>Fiscal year ended March 31, 2012:</b>									
Net revenue:	¥ 1,274.1	¥ 884.8	¥ 140.5	¥ 401.1	¥ 252.0	¥ 653.1	¥ 690.7	¥ (49.7)	¥ 3,593.5
Operating expenses	903.6	447.7	87.3	225.1	173.0	398.1	96.6	165.4	2,098.7
Operating profit (loss)	¥ 370.5	¥ 437.1	¥ 53.2	¥ 176.0	¥ 79.0	¥ 255.0	¥ 594.1	¥ (215.1)	¥ 1,494.8

***Fiscal Year Ended March 31, 2012 Compared to Fiscal Year Ended March 31, 2011******Integrated Retail Banking Business Group***

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Net revenue of the Integrated Retail Banking Business Group decreased ¥74.3 billion to ¥1,274.1 billion for the fiscal year ended March 31, 2012 from ¥1,348.4 billion for the fiscal year ended March 31, 2011. Net revenue of the Integrated Retail Banking Business Group mainly consists of domestic revenues from commercial banking operations, such as deposits and lending operations, and fees related to sales of investment products to retail customers, as well as fees of subsidiaries within the Integrated Retail Banking Business Group. The decrease in net revenue reflected a decrease in deposit related income due to the impact of the low interest rate environment that continued throughout the fiscal year ended March 31, 2012, and a decrease in income related to our group companies engaged in the consumer finance business due to regulatory changes, partially offset by an increase in fees from sales of insurance and other investment products.

Operating expenses of the Integrated Retail Banking Business Group decreased ¥41.5 billion to ¥903.6 billion for the fiscal year ended March 31, 2012 from ¥945.1 billion for the fiscal year ended March 31, 2011. This is mainly due to reductions in provisions for repayment of excess interest in our group consumer finance companies.

## **Table of Contents**

Operating profit of the Integrated Retail Banking Business Group decreased ¥32.8 billion to ¥370.5 billion for the fiscal year ended March 31, 2012 from ¥403.3 billion for the fiscal year ended March 31, 2011.

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

Net revenue of the Integrated Corporate Banking Business Group decreased ¥15.9 billion to ¥884.8 billion for the fiscal year ended March 31, 2012 from ¥900.7 billion for the fiscal year ended March 31, 2011. Net revenue of the Integrated Corporate Banking Business Group mainly consists of domestic revenues from corporate lending and other commercial banking operations, investment banking and trust banking businesses in relation to corporate clients, as well as fees received by subsidiaries within the Integrated Corporate Banking Business Group. The decrease in net revenue was mainly due to a decrease in net interest income from deposits reflecting low interest rate environment and to weak demand for loans from customers, partially offset by an increase in investment banking business related to structured finance.

Operating expenses of the Integrated Corporate Banking Business Group were ¥447.7 billion for the fiscal year ended March 31, 2012, a decrease of ¥16.5 billion from ¥464.2 billion for the fiscal year ended March 31, 2011.

Operating profit of the Integrated Corporate Banking Business Group slightly increased ¥0.6 billion to ¥437.1 billion for the fiscal year ended March 31, 2012 from ¥436.5 billion for the fiscal year ended March 31, 2011.

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

Net revenue of the Integrated Trust Assets Business Group decreased ¥8.1 billion to ¥140.5 billion for the fiscal year ended March 31, 2012 from ¥148.6 billion for the fiscal year ended March 31, 2011. Net revenue of the Integrated Trust Assets Business Group mainly consists of fees from asset management and administration services for products such as pension trusts and investment trusts. The decrease in net revenue was mainly due to a decrease in volume of our investment trust business, partially offset by an increase in volume of our global custody business.

Operating expenses of the Integrated Trust Assets Business Group decreased ¥0.8 billion to ¥87.3 billion for the fiscal year ended March 31, 2012 from ¥88.1 billion for the fiscal year ended March 31, 2011.

Operating profit of the Integrated Trust Assets Business Group decreased ¥7.3 billion to ¥53.2 billion for the fiscal year ended March 31, 2012 from ¥60.5 billion for the fiscal year ended March 31, 2011.

### ***Integrated Global Business Group***

Net revenue of the Integrated Global Business Group increased ¥47.8 billion to ¥653.1 billion for the fiscal year ended March 31, 2012 from ¥605.3 billion for the fiscal year ended March 31, 2011. Net revenue of the Integrated Global Business Group mainly consists of business

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outside Japan, including commercial banking such as loans, deposits and cash management services, investment banking, retail banking, trust banking and securities businesses. The increase in net revenue was mainly due to an increase in interest income attribute to non-Japanese customers in Asia and investment banking business in Europe and the United States.

Operating expenses of the Integrated Global Business Group increased ¥24.1 billion to ¥398.1 billion for the fiscal year ended March 31, 2012 from ¥374.0 billion for the fiscal year ended March 31, 2011.

Operating profit of the Integrated Global Business Group increased ¥23.7 billion to ¥255.0 billion for the fiscal year ended March 31, 2012 from ¥231.3 billion for the fiscal year ended March 31, 2011.

## **Table of Contents**

### ***Global Markets***

Net revenue of Global Markets increased ¥130.0 billion to ¥690.7 billion for the fiscal year ended March 31, 2012 from ¥560.7 billion for the fiscal year ended March 31, 2011. This increase was mainly due to the gains from our asset liability management business and gains attributable to the sales and trading business of MUMSS.

Operating expenses of Global Markets decreased ¥9.1 billion to ¥96.6 billion for the fiscal year ended March 31, 2012 from ¥105.7 billion for the fiscal year ended March 31, 2011.

Operating profit of the Global Markets increased ¥139.1 billion to ¥594.1 billion for the fiscal year ended March 31, 2012 from ¥455.0 billion for the fiscal year ended March 31, 2011. This increase was mainly due to the gains from our asset liability management business.

### ***Fiscal Year Ended March 31, 2011 Compared to Fiscal Year Ended March 31, 2010***

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

Net revenue of the Integrated Retail Banking Business Group decreased ¥88.2 billion to ¥1,348.4 billion for the fiscal year ended March 31, 2011 from ¥1,436.6 billion for the fiscal year ended March 31, 2010. Net revenue of the Integrated Retail Banking Business Group mainly consists of revenues from commercial banking operations, such as deposits and lending operations, and fees related to sales of investment products to retail customers, as well as fees of subsidiaries within the Integrated Retail Banking Business Group. The decrease in net revenue reflected the decrease of outstanding loans and the impact of the low interest rate environment that continued throughout the fiscal year ended March 31, 2011, partially offset by an increase of fees from sales of investment trusts.

Operating expenses of the Integrated Retail Banking Business Group decreased ¥43.2 billion to ¥945.1 billion for the fiscal year ended March 31, 2011 from ¥988.3 billion for the fiscal year ended March 31, 2010. This is mainly due to a reduction of operating expenses in many of our subsidiaries.

Operating profit of the Integrated Retail Banking Business Group decreased ¥45.0 billion to ¥403.3 billion for the fiscal year ended March 31, 2011 from ¥448.3 billion for the fiscal year ended March 31, 2010.

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

Net revenue of the Integrated Corporate Banking Business Group increased ¥4.2 billion to ¥900.7 billion for the fiscal year ended March 31, 2011 from ¥896.5 billion for the fiscal year ended March 31, 2010. Net revenue of the Integrated Corporate Banking Business Group mainly consists of revenues from corporate lending and other commercial banking operations, investment banking and trust banking businesses in



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relation to corporate clients, as well as fees received by subsidiaries within the Integrated Corporate Banking Business Group. The increase in net revenue was mainly due to our recording a smaller loss on derivative transactions compared to that for the prior fiscal year.

Operating expenses of the Integrated Corporate Banking Business Group were ¥464.2 billion for the fiscal year ended March 31, 2011, a decrease of ¥8.9 billion from ¥473.1 billion for the fiscal year ended March 31, 2010.

Operating profit of the Integrated Corporate Banking Business Group increased ¥13.1 billion to ¥436.5 billion for the fiscal year ended March 31, 2011 from ¥423.4 billion for the fiscal year ended March 31, 2010. This increase was mainly due to our recording a smaller loss on derivative transactions compared to that for the prior fiscal year.

## **Table of Contents**

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

Net revenue of the Integrated Trust Assets Business Group slightly decreased ¥3.7 billion to ¥148.6 billion for the fiscal year ended March 31, 2011 from ¥152.3 billion for the fiscal year ended March 31, 2010. 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.

Operating expenses of the Integrated Trust Assets Business Group increased ¥1.8 billion to ¥88.1 billion for the fiscal year ended March 31, 2011 from ¥86.3 billion for the fiscal year ended March 31, 2010.

Operating profit of the Integrated Trust Assets Business Group decreased ¥5.5 billion to ¥60.5 billion for the fiscal year ended March 31, 2011 from ¥66.0 billion for the fiscal year ended March 31, 2010. This decrease was mainly due to the increase in operating expenses as stated above.

### ***Integrated Global Business Group***

Net revenue of Integrated Global Business Group decreased ¥1.0 billion to ¥605.3 billion for the fiscal year ended March 31, 2011 from ¥606.3 billion for the fiscal year ended March 31, 2010. This decrease was mainly due to decreases in interest income in Europe and the United States, partially offset by an increase in interest income in Asia excluding Japan.

Operating expenses of Integrated Global Business Group increased ¥3.4 billion to ¥374.0 billion for the fiscal year ended March 31, 2011 from ¥370.6 billion for the fiscal year ended March 31, 2010.

Operating profit of the Integrated Global Business Group decreased ¥4.4 billion to ¥231.3 billion for the fiscal year ended March 31, 2011 from ¥235.7 billion for the fiscal year ended March 31, 2010.

### ***Global Markets***

Net revenue of Global Markets decreased ¥36.7 billion to ¥560.7 billion for the fiscal year ended March 31, 2011 from ¥597.4 billion for the fiscal year ended March 31, 2010. Effective March 24, 2011, the sales and trading business of MUMSS was included in Global Markets business and was the main factor in the decrease in net revenue, as MUMSS recorded an approximately ¥80.0 billion loss from its fixed income trading business in the fiscal year ended March 31, 2011. This loss was partially offset by an increase in gains from the trading business of our banking and trust banking subsidiaries.

Operating expenses of Global Markets decreased ¥7.9 billion to ¥105.7 billion for the fiscal year ended March 31, 2011 from ¥113.6 billion for the fiscal year ended March 31, 2010.

Operating profit of the Global Markets decreased ¥28.8 billion to ¥455.0 billion for the fiscal year ended March 31, 2011 from ¥483.8 billion for the fiscal year ended March 31, 2010. This decrease was mainly due to the loss recorded by MUMSS in the fiscal year ended March 31, 2011.

**Table of Contents****Geographic Segment Analysis**

The table below sets forth our total revenue, income before income tax expense and net income (loss) attributable to Mitsubishi UFJ Financial Group on a geographic basis for the fiscal years ended March 31, 2010, 2011 and 2012. 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 28 to our consolidated financial statements included elsewhere in this Annual Report.

	Fiscal years ended March 31,		
	2010	2011	2012
	(in billions)		
<b>Total revenue (interest income and non-interest income):</b>			
Domestic	¥ 3,605.0	¥ 2,969.0	¥ 2,936.9
<b>Foreign:</b>			
United States of America <sup>(2)</sup>	619.3	431.1	192.8
Europe	355.0	238.7	290.5
Asia/Oceania excluding Japan	482.6	470.9	450.6
Other areas <sup>(1)</sup>	165.4	135.3	165.7
<b>Total foreign</b>	<b>1,622.3</b>	<b>1,276.0</b>	<b>1,099.6</b>
<b>Total</b>	<b>¥ 5,227.3</b>	<b>¥ 4,245.0</b>	<b>¥ 4,036.5</b>
<b>Income before income tax expense :</b>			
Domestic	¥ 539.9	¥ 186.1	¥ 498.1
<b>Foreign:</b>			
United States of America	223.3	164.5	(91.8)
Europe	224.4	108.1	139.4
Asia/Oceania excluding Japan	273.0	232.1	227.4
Other areas <sup>(1)</sup>	36.4	131.0	76.8
<b>Total foreign</b>	<b>757.1</b>	<b>635.7</b>	<b>351.8</b>
<b>Total</b>	<b>¥ 1,297.0</b>	<b>¥ 821.8</b>	<b>¥ 849.9</b>
<b>Net income (loss) attributable to Mitsubishi UFJ Financial Group</b>			
Domestic	¥ 189.8	¥ (103.0)	¥ 163.3
<b>Foreign:</b>			
United States of America	201.8	162.7	(119.8)
Europe	199.1	90.0	113.6
Asia/Oceania excluding Japan	241.4	193.4	192.8
Other areas <sup>(1)</sup>	36.6	109.5	66.3
<b>Total foreign</b>	<b>678.9</b>	<b>555.6</b>	<b>252.9</b>
<b>Total</b>	<b>¥ 868.7</b>	<b>¥ 452.6</b>	<b>¥ 416.2</b>

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Notes:

- (1) Other areas primarily include Canada, Latin America, the Caribbean and the Middle East.
- (2) For the fiscal year ended March 31, 2012, Total revenue of United States of America includes an other-than-temporary impairment loss of Morgan Stanley's common stock. See Note 2 to our consolidated financial statements included elsewhere in this Annual Report for further details of an other-than-temporary impairment loss on Morgan Stanley's common stock.

## **Table of Contents**

### ***Fiscal Year Ended March 31, 2012 Compared to Fiscal Year Ended March 31, 2011***

Domestic net income attributable to Mitsubishi UFJ Financial Group for the fiscal year ended March 31, 2012 was ¥163.3 billion, compared to net loss of ¥103.0 billion for the fiscal year ended March 31, 2011. This was mainly due to reductions in losses in our securities and consumer finance companies.

Foreign net income attributable to Mitsubishi UFJ Financial Group for the fiscal year ended March 31, 2012 was ¥252.9 billion, a decrease of ¥302.7 billion from ¥555.6 billion for the fiscal year ended March 31, 2011. This was mainly due to a decrease in income from our overseas businesses in the United States, which included the other-than-temporary impairment loss related to our investment in Morgan Stanley's common stock, partially offset by improvements in net trading gains and net interest income in Europe. Approximately three-quarters of foreign net income attributable to Mitsubishi UFJ Financial Group were attributable to Asia and Oceania excluding Japan, more than half of which was derived from China.

### ***Fiscal Year Ended March 31, 2011 Compared to Fiscal Year Ended March 31, 2010***

Domestic net loss attributable to Mitsubishi UFJ Financial Group for the fiscal year ended March 31, 2011 was ¥103.0 billion, compared to net income of ¥189.8 billion for the fiscal year ended March 31, 2010. This was mainly due to the losses recorded by our securities and consumer finance companies.

Foreign net income attributable to Mitsubishi UFJ Financial Group for the fiscal year ended March 31, 2011 was ¥555.6 billion, a decrease of ¥123.3 billion from ¥678.9 billion for the fiscal year ended March 31, 2010. This was mainly due to a decrease in non-interest income from our overseas businesses in Europe.

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

### ***Fiscal Year Ended March 31, 2012 Compared to Fiscal Year Ended March 31, 2011***

The average exchange rate for the fiscal year ended March 31, 2012 was ¥79.08 per US\$1.00, compared to the prior fiscal year's average exchange rate of ¥85.72 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, 2011 was ¥79.84 per US\$1.00, compared to the average exchange rate for the fiscal year ended December 31, 2010 of ¥87.81 per US\$1.00.

The change in the average exchange rate of the Japanese yen against the US dollar and other foreign currencies had the effect of decreasing total revenue by ¥100.8 billion, net interest income by ¥55.0 billion and income before income tax expense by ¥45.6 billion, respectively, for the fiscal year ended March 31, 2012.

*Fiscal Year Ended March 31, 2011 Compared to Fiscal Year Ended March 31, 2010*

The average exchange rate for the fiscal year ended March 31, 2011 was ¥85.72 per US\$1.00, compared to the prior fiscal year's average exchange rate of ¥92.85 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, 2010 was ¥87.81 per US\$1.00, compared to the average exchange rate for the fiscal year ended December 31, 2009 of ¥93.57 per US\$1.00.

The change in the average exchange rate of the Japanese yen against the US dollar and other foreign currencies had the effect of decreasing total revenue by ¥135.6 billion, net interest income by ¥47.1 billion and income before income tax expense by ¥91.2 billion, respectively, for the fiscal year ended March 31, 2011.

**Table of Contents****B. Liquidity and Capital Resources****Financial Condition***Total Assets*

Our total assets at March 31, 2012 were ¥215.20 trillion, an increase of ¥12.35 trillion from ¥202.85 trillion at March 31, 2011. The increase in total assets mainly reflected increases in net loans of ¥4.75 trillion, trading securities of ¥4.60 trillion, investment securities of ¥1.99 trillion and trading derivative assets of ¥1.53 trillion. These increases were partially offset by a decrease in interest-earning deposits in other banks of ¥1.43 trillion.

We have allocated a substantial portion of our assets to international activities. As a result, reported amounts are affected by changes in the exchange rate 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, 2011 and 2012 by geographic region based principally on the domicile of the obligors:

	At March 31, 2011                  2012 (in trillions)	
Japan	¥ 145.78	¥ 148.70
Foreign:		
United States of America	23.47	28.46
Europe	17.04	18.62
Asia/Oceania excluding Japan	10.91	12.41
Other areas <sup>(1)</sup>	5.65	7.01
<b>Total foreign</b>	<b>57.07</b>	<b>66.50</b>
<b>Total</b>	<b>¥ 202.85</b>	<b>¥ 215.20</b>

Note:

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

At March 31, 2012, the exchange rate was ¥82.19 per US\$1.00, as compared with ¥83.15 at March 31, 2011. The Japanese yen amount of foreign currency-denominated assets decreased as the relevant exchange rates resulted in an increase in the value of the Japanese yen relative to such foreign currencies. The appreciation of the Japanese yen against the US dollar and other foreign currencies between March 31, 2011 and March 31, 2012 resulted in a decrease in the Japanese yen amount of our total assets at March 31, 2012 by ¥1.56 trillion.



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

The following table sets forth our loans outstanding, before deduction of allowance for credit losses, at March 31, 2011 and 2012, based on the industry segment loan classifications as defined by the Bank of Japan for regulatory reporting purposes, which is not necessarily based on use of proceeds:

	At March 31, 2011                      2012 (in billions)	
Domestic:		
Manufacturing	¥ 11,248.0	¥ 11,451.7
Construction	1,280.9	1,155.9
Real estate	11,660.8	11,035.0
Services	3,417.7	3,239.7
Wholesale and retail	8,443.6	8,492.2
Banks and other financial institutions <sup>(1)</sup>	3,421.4	3,511.1
Communication and information services	1,249.3	1,284.6
Other industries	8,410.1	10,390.2
Consumer	18,420.9	17,636.6
<b>Total domestic</b>	<b>67,552.7</b>	<b>68,197.0</b>
Foreign:		
Governments and official institutions	516.6	554.9
Banks and other financial institutions <sup>(1)</sup>	3,565.5	4,722.6
Commercial and industrial	13,116.4	15,676.0
Other	2,853.7	3,238.8
<b>Total foreign</b>	<b>20,052.2</b>	<b>24,192.3</b>
Unearned income, unamortized premium net and deferred loan fees net	(102.9)	(91.1)
<b>Total<sup>(2)</sup></b>	<b>¥ 87,502.0</b>	<b>¥ 92,298.2</b>

## Notes:

- (1) 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.
- (2) The above table includes loans held for sale of ¥65.2 billion and ¥46.6 billion at March 31, 2011 and 2012, respectively, 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 48.7% of total interest-earning assets for the fiscal year ended March 31, 2011 and 47.4% for the fiscal year ended March 31, 2012.

At March 31, 2012, our total loans were ¥92.30 trillion, an increase of ¥4.80 trillion from ¥87.50 trillion at March 31, 2011. Before unearned income, net unamortized premiums and net deferred loan fees, our loan balance at March 31, 2012 consisted of ¥68.20 trillion of domestic loans and ¥24.19 trillion of foreign loans, while the loan balance at March 31, 2011 consisted of ¥67.55 trillion of domestic loans and ¥20.05 trillion of foreign loans. Between March 31, 2011 and March 31, 2012, domestic loans increased ¥0.65 trillion and foreign loans increased ¥4.14

trillion.

The domestic loan balance increased by 1% between March 31, 2011 and March 31, 2012, after four consecutive years of decline. However, the average total loan balance for the fiscal year ended March 31, 2012 decreased compared to the previous fiscal year. The pace of decline in total domestic loans slowed toward the end of the fiscal year ended March 31, 2012 mainly due to an increase in loans to the government institutions, which are included in the other industries category. It is uncertain whether demand for loans from the government institutions will continue to increase or demand for loans from the private sector will improve in future periods. Foreign loans increased 20% between March 31, 2011 and March 31, 2012, mainly due to our increased activities in Asia other than Japan, as well as the expansion of the foreign operations of our banking subsidiaries.

**Table of Contents***Changes in the allowance for credit losses and provision for credit losses*

The following table shows a summary of the changes in the allowance for credit losses for the fiscal years ended March 31, 2010, 2011 and 2012:

	Fiscal years ended March 31,		
	2010	2011 (in billions)	2012
Balance at beginning of fiscal year	¥ 1,156.6	¥ 1,315.6	¥ 1,240.5
Provision for credit losses	647.8	292.0	223.8
Charge-offs:			
Domestic	(401.9)	(338.3)	(182.7)
Foreign	(118.9)	(47.5)	(34.1)
Total	(520.8)	(385.8)	(216.8)
Recoveries:			
Domestic	48.3	34.7	37.0
Foreign	4.1	9.0	6.4
Total	52.4	43.7	43.4
Net charge-offs	(468.4)	(342.1)	(173.4)
Others <sup>(1)</sup>	(20.4)	(25.0)	(5.4)
Balance at end of fiscal year	¥ 1,315.6	¥ 1,240.5	¥ 1,285.5

Note:

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

As previously discussed, the provision for credit losses for the fiscal year ended March 31, 2012 was ¥223.8 billion, a decrease of ¥68.2 billion from ¥292.0 billion for the fiscal year ended March 31, 2011. The provision for credit losses decreased ¥149.6 billion in our domestic loan portfolio, and the provision for credit losses increased ¥81.4 billion in our foreign loan portfolio. The decrease in the provision in the domestic portfolio was mainly due to a smaller increase in restructured residential mortgage loans for the fiscal year ended March 31, 2012 compared to the fiscal year ended March 31, 2011, when we experienced a higher than usual increase in such restructured residential mortgage loans. Domestic restructured residential loans, however, continued to increase, though at a reduced rate, in the fiscal year ended March 31, 2012. See Nonaccrual and restructured loans and accruing loans contractually past due 90 days or more below.

The provision for credit losses in our foreign portfolio for the fiscal year ended March 31, 2012

was ¥4.1 billion, compared to a reversal of provision for credit losses of ¥77.3 billion for the previous fiscal year. The reversal in the previous fiscal year was mainly due to a decrease in the provisions in UNBC and other overseas offices as a result of a slight recovery of the global market, particularly in the United States.

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For the fiscal year ended March 31, 2012, the ratio of the provision for the credit losses of ¥223.8 billion to the average loan balance of ¥87.23 trillion was 0.26%, and that to the total average interest-earning assets for the same period of ¥184.18 trillion was 0.12%.

Charge-offs for the fiscal year ended March 31, 2012 were ¥216.8 billion, a decrease of ¥169.0 billion from ¥385.8 billion for the fiscal year ended March 31, 2011, when there was a substantial charge-off relating to the bankruptcy filing by a large borrower in the transportation industry. Charge-offs in the domestic consumer category also decreased for the fiscal year ended March 31, 2012 compared to the previous fiscal year mainly due to an improvement in the credit quality of our credit card business portfolio.

The total allowance for credit losses at March 31, 2012 was ¥1,285.5 billion, an increase of ¥45.0 billion from ¥1,240.5 billion at March 31, 2011, as we recorded a provision for credit losses of ¥223.8 billion while we had net charge-offs of ¥173.4 billion for the fiscal year ended March 31, 2012. For further information on our allowance for credit losses, see Allowance for credit losses below.

## **Table of Contents**

### *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.

We have divided our allowance for loan losses into four portfolio segments: Commercial, Residential, Card and UNBC.

For the Commercial and UNBC segments, our allowance for credit losses primarily consists of allocated allowances. The allocated allowances comprise (1) an allowance for individual loans specifically identified for evaluation, (2) an allowance for large groups of smaller-balance homogeneous loans, and (3) a formula allowance. The allocated allowance within the Commercial segment also includes an allowance for country risk exposure. The allowance for country risk exposure within the Commercial segment covers transfer risk which is not specifically covered by other types of allowance. Both the allowance for country risk exposure and the formula allowance are provided for performing loans that are not subject to either the allowance for individual loans specifically identified for evaluation or the allowance for large groups of smaller-balance homogeneous loans. The allowance for credit losses within the UNBC segment also includes an unallocated allowance which captures losses that are attributable to economic events in various industry or geographic sectors whose impact on our loan portfolio in this segment have occurred but have yet to be recognized in the allocated allowance. For the Residential and Card segments, the loans are smaller-balance homogeneous loans that are pooled by the risk ratings based on the number of delinquencies. For all portfolio segments, key elements relating to the policies and discipline used in determining the allowance for credit losses are our credit classification and related borrower categorization process. Each of these components is determined based on estimates subject to change when actual events occur.

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

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

During the fiscal year ended March 31, 2012, there was no significant change 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.

As to the impact of the Great East Japan Earthquake on our allowance for credit losses, our loans outstanding to borrowers in the Tohoku region as of March 31, 2012 was proportionally small. Shortly after the earthquake, BTMU and MUTB began offering special loan programs designed to financially assist borrowers affected by the earthquake. Under these programs, BTMU and MUTB offer eased conditions and preferential interest rates for new and outstanding housing loans and consumer loans to affected individual borrowers and preferential interest rates for new loans not exceeding ¥30 million with maturities of up to five years to affected corporate borrowers. As of March 31, 2012, the loans restructured under the special programs in the aggregate represented less than 0.1% of the total loans outstanding for BTMU and MUTB.

Borrowers in other regions in Japan may also be affected due to the compensation issues for affected individuals and companies, electricity power supply shortages, electricity rate increases, supply chain disruptions and other indirect consequences of the earthquake. Our financial statements were prepared reflecting the anticipated consequences to the extent possible based on the information available to us, and the allowance for credit losses also reflected such anticipated consequences to the extent possible. See Item 3.D. Key

**Table of Contents**

Information Risk Factors Risks Related to Our Business Because a large portion of our assets are located in Japan and our business operations are conducted primarily in Japan, we may incur further losses if economic conditions in Japan worsen and Recent Developments Effects of the Great East Japan Earthquake.

*Allowance for credit losses*

Allowance for credit losses and recorded investment in loans by portfolio segment at March 31, 2011 and 2012 are shown below:

At March 31, 2011:	Commercial	Residential	Card (in billions)	UNBC	Total
Allowance for credit losses:					
Balance at end of fiscal year:					
Individually evaluated for impairment	¥ 587.9	¥ 86.5	¥ 47.0	¥ 9.8	¥ 731.2
Collectively evaluated for impairment	277.1	76.7	35.3	85.2	474.3
Loans acquired with deteriorated credit quality	30.6	2.0	0.4	2.0	35.0
Allowance for credit losses total	¥ 895.6	¥ 165.2	¥ 82.7	¥ 97.0	¥ 1,240.5
Loans:					
Balance at end of fiscal year:					
Individually evaluated for impairment	¥ 1,341.7	¥ 300.8	¥ 150.7	¥ 55.2	¥ 1,848.4
Collectively evaluated for impairment	65,094.0	15,826.8	704.9	3,793.7	85,419.4
Loans acquired with deteriorated credit quality	119.5	22.4	16.5	113.5	271.9
Total loans <sup>(1)</sup>	¥ 66,555.2	¥ 16,150.0	¥ 872.1	¥ 3,962.4	¥ 87,539.7

Note:

(1) Total loans in the above table do not include loans held for sale and represent balances without adjustments in relation to unearned income, unamortized premiums and deferred loan fees.

At March 31, 2012:	Commercial	Residential	Card (in billions)	UNBC	Total
Allowance for credit losses:					
Balance at end of fiscal year:					
Individually evaluated for impairment	705.8	¥ 101.8	¥ 47.4	¥ 5.3	¥ 860.3
Collectively evaluated for impairment	245.9	67.8	21.2	53.9	388.8
Loans acquired with deteriorated credit quality	32.6	2.2	0.3	1.3	36.4
Allowance for credit losses total	984.3	¥ 171.8	¥ 68.9	¥ 60.5	¥ 1,285.5
Loans:					
Balance at end of fiscal year:					
Individually evaluated for impairment	¥ 1,479.1	321.1	¥ 145.8	¥ 44.5	¥ 1,990.5
Collectively evaluated for impairment	70,208.3	15,246.3	597.6	4,087.3	90,139.5
Loans acquired with deteriorated credit quality	108.6	19.5	14.5	70.1	212.7
Total loans <sup>(1)</sup>	¥ 71,796.0	¥ 15,586.9	¥ 757.9	¥ 4,201.9	¥ 92,342.7

Note:

- (1) Total loans in the above table do not include loans held for sale and represent balances without adjustments in relation to unearned income, unamortized premiums and deferred loan fees.

The total allowance for credit losses at March 31, 2012 was ¥1,285.5 billion, an increase of ¥45.0 billion from ¥1,240.5 billion at March 31, 2011. This increase mainly reflected the deteriorating credit quality of our domestic borrowers in the manufacturing industry and the wholesale and retail industry. Following the Great East Japan Earthquake in March 2011, domestic industrial production weakened, which was adversely



**Table of Contents**

affecting many of our borrowers in the manufacturing industry. Although the overall private consumption in Japan gradually improved, the prices of most goods remained exposed to downward pressure, which had a negative impact on many of our borrowers in the wholesale and retail industry, particularly small and medium-sized companies. The increase in total allowance also reflected the increase in residential loans individually evaluated for impairment. These factors contributing to the increase in total allowance were partially offset by the improved credit quality of UNBC's loan portfolio. For more information, see Nonaccrual and restructured loans and accruing loans contractually past due 90 days or more, Impaired loans and impairment allowance and Credit quality indicator below.

The total allowance for credit losses represented 1.39% of our total loan portfolio at March 31, 2012, a decrease of 0.03 percentage points from 1.42% at March 31, 2011. The decrease in the ratio of the total allowance for credit losses to our total loan portfolio primarily reflected the improved credit quality of the loan portfolio of the UNBC and Card segments.

The total allowance for the Commercial segment at March 31, 2012 was ¥984.3 billion, an increase of ¥88.7 billion from ¥895.6 billion at March 31, 2011. The total allowance for the Residential segment at March 31, 2012 was ¥171.8 billion, an increase of ¥6.6 billion from ¥165.2 billion at March 31, 2011. The total allowance for the Card segment at March 31, 2012 was ¥68.9 billion, a decrease of ¥13.8 billion from ¥82.7 billion at March 31, 2011. The total allowance for the UNBC segment at March 31, 2012 was ¥60.5 billion, a decrease of ¥36.5 billion from ¥97.0 billion at March 31, 2011.

*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 ¥60.5 billion at March 31, 2012, a decrease of ¥13.1 billion from ¥73.6 billion at March 31, 2011.

*Sales of loans*

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

	Principal amount of loans <sup>(1)</sup>	Allowance for credit losses <sup>(2)</sup>	Loans, net of allowance	Reversal of allowance for credit losses
	(in billions)			
For the fiscal year ended March 31, 2011	¥ 66.6	¥ 11.0	¥ 55.6	¥ (7.5)
For the fiscal year ended March 31, 2012	¥ 27.5	¥ 7.6	¥ 19.9	¥ (6.4)

## 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.

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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 a reported period is not necessarily indicative of the results that we may record in the future.

**Table of Contents**

In connection with the sale of loans, including performing loans, we recorded net gains of ¥10.4 billion and net gains of ¥16.3 billion for the fiscal years ended March 31, 2011 and 2012, respectively.

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

Loans are generally placed on nonaccrual status when substantial doubt exists as to the full and timely collection of either principal or interest, specifically when principal or interest is contractually past due one month or more with respect to loans within all classes of the Commercial segment, three months or more with respect to loans within the Card and UNBC segments, and six months or more with respect to loans within the Residential segment.

Loans are classified as restructured loans when we grant a concession to borrowers for economic or legal reasons related to the borrowers financial difficulties. When we grant a concession to a borrower experiencing financial difficulties, we account for a loan restructuring as a troubled debt restructuring in accordance with the guidance on troubled debt restructuring by creditors. When the restructuring constitutes a troubled debt restructuring and the loan was classified as *Likely to Become Bankrupt* or *Legally/Virtually Bankrupt* in our internal borrower rating system and was on the nonaccrual status before the restructuring, the loan continues to be classified as a nonaccrual loan after the restructuring. On the other hand, if the loan was an accruing loan before the restructuring, the loan continues to be accruing after the restructuring.

For a more detailed discussion of nonaccrual, restructured and impaired loans, see *Impaired loans and impairment allowance* below.

**Table of Contents**

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, 2011 and 2012:

	At March 31,	
	2011	2012
	(in billions, except percentages)	
<b>Nonaccrual loans:</b>		
Domestic:		
Manufacturing	¥ 138.0	¥ 200.1
Construction	48.5	40.1
Real estate	152.3	127.8
Services	76.6	86.0
Wholesale and retail	172.7	238.0
Banks and other financial institutions	7.3	7.8
Communication and information services	33.2	33.4
Other industries	37.3	49.2
Consumer	321.8	288.4
Total domestic	987.7	1,070.8
Foreign	181.5	119.0
Total nonaccrual loans	1,169.2	1,189.8
<b>Restructured loans:</b>		
Domestic:		
Manufacturing	172.6	171.5
Construction	25.5	16.4
Real estate	79.0	87.8
Services	107.9	103.3
Wholesale and retail	116.4	134.7
Banks and other financial institutions	2.6	1.9
Communication and information services	27.7	18.4
Other industries	15.6	15.6
Consumer	253.4	281.3
Total domestic	800.7	830.9
Foreign	38.9	92.2
Total restructured loans	839.6	923.1
<b>Accruing loans contractually past due 90 days or more:</b>		
Domestic		
Foreign <sup>(1)</sup>	55.5	65.5
	0.2	0.1
Total accruing loans contractually past due 90 days or more	55.7	65.6
Total nonaccrual and restructured loans and accruing loans contractually past due 90 days or more	¥ 2,064.5	¥ 2,178.5
Total loans	¥ 87,502.0	¥ 92,298.2
Nonaccrual and restructured loans and accruing loans contractually past due 90 days or more, as a percentage of total loans	2.36%	2.36%

Note:

- (1) Foreign accruing loans contractually past due 90 days or more do not include ¥25.4 billion and ¥12.8 billion of FDIC covered loans held by UNBC which are subject to the guidance on loans and debt securities acquired with deteriorated credit quality at March 31, 2011 and 2012, respectively.

## **Table of Contents**

Nonaccrual and restructured loans and accruing loans contractually past due 90 days or more increased ¥114.0 billion to ¥2,178.5 billion at March 31, 2012 from ¥2,064.5 billion at March 31, 2011. The percentage of such nonperforming loans to the total loans was 2.36% both at March 31, 2011 and March 31, 2012.

Total nonaccrual loans were ¥1,189.8 billion at March 31, 2012, an increase of ¥20.6 billion from ¥1,169.2 billion at March 31, 2011. Domestic nonaccrual loans increased ¥83.1 billion between March 31, 2011 and March 31, 2012, mainly due to the downgrade of some large borrowers in the manufacturing category and the wholesale and retail category from Normal to Likely to Become Bankrupt under our internal borrower ratings. Foreign nonaccrual loans decreased ¥62.5 billion between March 31, 2011 and March 31, 2012, mainly due to transfer of loans to a large borrower in the government and official institutions category from nonaccrual loans to restructured loans.

Nonaccrual loans in the manufacturing category increased ¥62.1 billion to ¥200.1 billion at March 31, 2012 from ¥138.0 billion at March 31, 2011. Following the Great East Japan Earthquake, industrial production in Japan fluctuated significantly. Industrial production plunged by 15.5% in March 2011 following the earthquake especially led by the large drop in transportation machinery (such as automobiles) by approximately 50%. Industrial production recovered slightly in subsequent months (i.e., April 2011 +1.6% and May 2011 +6.2% according to the Ministry of Economy, Trade and Industry), but production levels for transportation machinery remained below pre-earthquake levels as of May 2011. Industrial production fluctuated throughout the summer of 2011 affected by reconstruction demand having a positive impact and the weakness in exporting industries, the appreciation of the Japanese yen and the weakening global economy having a negative impact. Although there were month-to-month fluctuations, industrial production generally improved in the second half of the fiscal year ended March 31, 2012, with the industrial production index increasing by 2.8% between September 2011 and March 2012. Industrial production levels, nevertheless, remained below pre-earthquake levels as of March 2012. The increase in nonaccrual loans in the manufacturing category reflected these trends.

Total restructured loans were ¥923.1 billion at March 31, 2012, an increase of ¥83.5 billion from ¥839.6 billion at March 31, 2011. The restructured loans set forth in the above table are current in accordance with the applicable restructured contractual terms. Foreign restructured loans increased ¥53.3 billion to ¥92.2 billion at March 31, 2012 from ¥38.9 billion at March 31, 2011 mainly due to the transfer of loans to a large borrower in the government and official institutions category from nonaccrual loans to restructured loans described in the preceding paragraph. Domestic restructured loans increased ¥30.2 billion to ¥830.9 billion at March 31, 2012 from ¥800.7 billion at March 31, 2011 mainly due to an increase in such loans in the consumer category resulting from an increase in restructured residential mortgage loans.

**Table of Contents***Impaired loans and impairment allowance*

The following table shows information about impaired loans by class at March 31, 2011:

At March 31, 2011:	Recorded Loan Balance			Unpaid Principal Balance	Related Allowance
	Requiring an Impairment Allowance	Not Requiring an Impairment Allowance <sup>(1)</sup>	Total (in billions)		
<b>Commercial</b>					
Domestic	¥ 943.1	¥ 265.0	¥ 1,208.1	¥ 1,282.9	¥ 521.7
Manufacturing	257.4	45.0	302.4	311.3	139.5
Construction	51.1	22.2	73.3	78.0	31.6
Real estate	118.8	64.1	182.9	207.4	56.1
Services	136.7	36.1	172.8	186.9	68.9
Wholesale and retail	235.7	49.3	285.0	295.1	144.0
Banks and other financial institutions	3.6	6.3	9.9	12.0	1.7
Communication and information services	45.4	12.6	58.0	59.5	26.4
Other industries	43.0	8.2	51.2	52.0	30.9
Consumer	51.4	21.2	72.6	80.7	22.6
Foreign-excluding UNBC	132.4	1.2	133.6	134.3	66.1
Loans acquired with deteriorated credit quality	37.1	0.1	37.2	60.8	11.8
<b>Residential</b>	277.7	29.5	307.2	393.7	87.5
<b>Card</b>	150.0	1.8	151.8	173.6	47.0
<b>UNBC</b>	51.5	3.7	55.2	68.4	9.8
<b>Total<sup>(2)</sup></b>	<b>¥ 1,591.8</b>	<b>¥ 301.3</b>	<b>¥ 1,893.1</b>	<b>¥ 2,113.7</b>	<b>¥ 743.9</b>

## Notes:

- (1) These loans do not require an allowance for credit losses under the guidance on accounting by creditors for impairment of a loan since the fair values of the impaired loans equal or exceed the recorded investments in the loans.
- (2) In addition to impaired loans presented in the above table, there were loans held for sale that were impaired of ¥4.7 billion at March 31, 2011.

**Table of Contents**

The following table shows information about impaired loans by class at March 31, 2012 and average recorded loan balance and recognized interest income on impaired loans for the fiscal year ended March 31, 2012:

	At March 31, 2012					Fiscal year ended March 31, 2012	
	Recorded Loan Balance			Unpaid Principal Balance (in billions)	Related Allowance	Average Recorded Loan Balance	Recognized Interest Income
	Requiring an Impairment Allowance	Not Requiring an Impairment Allowance <sup>(1)</sup>	Total				
<b>Commercial</b>							
Domestic	¥ 1,045.3	¥ 279.4	¥ 1,324.7	¥ 1,387.0	¥ 616.8	¥ 1,270.8	¥ 21.4
Manufacturing	302.2	56.3	358.5	376.4	187.1	333.5	5.7
Construction	33.8	22.0	55.8	60.5	20.0	63.2	1.4
Real estate	112.4	51.0	163.4	176.5	52.1	173.7	2.5
Services	140.2	36.4	176.6	182.0	74.7	176.0	3.2
Wholesale and retail	299.6	69.1	368.7	375.5	192.7	326.4	5.2
Banks and other financial institutions	9.4	0.3	9.7	11.8	2.3	9.8	0.1
Communication and information services	39.1	12.5	51.6	54.1	23.3	55.4	1.2
Other industries	54.2	8.9	63.1	63.3	40.5	57.6	0.9
Consumer	54.4	22.9	77.3	86.9	24.1	75.2	1.2
Foreign-excluding UNBC	154.2	0.2	154.4	155.4	89.1	138.9	1.0
Loans acquired with deteriorated credit quality	34.5	0.1	34.6	56.1	10.7	35.3	2.0
<b>Residential</b>	303.4	23.5	326.9	406.7	102.9	318.5	6.5
<b>Card</b>	145.2	1.6	146.8	164.7	47.4	149.3	6.9
<b>UNBC</b>	29.6	14.9	44.5	50.0	5.3	45.3	1.4
<b>Total</b>	<b>¥ 1,712.2</b>	<b>¥ 319.7</b>	<b>¥ 2,031.9</b>	<b>¥ 2,219.9</b>	<b>¥ 872.2</b>	<b>¥ 1,958.1</b>	<b>¥ 39.2</b>

Note:  
(1) These loans do not require an allowance for credit losses under the guidance on accounting by creditors for impairment of a loan since the fair values of the impaired loans equal or exceed the recorded investments in the loans.

Impaired loans primarily include nonaccrual loans and restructured loans. We consider a loan to be impaired when, based on current information and events, it is probable that we will be unable to collect all of the scheduled payments of interest on and repayment of the principal of the loan when due according to the contractual terms of the loan agreement.

We consider a loan to be a nonaccrual loan when substantial doubt exists as to the full and timely payment of interest on or repayment of the principal of the loan, which is a borrower condition that generally corresponds to borrowers in categories 13 and below in our internal rating system (which corresponds to Likely to Become Bankrupt, Virtually Bankrupt and Bankrupt or de facto Bankrupt status under the Japanese banking regulations). Substantially all nonaccrual loans are also impaired loans. We consider a loan to be a restructured loan when we grant a concession to a borrower having financial difficulties, such as a reduction in the stated interest rate applicable to the loan, an extension of the stated maturity date of the loan, or a partial forgiveness of the principal of the loan. Substantially all of our restructured loans are considered troubled debt restructurings in accordance with the guidance on troubled debt restructuring by creditors, and they are also classified as impaired loans.

For a discussion of the borrower categories, see Item 11. Quantitative and Qualitative Disclosures about Credit, Market and Other Risk Credit Risk Management.



In many instances, we make a concession to a borrower that meets the definition of troubled debt restructuring when the loan is still accruing interest. We continue to accrue interest after the loan is restructured

**Table of Contents**

if the ultimate collectibility of all amounts contractually due on the restructured loan is not in doubt. In principle, we do not modify the terms of loans to borrowers in categories 13 and below because in these cases there is little likelihood that the modification of the loan terms would enhance recovery of the loans. If, however, we agree to a restructuring of a nonaccrual impaired loan, the loan generally continues to be classified as a nonaccrual loan following the restructuring because such borrowers will often continue to face financial difficulty. If the borrower is not delinquent under the restructured terms for at least one payment period and the borrower can demonstrate that its business problems have been resolved or can be resolved in the near future, we may upgrade the borrower to category 12 or higher in our internal rating system (which corresponds to normal and close watch status under the Japanese banking regulations). We generally consider borrower rating upgrades only in the context of our detailed internal credit rating review process, which is conducted once a year. Although we have not defined any minimum period to qualify for an upgrade, it is not common for a borrower to be able to demonstrate that its business problems have been resolved or can soon be resolved within a short period of time following a restructuring, if at all. If the borrower is upgraded to category 12 or higher in this process, the restructured loan would be reclassified to accrual status. In accordance with the guidance on troubled debt restructuring by creditors, once a restructured nonaccrual loan is deemed to be a troubled debt restructuring, we will continue to designate such loan as a troubled debt restructuring even if such loan is reclassified to accrual status. The difference between the total impaired loans and the total nonaccrual loans represents the amount of accruing restructured loans.

Impaired loans increased ¥138.8 billion from ¥1,893.1 billion at March 31, 2011 to ¥2,031.9 billion at March 31, 2012, mainly due to an increase in the balance of impaired loans requiring an impairment allowance, which increased from ¥1,591.8 billion at March 31, 2011 to ¥1,712.2 billion at March 31, 2012. This was mainly due to the downgrade of some borrowers in the domestic manufacturing category and in the domestic wholesale and retail category from Normal to Likely to Become Bankrupt under our internal borrower ratings. Following the Great East Japan Earthquake in March 2011, domestic industrial production weakened, which was adversely affecting many of our borrowers in the manufacturing industry. Although the overall private consumption in Japan gradually improved, the prices of most goods remained exposed to downward pressure, which had a negative impact on many of our borrowers in the wholesale and retail industry, particularly small and medium-sized companies.

Total related allowance was ¥872.2 billion at March 31, 2012, an increase of ¥128.3 billion from ¥743.9 billion at March 31, 2011. This increase was partially due to an increase of ¥47.6 billion in related allowance for the domestic manufacturing category in the Commercial segment, and an increase of ¥48.7 billion in related allowance for the domestic wholesale and retail category in the Commercial segment.

*Credit quality indicator*

Loan balances by credit quality indicators and by class at March 31, 2011 and 2012 are shown below:

**At March 31, 2011:**

	Normal	Close Watch	Likely to become Bankrupt or Legally/Virtually Bankrupt	Total <sup>(1)</sup>
	(in billions)			
<b>Commercial</b>				
Domestic	¥ 45,354.3	¥ 4,357.2	¥ 686.4	¥ 50,397.9
Manufacturing	9,957.0	1,141.1	137.3	11,235.4
Construction	1,007.8	223.8	48.3	1,279.9
Real estate	9,793.3	1,023.7	128.4	10,945.4
Services	2,878.8	445.9	74.2	3,398.9
Wholesale and retail	7,411.4	829.3	171.9	8,412.6
Banks and other financial institutions	3,110.7	298.6	7.2	3,416.5
Communication and information services	1,074.4	140.6	33.0	1,248.0
Other industries	8,210.7	156.0	36.2	8,402.9

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Consumer	1,910.2	98.2	49.9	2,058.3
Foreign-excluding UNBC	14,992.4	1,006.0	39.5	16,037.9
Loans acquired with deteriorated credit quality	41.1	56.2	22.1	119.4
Total	¥ 60,387.8	¥ 5,419.4	¥ 748.0	¥ 66,555.2

**Table of Contents**

	Accrual	Nonaccrual (in billions)	Total <sup>(1)</sup>
<b>Residential</b>	¥ 16,015.2	¥ 134.8	¥ 16,150.0
<b>Card</b>	¥ 727.9	¥ 144.2	¥ 872.1

	Risk Ratings Based on the Number of Delinquencies		Risk Ratings Based on Internal Credit Ratings		Total <sup>(1)(2)</sup>
	Accrual	Nonaccrual	Pass (in billions)	Criticized	
<b>UNBC</b>	¥ 1,715.8	¥ 21.6	¥ 1,767.4	¥ 275.8	¥ 3,780.6

Notes:

(1) Total loans in the above table do not include loans held for sale.

(2) Total loans of UNBC do not include Federal Deposit Insurance Corporation ( FDIC ) covered loans and small business loans which are not individually rated totaling ¥181.9 billion.

At March 31, 2012:

	Normal	Close Watch	Likely to become Bankrupt or Legally/Virtually Bankrupt	Total <sup>(1)</sup>
			(in billions)	
<b>Commercial</b>				
Domestic	¥ 46,609.9	¥ 4,324.3	¥ 808.9	¥ 51,743.1
Manufacturing	10,140.0	1,100.0	199.6	11,439.6
Construction	901.4	213.6	39.9	1,154.9
Real estate	9,366.6	972.2	104.8	10,443.6
Services	2,713.3	425.7	84.8	3,223.8
Wholesale and retail	7,434.2	788.8	237.4	8,460.4
Banks and other financial institutions	3,065.6	433.2	7.8	3,506.6
Communication and information services	1,137.2	113.6	33.2	1,284.0
Other industries	10,185.3	152.0	48.0	10,385.3
Consumer	1,666.3	125.2	53.4	1,844.9
Foreign-excluding UNBC	18,779.1	1,099.5	65.7	19,944.3
Loans acquired with deteriorated credit quality	32.7	54.9	21.0	108.6
Total	¥ 65,421.7	¥ 5,478.7	¥ 895.6	¥ 71,796.0

	Accrual	Nonaccrual (in billions)	Total <sup>(1)</sup>
<b>Residential</b>	¥ 15,461.2	¥ 125.7	¥ 15,586.9
<b>Card</b>	¥ 642.6	¥ 115.3	¥ 757.9

	Risk Ratings Based on the Number of Delinquencies		Risk Ratings Based on Internal Credit Ratings		Total <sup>(1)(2)</sup>
	Accrual	Nonaccrual	Pass (in billions)	Criticized	
<b>UNBC</b>	¥ 1,784.4	¥ 24.0	¥ 2,084.0	¥ 149.3	¥ 4,041.7

Notes:

(1) Total loans in the above table do not include loans held for sale.

(2) Total loans of UNBC do not include FDIC covered loans and small business loans which are not individually rated totaling ¥160.2 billion.

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

## **Table of Contents**

The primary credit quality indicator for loans within all classes of the Commercial segment is the internal credit rating assigned to each borrower based on our internal borrower ratings of 1 through 15 with the rating of 1 assigned to a borrower with the highest quality of credit. When assigning a credit rating to a borrower, we evaluate the borrower's expected debt-service capability based on various information, including financial and operating information of the borrower as well as information on the industry in which the borrower operates, and the borrower's business profile, management and compliance system. In evaluating a borrower's debt-service capability, we also conduct assessment on the level of earnings and an analysis of the borrower's net worth. Based on the internal borrower rating, loans within the Commercial segment are categorized as Normal (internal borrower ratings of 1 through 9), Close Watch (internal borrower ratings of 10 through 12), and Likely to become Bankrupt or Legally/Virtually Bankrupt (internal borrower ratings of 13 through 15). Loans to borrowers categorized as Normal represent those that are not deemed to have collectability issues. Loans to borrowers categorized as Close Watch represent those that require close monitoring as the borrower has begun to exhibit elements of potential concern with respect to its business performance and financial condition, the borrower has begun to exhibit elements of serious concern with respect to its business performance and financial condition, including business problems requiring long-term solutions, or the borrower's loans have been deemed restructured loans or loans contractually past due 90 days or more for special reasons. Loans to borrowers categorized as Likely to Become Bankrupt or Legally/Virtually Bankrupt represent those that have a higher probability of default than those categorized as Close Watch due to serious debt repayment problems with poor progress in achieving restructuring plans, the borrower being considered virtually bankrupt with no prospects for an improvement in business operations, or the borrower being legally bankrupt with no prospects for continued business operations because of non-payment, suspension of business, voluntary liquidation or filing for legal liquidation.

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

The accrual status is a primary credit quality indicator for loans within the Residential segment, the Card segment, and consumer loans within the UNBC segment. The accrual status of these loans is determined by the number of delinquent payments.

Commercial loans within the UNBC segment are categorized as either Pass or Criticized based on the internal credit rating assigned to each borrower. Criticized loans include those loans that are potentially weak, as the borrower has begun to exhibit deteriorating trends, well-defined weaknesses, which, if not corrected, could jeopardize the full satisfaction of the debt, and critical weaknesses that make full collection improbable on the basis of currently existing facts and conditions.

For the Commercial, Residential and Card segments, credit quality indicators are based on March 31 information. For the UNBC segment, credit quality indicators are basically based on December 31 information.

**Table of Contents***Past due analysis*

Age analysis of past due loans by class at March 31, 2011 and 2012 are shown below:

At March 31, 2011:	1-3 months Past Due	Greater Than 3 months	Total Past Due	Current	Total Loans <sup>(1)(2)</sup>	Recorded Investment> 90 Days and Accruing
(in billions)						
<b>Commercial</b>						
Domestic	¥ 55.1	¥ 98.3	¥ 153.4	¥ 50,244.5	¥ 50,397.9	¥ 8.6
Manufacturing	10.4	9.5	19.9	11,215.5	11,235.4	0.0
Construction	6.3	4.5	10.8	1,269.1	1,279.9	0.0
Real estate	6.4	37.7	44.1	10,901.3	10,945.4	3.2
Services	6.5	10.3	16.8	3,382.1	3,398.9	0.5
Wholesale and retail	11.8	11.9	23.7	8,388.9	8,412.6	0.1
Banks and other financial institutions	0.0	6.2	6.2	3,410.3	3,416.5	0.0
Communication and information services	5.8	5.1	10.9	1,237.1	1,248.0	0.0
Other industries	1.5	4.5	6.0	8,396.9	8,402.9	0.0
Consumer	6.4	8.6	15.0	2,043.3	2,058.3	4.8
Foreign-excluding UNBC	1.1	74.1	75.2	15,962.7	16,037.9	
<b>Residential</b>	93.2	55.5	148.7	15,978.9	16,127.6	46.3
<b>Card</b>	34.1	79.1	113.2	742.3	855.5	
<b>UNBC</b>	24.6	27.9	52.5	3,786.9	3,839.4	0.2
<b>Total</b>	¥ 208.1	¥ 334.9	¥ 543.0	¥ 86,715.3	¥ 87,258.3	¥ 55.1

## Notes:

- (1) Total loans in the above table do not include loans held for sale and loans acquired with deteriorated credit quality.  
(2) Total loans of UNBC do not include ¥9.5 billion of FDIC covered loans which are not subject to the guidance on loans and debt securities acquired with deteriorated credit quality.

At March 31, 2012:	1-3 months Past Due	Greater Than 3 months	Total Past Due	Current	Total Loans <sup>(1)(2)</sup>	Recorded Investment> 90 Days and Accruing
(in billions)						
<b>Commercial</b>						
Domestic	¥ 36.5	¥ 68.4	¥ 104.9	¥ 51,638.2	¥ 51,743.1	¥ 8.1
Manufacturing	3.9	7.8	11.7	11,427.9	11,439.6	0.0
Construction	1.9	2.4	4.3	1,150.6	1,154.9	0.1
Real estate	6.6	16.4	23.0	10,420.6	10,443.6	2.7
Services	3.7	4.7	8.4	3,215.4	3,223.8	0.2
Wholesale and retail	10.2	10.3	20.5	8,439.9	8,460.4	0.1
Banks and other financial institutions	0.0	0.2	0.2	3,506.4	3,506.6	
Communication and information services	4.7	5.9	10.6	1,273.4	1,284.0	0.0
Other industries	0.2	9.6	9.8	10,375.5	10,385.3	0.0
Consumer	5.3	11.1	16.4	1,828.5	1,844.9	5.0
Foreign-excluding UNBC	2.5	26.6	29.1	19,915.2	19,944.3	

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<b>Residential</b>	91.6	57.9	149.5	15,417.9	15,567.4	56.5
<b>Card</b>	29.7	46.7	76.4	667.0	743.4	
<b>UNBC</b>	29.7	23.0	52.7	4,075.4	4,128.1	0.1
<b>Total</b>	¥ 190.0	¥ 222.6	¥ 412.6	¥ 91,713.7	¥ 92,126.3	¥ 64.7

Notes:

- (1) Total loans in the above table do not include loans held for sale and loans acquired with deteriorated credit quality.
- (2) Total loans of UNBC do not include ¥3.7 billion of FDIC covered loans which are not subject to the guidance on loans and debt securities acquired with deteriorated credit quality.



## **Table of Contents**

Total past due loans at March 31, 2012 were ¥412.6 billion, a decrease of ¥130.4 billion from ¥543.0 billion at March 31, 2011. This decrease was primarily due to a decrease in the total past due loans in the foreign-excluding UNBC category in the Commercial segment resulting from the improvement of the status of previously past due loans to a large borrower in the governments and official institutions category. In addition, total past due domestic loans in the Commercial segment decreased mainly due to a decrease in the real estate category.

## ***Investment Portfolio***

Our investment securities are primarily comprised of Japanese national government and Japanese government agency bonds, corporate bonds and marketable equity securities. Japanese national government and Japanese government agency bonds are mostly classified as securities available for sale. In recent periods, our investments in Japanese national government and Japanese government agency bonds increased as part of our asset and liability management policy with respect to investing the amount of yen-denominated funds exceeding our net loans. As a result, our holdings of Japanese national government and Japanese government agency bonds as a percentage of our total assets increased to 23.0% at March 31, 2012 compared to 22.6% at March 31, 2011. We also hold Japanese national government bonds which are classified as securities being held to maturity.

Historically, we have held equity securities of some of our customers primarily for strategic purposes, in particular, to maintain long-term relationships with these customers. However, given the recent weak financial market conditions, we have been reducing our investment in 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, 2011 and March 31, 2012, the aggregate value of our marketable equity securities under Japanese GAAP satisfied the requirements of the legislation prohibiting banks from holding equity securities in excess of their Tier I capital.

Investment securities increased ¥1.99 trillion to ¥61.04 trillion at March 31, 2012 from ¥59.05 trillion at March 31, 2011, primarily due to an increase of ¥4.16 trillion in Japanese national government and Japanese government agency bonds available for sale, partially offset by a ¥0.61 trillion decrease in corporate bonds and a ¥0.22 trillion decrease in marketable equity securities reflecting the general decline in Japanese stock prices and weak market fundamentals.

Investment securities other than securities available for sale or being held to maturity (i.e., nonmarketable equity securities set forth on our consolidated balance sheet as other investment securities) were primarily carried at cost of ¥0.91 trillion at March 31, 2012 and ¥1.70 trillion at March 31, 2011, respectively, because their fair values were not readily determinable. The decrease reflected the conversion of Morgan Stanley's preferred stock into Morgan Stanley's common stock. Following the conversion of our Morgan Stanley's preferred stock into Morgan Stanley's common stock, our investment in the convertible preferred stock, which was previously included in Other investment securities, was reclassified as an investment in equity method investees in Other assets. Our total investment in shares of Morgan Stanley's common stock was ¥497.4 billion as of March 31, 2012. For further information, see Notes 2 and 14 to our consolidated financial statements included elsewhere in this Annual Report.

**Table of Contents**

The following table shows information as to the amortized costs, net unrealized gains (losses), and estimated fair values of our investment securities available for sale and being held to maturity at March 31, 2011 and 2012:

	At March 31,					
	2011	2011	Net	At March 31,	2012	Net
	Amortized	Estimated	unrealized	Amortized	Estimated	unrealized
	cost	fair value	gains (losses)	cost	fair value	gains (losses)
	(in billions)					
Securities available for sale:						
Debt securities:						
Japanese national government and Japanese government agency bonds	¥ 44,756.8	¥ 44,719.6	¥ (37.2)	¥ 48,736.2	¥ 48,882.6	¥ 146.4
Japanese prefectural and municipal bonds	193.7	200.3	6.6	173.0	180.8	7.8
Foreign governments and official institutions bonds	973.2	988.8	15.6	953.4	971.2	17.8
Corporate bonds	3,058.7	3,139.5	80.8	2,460.3	2,526.6	66.3
Mortgage-backed securities	1,171.7	1,168.9	(2.8)	1,226.4	1,236.9	10.5
Asset-backed securities <sup>(1)</sup>	452.3	452.4	0.1	503.0	502.5	(0.5)
Other debt securities	1.0	1.0		1.0	1.0	
Marketable equity securities	2,642.3	3,659.4	1,017.1	2,315.4	3,438.8	1,123.4
<b>Total securities available for sale</b>	<b>¥ 53,249.7</b>	<b>¥ 54,329.9</b>	<b>¥ 1,080.2</b>	<b>¥ 56,368.7</b>	<b>¥ 57,740.4</b>	<b>¥ 1,371.7</b>
Debt securities being held to maturity <sup>(2)</sup>	¥ 3,017.2	¥ 3,059.0	¥ 41.8	¥ 2,385.4	¥ 2,430.7	¥ 45.3

## Notes:

- (1) AAA and AA-rated products account for approximately three fifths of our asset-backed securities.  
(2) See Note 3 to our consolidated financial statements included elsewhere in this Annual Report for more details.

Net unrealized gains on securities available for sale increased ¥291.5 billion to ¥1,371.7 billion at March 31, 2012 from ¥1,080.2 billion at March 31, 2011. This increase primarily consisted of a ¥183.6 billion increase in net unrealized gains on Japanese national government and Japanese government agency bonds as interest rates declined during the period, and a ¥106.3 billion increase in net unrealized gains on marketable equity securities due to a decrease in unrealized losses after recording increased impairment losses on our holdings of marketable equity securities.

**Table of Contents**

The amortized cost of securities being held to maturity decreased ¥631.8 billion compared to the previous fiscal year mainly due to a ¥436.3 billion decrease in Japanese national government and Japanese government agency bonds and a ¥266.5 billion decrease in foreign governments and official institutions bonds as a result of the redemption of multiple long-term bonds at maturity, partially offset by an increase in asset backed securities being held to maturity.

	At March 31, 2011      2012 (in billions)	
Other investment securities:		
Nonmarketable equity securities		
Unlisted preferred securities <sup>(1)</sup>	¥ 1,489	¥ 672
Others <sup>(2)</sup>	178	205
Investment securities held by investment companies and brokers and dealers <sup>(3)</sup>	37	33
 Total	 ¥ 1,704	 ¥ 910

## Notes:

- (1) These securities were mainly issued by public companies, including preferred stocks issued by Morgan Stanley, a preferred security issued by BTMU Preferred Capital 9 limited that is our non-consolidated funding vehicle, and other unlisted preferred securities issued by several Japanese public companies. Those securities were carried at cost.
- (2) These securities were equity securities issued by unlisted companies other than unlisted preferred securities. Those securities were carried at cost.
- (3) These investment securities were held by certain subsidiaries subject to specialized industry accounting principles for investment companies and brokers and dealers, and were measured at fair value.

Other investment securities are comprised of nonmarketable equity securities, including unlisted preferred securities, and investment securities held by investment companies and brokers and dealers.

Other investment securities decreased ¥794 billion to ¥910 billion mainly as a result of the conversion of convertible preferred stock of Morgan Stanley that we previously held into Morgan Stanley's common stock. The convertible preferred stock was included in unlisted preferred securities and carried at cost of ¥808 billion as of March 31, 2011. Following the conversion on June 30, 2011, our investment in Morgan Stanley's common stock was reclassified as an investment in equity method investees included in Other assets.

Nonmarketable equity securities other than unlisted preferred securities consist primarily of equity securities issued by small and medium-sized unlisted companies in Japan.

Investment securities held by certain subsidiaries subject to specialized industry accounting principles for investment companies and brokers and dealers and carried at fair value were ¥37 billion and ¥33 billion at March 31, 2011 and 2012, respectively.

***Cash and Due from Banks***

Cash and due from banks fluctuate significantly from day to day depending upon financial market conditions. Cash and due from banks at March 31, 2012 was ¥3.23 trillion, remained unchanged from March 31, 2011.

***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, 2012 were ¥5.90 trillion, a decrease of ¥1.43 trillion from ¥7.33 trillion at March 31, 2011. However the average interest-earning deposits in other banks held by domestic and overseas offices during the fiscal year ended March 31, 2012 increased ¥1.0 trillion and ¥0.8 trillion, respectively, compared to the previous fiscal year.

## **Table of Contents**

### ***Trading Account Assets***

Trading account assets increased ¥6.13 trillion to ¥34.95 trillion at March 31, 2012 from ¥28.82 trillion at March 31, 2011. This increase consisted of an increase of ¥4.60 trillion in trading securities and an increase of ¥1.53 trillion in trading derivative assets. The increase in trading securities was mainly due to an increase in foreign bonds reflecting the lower interest rate environment. The increase in trading derivative assets was mainly due to an increase in the value of interest rate swap contracts, partially offset by a decrease in value of foreign currency swap and equity derivative contracts.

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

Deferred tax assets decreased ¥0.34 trillion to ¥0.95 trillion at March 31, 2012 from ¥1.29 trillion at March 31, 2011. This decrease primarily reflected an increase in net unrealized gains on investment securities due to a recovery in the fair market value of these securities. In addition, the realization of deferred tax assets for allowance for credit losses and the effect of changes in tax laws also contributed to the decrease in deferred tax assets.

On November 30, 2011, the Japanese Diet enacted two tax related laws: Amendment to the 2011 Tax Reform and Special Measures to Secure the Financial Resources to Implement the Restoration from The Great East Japan Earthquake. The changes under the new laws include a limitation on the use of net operating loss carryforwards to 80% of taxable income, a two-year increase in the carryforward period of certain net operating loss carryforwards to a nine-year period, and an approximately 5% reduction in the effective statutory rate of corporate income tax from 40.6% to 35.6%. While the reduction in the effective statutory rate was effective for the fiscal year beginning on or after April 1, 2012, a temporary surtax levied on corporate income taxes to fund the earthquake recovery efforts caused the effective statutory rate of corporate income tax to be approximately 38.0% for the three year period between April 1, 2012 and March 31, 2015.

### ***Accounts Receivable***

Accounts receivable, which is included in Other assets, increased ¥1.22 trillion to ¥2.86 trillion at March 31, 2012 from ¥1.64 trillion at March 31, 2011, reflecting an increase in sales of securities at the end of the period, and the resulting increase in receivables associated with those transactions.

### ***Investment in Equity Method Investees***

Investment in equity method investees, which is included in Other assets, increased ¥0.36 trillion to ¥1.13 trillion at March 31, 2012 from ¥0.77 trillion at March 31, 2011. This increase was primarily attributable to the application of the equity method accounting to our investment in Morgan Stanley's common stock upon conversion of the convertible preferred stock of Morgan Stanley, that we previously held, in June 2011.

For more information, see B. Liquidity and Capital Resources Financial Condition Investment Portfolio and Note 14 to our consolidated financial statements included elsewhere in this Annual Report.

***Total Liabilities***

At March 31, 2012, total liabilities were ¥206.34 trillion, an increase of ¥12.15 trillion from ¥194.19 trillion at March 31, 2011. The total balance of deposits was ¥139.49 trillion at March 31, 2012, an increase of ¥2.86 trillion from ¥136.63 trillion at March 31, 2011. Payables under securities lending transactions were ¥4.98 trillion at March 31, 2012, an increase of ¥2.87 trillion from March 31, 2011. Trading account liabilities were ¥11.97 trillion at March 31, 2012, an increase of ¥2.06 trillion from March 31, 2011. The increases were partially offset by a decrease in long-term debt of ¥0.77 trillion.

The appreciation of the Japanese yen against the US dollar and other foreign currencies between March 31, 2011 and March 31, 2012 resulted in a decrease in the Japanese yen amount of foreign currency-denominated liabilities at March 31, 2012 by ¥1.46 trillion.

## **Table of Contents**

### ***Deposits***

Deposits are our primary source of funds. The total average balance of deposits increased ¥0.83 trillion to ¥133.92 trillion for the fiscal year ended March 31, 2012 from ¥133.09 trillion for the fiscal year ended March 31, 2011.

The balance of domestic deposits decreased ¥0.95 trillion to ¥114.59 trillion at March 31, 2012 from ¥115.54 trillion at March 31, 2011, and the balance of foreign deposits increased ¥3.81 trillion from ¥21.09 trillion at March 31, 2011 to ¥24.90 trillion at March 31, 2012. Within domestic deposits, the balance of interest-bearing deposits increased, partially in response to depositors' preference to seek the safety of deposits at large financial institutions, while the balance of non-interest bearing deposits decreased as a result of a decrease in corporate sector deposits, reflecting a gradual recovery from the Great East Japan Earthquake in March 2011, which caused corporations to build up liquidity for contingency circumstances. The increase in foreign deposits was mainly due to an increase in deposits in our overseas offices, especially in the United States and Europe, reflecting the relative increase in credibility in Japanese banks that were perceived to be less affected by the European debt crisis.

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

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

Short-term borrowings increased ¥6.93 trillion to ¥32.86 trillion at March 31, 2012 from ¥25.93 trillion at March 31, 2011. This increase was primarily attributable to an increase of ¥4.06 trillion in payables under repurchase agreements and securities lending transactions as a result of increases in repurchase and reverse repurchase transactions as our holdings of Japanese government bonds increased.

### ***Trading Account Liabilities***

Trading account liabilities increased ¥2.06 trillion from ¥9.91 trillion at March 31, 2011 to ¥11.97 trillion at March 31, 2012. This increase was supported by multiple factors, such as an increase in interest rate and foreign currency swap transactions, resulting from weakened credits and currencies in European markets as well as increased volatility in interest rate spreads, and an increase in foreign exchange trading volumes.

### ***Long-term Debt***

Long-term debt at March 31, 2012 was ¥12.59 trillion, a decrease of ¥0.77 trillion from ¥13.36 trillion at March 31, 2011. This decrease was mainly due to a decrease in obligations under loan securitization transactions. For further information, see Note 12 to our consolidated financial statements included elsewhere in this Annual Report.

***Benefit Obligations***

As of March 31, 2011 and 2012, we had benefit obligations of ¥1,928.3 billion and ¥2,023.3 billion, respectively, and the fair value of our plan assets was ¥2,004.1 billion and ¥1,946.9 billion, respectively. The fair value of our plan assets has fluctuated significantly depending on the general market conditions in recent fiscal years. If the fair value of our pension plan assets declines or our investment return on our pension plan assets decreases, or if a change is made in the actuarial assumptions on which the calculations of the projected pension obligations are based, we may incur losses. Changes in the interest rate environment could also result in an



## **Table of Contents**

increase in our pension obligations and annual funding costs. In addition, unrecognized prior service costs may be incurred if our pension plans are amended. For more information, see Note 13 to our consolidated financial statements included elsewhere in this Annual Report.

### *Other Liabilities*

Other liabilities increased ¥0.71 trillion to ¥5.55 trillion at March 31, 2012 from ¥4.84 trillion at March 31, 2011. This increase was primarily due to an increase in accounts payable reflecting the purchases of investment securities at the end of the period.

### *Sources of Funding and Liquidity*

Our primary source of liquidity is from a large balance of deposits, mainly ordinary deposits, certificates of deposit and time deposits. Time deposits have historically shown a high rollover rate among our corporate customers and individual depositors. Due to our broad customer base in Japan and the depositors' recent preference to seek the safety of deposits at large financial institutions, the balance of our deposits increased from ¥136.63 trillion at March 31, 2011 to ¥139.49 trillion at March 31, 2012. As of March 31, 2012, our deposits exceeded our loans, net of allowance for credit losses of ¥91.01 trillion, by ¥48.48 trillion. These deposits provide us with a sizable source of stable and low-cost funds. Our average deposits, combined with average total equity of ¥8.59 trillion, funded 67.3% of our average total assets of ¥211.84 trillion during the fiscal year ended March 31, 2012.

The remaining funding was primarily provided by short-term borrowings and long-term senior and subordinated debt. Short-term borrowings consist of call money and funds purchased, payables under repurchase agreements, payables under securities lending transactions, due to trust account, and other short-term borrowings. From time to time, we have issued long-term instruments such as straight bonds with maturities between three to five years. The balance of our short-term borrowings as of March 31, 2012 was ¥32.86 trillion, and the average balance of our short-term borrowings for the fiscal year ended March 31, 2012 was ¥35.23 trillion. The balance of our long-term debt as of March 31, 2012 was ¥12.59 trillion, and the average balance of our long-term debt for the fiscal year ended March 31, 2012 was ¥12.56 trillion. Liquidity may also be provided by the sale of financial assets, including securities available-for-sale, trading account securities and loans. Additional liquidity may be provided by the maturity of loans.

We manage liquidity separately at certain of our foreign and domestic non-bank and bank subsidiaries because they are subject to separate regulatory requirements, pursue different business models and have distinctive liquidity risk profiles. We manage our group-wide liquidity on a consolidated basis based on the tests and analyses conducted at the subsidiary level. Liquidity risk management measures at the subsidiary level include the following:

*Domestic Bank Subsidiaries* Our major domestic bank subsidiaries, BTMU and MUTB, set liquidity and funding limits designed to maintain their respective requirements for funding from market sources below pre-determined levels for certain periods (e.g., one-day, two-week and one-month). The major domestic bank subsidiaries also monitor the balance of buffer assets they respectively hold, including Japanese government bonds and US Treasury bonds, which can be used for cash funding even in periods of stress. In addition, the major domestic bank subsidiaries regularly perform liquidity stress testing designed to evaluate the impact of systemic market stress conditions and institution-specific stress events, including credit rating downgrades, on their liquidity positions;

*Foreign Bank Subsidiaries* Our major foreign bank subsidiary, UNBC, monitors various liquidity metrics, including total available liquidity, the net non-core funding dependence ratio, and minimum liquidity assets, as a tool to maintain a sufficient amount of

liquidity and diversity of funding sources to allow UNBC to meet expected obligations in both stable and adverse conditions. In addition, UNBC

## Table of Contents

regularly conducts stress testing, which incorporates both bank-specific and systemic market scenarios that would adversely affect its liquidity position, to facilitate the identification of appropriate remedial measures to help ensure that it maintains adequate liquidity in adverse conditions;

*Securities Subsidiaries* Our securities subsidiaries implement liquidity and funding limits designed to maintain their requirements for funding from market sources below pre-determined levels for specified periods. In addition, the securities subsidiaries regularly conduct analyses designed to assess the period for which they can continue to meet their respective liquidity requirements by selling or pledging assets they respectively hold under scenarios where they are unable to access any additional sources of financing in the market; and

*Non-Bank Subsidiaries* Our non-bank subsidiaries, including Mitsubishi UFJ NICOS, regularly conduct cash flow analyses designed to assess their ability to generate sufficient liquidity for specified periods, considering the cash and cash equivalents as well as deposits they respectively hold, and their respective operating income and expenses under scenarios where they are no longer able to obtain funding from markets through issuance of commercial paper, bonds or other instruments. The non-bank subsidiaries also conduct analyses to ensure sufficient liquidity and funding available from our bank subsidiaries and other financial institutions outside of our group of companies.

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

We manage our funding sources using buffer assets, primarily Japanese government bonds, for cash funding. As of March 31, 2012, we held ¥48.88 trillion of Japanese national government and Japanese government agency bonds as available for sale. Our major domestic bank subsidiaries use liquidity-supplying assets, primarily commitment lines for minor currencies funding. In addition, the major bank subsidiaries use a liquidity gap, or the excess of cash inflows over cash outflows, for cash funding.

Following the downgrade by Moody's of the credit ratings of BTMU, MUTB and MUSHD in August 2011, a small number of Credit Support Annexes, or CSAs, were modified to require, and some of the new CSAs required, additional collateral at lower thresholds. The downgrades by Fitch on July 20, 2012 may result in additional modifications in the future. However, the downgrade of the credit ratings of BTMU and MUTB by Moody's in August 2011 did not trigger the requirement for additional collateral. MUSHD had some contracts which had collateral requirements affected by the Moody's downgrade, but as their derivative values were positive against the counterparties, no additional collateral was required in August 2011. We currently do not expect the downgrade by Fitch on July 20, 2012 to trigger a material amount of additional collateral obligations under our derivative contracts. Following the Moody's downgrade in August 2011, none of BTMU, MUTB and MUSHD recognized material changes in their yen-denominated or US dollar-denominated cost of funding. However, a further credit rating downgrade could result in higher funding costs and also trigger additional collateral obligations. For further information, see Item 3.D. Key Information Risk Factors Risks Related to Our Business A further downgrade of our credit ratings could trigger additional collateral obligations under our derivative contracts and increase our funding costs.

**Table of Contents****Total Equity**

The following table presents a summary of our total equity at March 31, 2011 and 2012:

	At March 31,	
	2011	2012
	(in billions, except percentages)	
Preferred stock	¥ 442.1	¥ 442.1
Common stock	1,644.1	1,645.1
Capital surplus	6,395.7	6,378.6
Retained earnings appropriated for legal reserve	239.6	239.6
Unappropriated retained earnings	254.1	482.5
Accumulated other changes in equity from nonowner sources, net of taxes	(628.7)	(596.4)
Treasury stock, at cost	(11.2)	(8.3)
Total Mitsubishi UFJ Financial Group shareholders' equity	¥ 8,335.7	¥ 8,583.2
Noncontrolling interests	327.2	275.2
Total equity	¥ 8,662.9	¥ 8,858.4
Ratio of total equity to total assets	4.27%	4.12%

Total equity increased ¥195.5 billion to ¥8,858.4 billion at March 31, 2012 from ¥8,662.9 billion at March 31, 2011. The ratio of total equity to total assets showed a decrease of 0.15 percentage points to 4.12% at March 31, 2012 from 4.27% at March 31, 2011. The decrease in the ratio of total equity to total assets at March 31, 2012 was principally attributable to an increase in total assets of ¥12.35 trillion, which more than offset the impact of an increase in total equity of ¥195.5 billion.

Due to our holdings of a large amount of marketable Japanese equity securities and the volatility of the equity markets in Japan, changes in the fair value of marketable equity securities have significantly affected our total equity in recent years. The following table presents information relating to the accumulated net unrealized gains, net of taxes, in respect of investment securities classified as available for sale at March 31, 2011 and 2012:

	At March 31,	
	2011	2012
	(in billions, except percentages)	
Accumulated net unrealized gains on investment securities	¥ 308.1	¥ 482.4
Accumulated net unrealized gains to total equity	3.56%	5.45%

**Capital Adequacy**

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

the suspension of some or all of our operations.

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

**Table of Contents*****Capital Requirements for Banking Institutions in Japan***

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

The eligible regulatory capital set forth in the FSA's guidelines discussed above was modified as of March 31, 2007 to reflect the International Convergence of Capital Measurement and Capital Standards: A Revised Framework, often referred to as Basel II. In response to the recent financial crisis, the Group of Central Bank Governors and Heads of Supervision has made a series of announcements regarding the new global regulatory framework, which has been referred to as Basel III, to strengthen the regulation, supervision and risk management of the banking sector. Various Basel III measures are expected to be introduced in phases starting in calendar 2013, including those designed to raise the level of minimum capital requirements and to establish an internationally harmonized leverage ratio and a global minimum liquidity standard. In addition, in July 2011, the Basel Committee on Banking Supervision proposed additional loss absorbency requirements to supplement the common equity Tier I capital requirement ranging from 1% to 2.5% for global systemically important banks, depending on the bank's systemic importance, to be introduced in phases starting in calendar 2016. In November 2011, the Financial Stability Board tentatively identified us as a G-SIFI. Based on the Basel III framework, the Japanese capital ratio framework, which is currently based on Basel II, has been revised to implement the more stringent requirements, which will be effective as of March 31, 2013. Likewise, local banking regulators outside of Japan such as those in the United States are expected to revise the capital and liquidity requirements imposed on our subsidiaries and operations in those countries to implement the more stringent requirements of Basel III as adopted in those countries. We intend to carefully monitor further developments with an aim to enhance our corporate value and maximize shareholder value by integrating the various strengths within the MUFG Group.

As of March 31, 2011 and 2012, we have calculated our risk-weighted assets in accordance with the FSA guidelines reflecting Basel II. In determining capital ratios under the FSA guidelines reflecting Basel II, we and our banking subsidiaries used the Advanced Internal Ratings-Based approach, or the AIRB approach, to calculate capital requirements for credit risk as of March 31, 2011 and 2012. The Standardized Approach is used for some subsidiaries that are considered to be immaterial to the overall MUFG capital requirements, and UNBC has adopted a phased rollout of the internal ratings-based approach. Market risk is reflected in the risk-weighted assets by applying the Internal Models Approach to calculate general market risk and the Standardized Methodology to calculate specific risk. Under the Internal Models Approach, we principally use a historical simulation model to calculate value-at-risk, or VaR, amounts by estimating the profit and loss on our portfolio by applying actual fluctuations in historical market rates and prices over a fixed period. Under the FSA guidelines reflecting Basel II, we reflect operational risk in the risk-weighted assets by applying the Standardized Approach.

**Table of Contents**

as of March 31, 2011 and the Advanced Measurement Approach as of March 31, 2012. For more information, see Item 11. Quantitative and Qualitative Disclosures about Credit, Market and Other Risk Operational Risk Management.

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

For additional discussion of the calculation of our capital ratios, see Note 19 to our consolidated financial statements included elsewhere in this Annual Report.

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

**Mitsubishi UFJ Financial Group Ratios**

The table below presents our consolidated total capital components, risk-weighted assets and risk-adjusted capital ratios at March 31, 2011 and 2012. Underlying figures are calculated in accordance with Japanese banking regulations based on information derived from our consolidated financial statements prepared in accordance with Japanese GAAP, as required by the FSA. The percentages in the table below are rounded down. For further information, see Note 19 to our consolidated financial statements included elsewhere in this Annual Report.

	At March 31,		Minimum capital ratios required
	2011 (in billions, except percentages)	2012	
Capital components:			
Tier I capital	¥ 9,953.3	¥ 10,522.3	
Tier II capital includable as qualifying capital	3,920.5	4,038.7	
Tier III capital includable as qualifying capital			
Deductions from total qualifying capital	(793.0)	(1,818.5)	
Total risk-based capital	¥ 13,080.8	¥ 12,742.5	
Risk-weighted assets	¥ 87,804.9	¥ 85,456.6	
Capital ratios:			
Tier I capital	11.33%	12.31%	4.00%
Total risk-adjusted capital	14.89	14.91	8.00

Our Tier I capital ratio and total risk-adjusted capital ratio at March 31, 2012 were 12.31% and 14.91%, respectively. The increase in total risk-adjusted capital ratio was mainly due to a decrease in risk weighted assets during the fiscal year ended March 31, 2011 as the amount of our net loans and the value of marketable equity securities decreased. At March 31, 2011, management believed that we were in compliance with all capital adequacy requirements to which we were subject.





**Table of Contents****Capital Ratios of Our Major Banking Subsidiaries in Japan**

The table below presents the risk-adjusted capital ratios of BTMU and MUTB at March 31, 2011 and 2012. Underlying figures are calculated in accordance with Japanese banking regulations based on information derived from their consolidated and non-consolidated financial statements prepared in accordance with Japanese GAAP, as required by the FSA. The percentages in the table below are rounded down. For further information, see Note 19 to our consolidated financial statements included elsewhere in this Annual Report.

	At March 31,		Minimum capital
	2011	2012	ratios required
<b>Consolidated capital ratios:</b>			
<b>BTMU</b>			
Tier I capital	11.42%	11.76%	4.00%
Total risk-adjusted capital	15.82	16.27	8.00
<b>MUTB</b>			
Tier I capital	13.02	12.38	4.00
Total risk-adjusted capital	15.93	15.74	8.00
<b>Stand-alone capital ratios:</b>			
<b>BTMU</b>			
Tier I capital	12.09	12.60	4.00
Total risk-adjusted capital	16.61	17.41	8.00
<b>MUTB</b>			
Tier I capital	12.64	11.71	4.00
Total risk-adjusted capital	16.01	15.76	8.00

At March 31, 2012, management believes that our banking subsidiaries were in compliance with all capital adequacy requirements to which they were subject.

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

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

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

For a detailed discussion of the capital adequacy guidelines applicable to us in the United States, see Item 4.B. Information on the Company Business Overview Supervision and Regulation United States Bank capital requirements and capital distributions.



**Table of Contents****Capital Ratios of Banking Subsidiaries in the United States**

The table below presents the risk-adjusted capital ratios of UNBC and Union Bank, both subsidiaries of BTMU, at December 31, 2010 and 2011:

	At December 31,		Minimum capital ratios required	Ratios OCC requires to be well capitalized
	2010	2011		
<b>UNBC:</b>				
Tier I capital (to risk-weighted assets)	12.44%	13.82%	4.00%	
Tier I capital (to quarterly average assets) <sup>(1)</sup>	10.34	11.44	4.00	
Total capital (to risk-weighted assets)	15.01	15.98	8.00	
<b>Union Bank:</b>				
Tier I capital (to risk-weighted assets)	11.53%	12.39%	4.00%	6.00%
Tier I capital (to quarterly average assets) <sup>(1)</sup>	9.55	10.25	4.00	5.00
Total capital (to risk-weighted assets)	13.85	14.43	8.00	10.00

Note:

(1) Excludes certain intangible assets.

Management believes that, at December 31, 2011, UNBC and Union Bank met all capital adequacy requirements to which they were subject.

At December 31, 2010 and 2011, the Office of the Comptroller of the Currency, or OCC, categorized Union Bank as well-capitalized. To be categorized as well-capitalized, Union Bank must maintain minimum ratios of Total and Tier I capital to risk-weighted assets and of Tier I capital to quarterly average assets (the Leverage ratio) as set forth in the table. There are no conditions or events since December 31, 2011 that would cause management to believe Union Bank's category has changed.

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

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

**Capital Adequacy Ratio of MUMSS**

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At March 31, 2011 and 2012, MUMSS capital accounts less certain fixed assets of ¥250.4 billion and ¥387.7 billion represented 219.3% and 328.6% of the total amounts equivalent to market, counterparty credit and operations risks, respectively, as calculated pursuant to the Financial Instruments and Exchange Law of Japan. For further information, see Note 19 to our consolidated financial statements included elsewhere in this Annual Report.

In April and November 2011, we injected additional capital into MUMSS to strengthen its capital base. See Recent Developments.

**Table of Contents****Non-exchange Traded Contracts Accounted for at Fair Value**

The use of non-exchange traded or over-the-counter contracts provides us with the ability to adapt to the varied requirements of a wide customer base while mitigating market risks. Non-exchange traded contracts are accounted for at fair value, which is generally based on pricing models or quoted market prices for instruments with similar characteristics. Gains or losses on non-exchange traded contracts are included in Trading account profits net in our consolidated statements of operations included elsewhere in this Annual Report. The following table summarizes the changes in fair value of non-exchange traded contracts for the fiscal years ended March 31, 2011 and 2012:

	Fiscal years ended March 31,	
	2011	2012
	(in millions)	
Net fair value of contracts outstanding at beginning of fiscal year	¥ 37,138	¥ 23,503
Changes attributable to contracts realized or otherwise settled during the fiscal year	(6,147)	(10,044)
Fair value of new contracts when entered into during the fiscal year	2,346	9,114
Other changes in fair value, principally revaluation at end of fiscal year	(9,834)	(2,797)
Net fair value of contracts outstanding at end of fiscal year	¥ 23,503	¥ 19,776

During the fiscal year ended March 31, 2012, the fair value of non-exchange traded contracts decreased mainly due to contracts being settled during the fiscal year, and a decline in the fair value resulting from fluctuations in foreign exchange rates and/or fluctuations in the value of credit default swaps embedded in collateralized debt obligations.

The following table summarizes the maturities of non-exchange traded contracts at March 31, 2012:

	Net fair value of contracts unrealized gains	
	Prices provided	
	by	Prices based on models and
	other external sources	other valuation methods
	(in millions)	
Maturity less than 1 year	¥ 143	¥ 11,907
Maturity less than 3 years	519	4,453
Maturity less than 5 years		1,890
Maturity 5 years or more		864
Total fair value	¥ 662	¥ 19,114

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

Not applicable.

**D. Trend Information**

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

**Table of Contents****E. Off-Balance Sheet Arrangements**

In the normal course of business, we engage in several types of off-balance sheet arrangements to meet the financing needs of customers, including various types of guarantees, commitments to extend credit and commercial letters of credit. The following table summarizes these commitments at March 31, 2012:

	Amount of commitment by expiration period			
	1 year or less	1-5 years	Over 5 years	Total
	(in billions)			
<b>Guarantees:</b>				
Standby letters of credit and financial guarantees	¥ 1,897	¥ 884	¥ 721	¥ 3,502
Performance guarantees	1,480	521	88	2,089
Derivative instruments	90,816	54,592	10,312	155,720
Liabilities of trust account	4,428	324	498	5,250
Others	96			96
<b>Total guarantees</b>	<b>98,717</b>	<b>56,321</b>	<b>11,619</b>	<b>166,657</b>
<b>Other off-balance sheet instruments:</b>				
Commitments to extend credit	47,961	13,841	952	62,754
Commercial letters of credit	586	96		682
Commitments to make investments	51	48	18	117
Others	16			16
<b>Total other off-balance sheet instruments</b>	<b>48,614</b>	<b>13,985</b>	<b>970</b>	<b>63,569</b>
<b>Total</b>	<b>¥ 147,331</b>	<b>¥ 70,306</b>	<b>¥ 12,589</b>	<b>¥ 230,226</b>

See Note 22 to our consolidated financial statements included elsewhere in this Annual Report for a description of the nature of our guarantees and other off-balance sheet instruments.

The contractual amounts of these guarantees and other off-balance sheet instruments represent the amounts at risk if the contracts were to be fully drawn upon as a result of a subsequent default by our customer and a decline in the value of the underlying collateral. Since many of these commitments expire without being drawn upon, the total contractual or notional amounts of these commitments do not necessarily represent our future cash requirements. At March 31, 2012, approximately 64% of these commitments will expire within one year, 31% from one year to five years and 5% after five years. Such risks are monitored and managed as a part of our risk management system as set forth in Item 11. Quantitative and Qualitative Disclosures about Credit, Market and Other Risk. We evaluate off-balance sheet arrangements in the manner described in Note 1 to our consolidated financial statements included elsewhere in this Annual Report.

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

Some of our off-balance sheet arrangements are related to activities of special purpose entities, most of which are variable interest entities, or VIEs. For further information, see Note 23 to our consolidated financial statements included elsewhere in this Annual Report.





**Table of Contents****F. Tabular Disclosure of Contractual Obligations**

The following table shows a summary of our contractual cash obligations outstanding at March 31, 2012:

	Payments due by period				Total
	Less than 1 year	1-3 years	3-5 years (in billions)	Over 5 years	
Contractual cash obligations:					
Time deposit obligations	¥ 52,896	¥ 9,568	¥ 1,615	¥ 195	¥ 64,274
Long-term debt obligations	1,500	2,850	1,637	6,577	12,564
Capital lease obligations	10	13	3	3	29
Operating lease obligations	76	122	103	362	663
Purchase obligations	57	35	8	18	118
<b>Total<sup>(1)(2)</sup></b>	<b>¥ 54,539</b>	<b>¥ 12,588</b>	<b>¥ 3,366</b>	<b>¥ 7,155</b>	<b>¥ 77,648</b>

## Notes:

- (1) The total amount of expected future pension payments is not included in the above table or the total amount of commitments outstanding at March 31, 2012 as such amount is not currently determinable. We expect to contribute approximately ¥55.7 billion for pension and other benefits for our employees for the fiscal year ending March 31, 2013. For further information, see Note 13 to our consolidated financial statements included elsewhere in this Annual Report.
- (2) The above table does not include unrecognized tax benefits and interest and penalties related to income tax associated with the guidance on accounting for uncertainty in income taxes as we cannot estimate reasonably the timing of cash settlement of the liabilities for unrecognized tax benefit. The total amount of the liabilities for unrecognized tax benefits is ¥58.6 billion at March 31, 2012. Among the liabilities for unrecognized tax benefits, it is reasonably possible that approximately ¥16.6 billion will decrease during the next twelve months. For further information, see Note 7 to our consolidated financial statements included elsewhere in this Annual Report.

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

**G. Safe Harbor**

See the discussion under Forward-Looking Statements.

**Table of Contents****Item 6. Directors, Senior Management and Employees.****A. Directors and Senior Management**

The following table sets forth the members of our board of directors as of July 1, 2012, together with their respective dates of birth, positions and experience:

<b>Name</b>	<b>Position in MUFG</b>	<b>Date of Birth</b>	<b>Business Experience</b>
Takamune Okihara (July 11, 1951)	Chairman	April 1974	Joined Sanwa Bank
		March 2001	Executive Officer of Sanwa Bank
		January 2002	Executive Officer of UFJ Bank
		May 2003	Senior Executive Officer of UFJ Bank
		May 2004	President and CEO of UFJ Bank
		June 2004	Director of UFJ Holdings
		October 2005	Managing Officer of MUFG
		January 2006	Deputy President of BTMU
		April 2008	Deputy Chairman of BTMU (incumbent)
		June 2010	Retired from Managing Officer of MUFG Chairman of MUFG (incumbent)
Kinya Okauchi (September 10, 1951)	Deputy Chairman and Chief Audit Officer	April 1974	Joined Mitsubishi Trust Bank
		June 2001	Director (Non-Board Member Director) of Mitsubishi Trust Bank
		April 2003	Managing Director (Non-Board Member Director) of Mitsubishi Trust Bank
		March 2004	Managing Director of Mitsubishi Trust Bank
		June 2004	Director of MTFG
		June 2005	Senior Managing Director of Mitsubishi Trust Bank
		October 2005	Director of MUFG
		June 2007	Senior Managing Director of MUTB
		June 2008	Managing Officer of MUFG President of MUTB
		April 2010	Director of MUFG Deputy Chairman of MUFG (incumbent)
April 2012	Chairman of MUTB (incumbent)		

**Table of Contents**

Name					
(Date of Birth)	Position in MUFG		Business Experience		
Katsunori Nagayasu (April 6, 1947)	President & CEO	May 1970	Joined Mitsubishi Bank		
		June 1997	Director of Bank of Tokyo-Mitsubishi		
		June 2000	Retired from Director of Bank of Tokyo-Mitsubishi Managing Director of Nippon Trust Bank		
		April 2001	Director of MTFG		
		October 2001	Managing Director of Mitsubishi Trust Bank		
		June 2002	Retired from Managing Director of Mitsubishi Trust Bank		
		April 2004	Managing Director of Bank of Tokyo-Mitsubishi Director and Managing Officer of MTFG		
		June 2004	Managing Officer of MTFG		
		January 2005	Senior Managing Director of Bank of Tokyo-Mitsubishi		
		May 2005	Deputy President of Bank of Tokyo-Mitsubishi		
		October 2005	Managing Officer of MUFG		
		December 2005	Retired from Managing Officer of MUFG		
		January 2006	Deputy President of BTMU		
		June 2006	Deputy President of MUFG		
		April 2008	Director of MUFG President of BTMU		
		April 2010	President & CEO of MUFG (incumbent)		
		April 2012	Chairman of BTMU (incumbent)		
		Masaaki Tanaka (April 1, 1953)	Deputy President	April 1977	Joined Mitsubishi Bank
				June 2004	Non-Board Member Director of Bank of Tokyo-Mitsubishi
				May 2005	Executive Officer of MTFG Retired from Executive Officer of MTFG
January 2006	Executive Officer of BTMU Executive Officer of MUFG				
April 2007	Retired from Executive Officer of MUFG				
May 2007	Managing Executive Officer of BTMU				
June 2010	Director of UnionBanCal Corporation (incumbent) Managing Officer of MUFG				
May 2011	Senior Managing Executive Officer of BTMU				
May 2012	Director of Morgan Stanley (incumbent)				
June 2012	Retired from Managing Officer of MUFG				
	Retired from Senior Managing Executive Officer of BTMU Deputy President of MUFG (incumbent)				

**Table of Contents**

Name			
(Date of Birth)	Position in MUFG	Business Experience	
Taihei Yuki (October 3, 1952)	Senior Managing Director and Chief Financial Officer	April 1977	Joined Mitsubishi Trust Bank
		June 2004	Director (Non-Board Member Director) of Mitsubishi Trust Bank
		October 2005	Executive Officer of MUTB
		June 2006	Managing Executive Officer of MUTB
		June 2007	Managing Director of MUTB
			Director of MUFG
		June 2008	Managing Officer of MUFG
		June 2009	Senior Managing Director of MUTB
		June 2010	Retired from Managing Officer of MUFG
		June 2011	Retired from Senior Managing Director of MUTB
			Director of BTMU (incumbent)
	Senior Managing Director of MUFG (incumbent)		
Ichiro Hamakawa (February 6, 1956)	Senior Managing Director and Chief Planning Officer	April 1978	Joined Sanwa Bank
		May 2005	Executive Officer of UFJ Holdings
		October 2005	Executive Officer of MUFG
		December 2005	Executive Officer of UFJ Bank
		January 2006	Retired from Executive Officer of MUFG
		January 2009	Executive Officer of BTMU
		May 2011	Managing Executive Officer of BTMU
			Retired from Managing Executive Officer of BTMU
		June 2011	Managing Officer of MUFG
			Director of MUTB (incumbent)
		May 2012	Managing Director of MUFG
	Senior Managing Director of MUFG (incumbent)		
Akihiko Kagawa (October 6, 1955)	Managing Director and Chief Compliance and Risk Officer	April 1980	Joined Bank of Tokyo
		June 2006	Executive Officer of BTMU
		May 2010	Executive Officer of MUFG
		May 2012	Retired from Executive Officer of BTMU
		June 2012	Managing Officer of MUFG
			Director of kabu.com Securities Co., Ltd. (incumbent)
	Director of MUSHD (incumbent)		
	Managing Director of MUFG (incumbent)		

**Table of Contents**

Name			
(Date of Birth)	Position in MUFG		Business Experience
Toshiro Toyoizumi (October 26, 1949)	Director	April 1973	Joined Mitsubishi Bank
		June 2001	Non-Board Member Director of Bank of Tokyo-Mitsubishi
		May 2004	Non-Board Member Managing Director of Bank of Tokyo-Mitsubishi
		January 2006	Managing Executive Officer of BTMU
		June 2007	Managing Officer of MUFG
		April 2008	Senior Managing Executive Officer of BTMU
		May 2009	Retired from Managing Officer of MUFG
		June 2009	Deputy President of BTMU
		May 2010	Managing Officer of MUFG
		April 2011	Retired from Deputy President of BTMU
Nobuyuki Hirano (October 23, 1951)	Director		Retired from Managing Officer of MUFG
		June 2011	President & CEO of MUSHD (incumbent) President & CEO of MUMSS (incumbent) Director of MUFG (incumbent)
		April 1974	Joined Mitsubishi Bank
		June 2001	Non-Board Member Director of Bank of Tokyo-Mitsubishi
		July 2004	Executive Officer of MTFG
		May 2005	Non-Board Member Managing Director of Bank of Tokyo-Mitsubishi
		June 2005	Managing Director of Bank of Tokyo-Mitsubishi Director of MTFG
		October 2005	Director of MUFG
		January 2006	Managing Director of BTMU
		October 2008	Senior Managing Director of BTMU
June 2009	Deputy President of BTMU		
June 2010	Managing Officer of MUFG		
October 2010	Director of MUFG		
April 2012	Deputy President of MUFG President of BTMU (incumbent) Director of MUFG (incumbent)		
Shunsuke Teraoka (December 4, 1953)	Director	April 1976	Joined Toyo Trust Bank
		May 2002	Executive Officer of UFJ Trust Bank
		May 2004	Director and Executive Officer of UFJ Trust Bank
		May 2005	Director and Senior Executive Officer of UFJ Trust Bank
		October 2005	Managing Executive Officer of MUTB
		June 2008	Senior Managing Director of MUTB
		June 2010	Deputy President of MUTB
		June 2012	Director of MUFG (incumbent) Deputy Chairman of MUTB (incumbent)

**Table of Contents**

Name			
(Date of Birth)	Position in MUFG		Business Experience
Tatsuo Wakabayashi (September 29, 1952)	Director	April 1977	Joined Mitsubishi Trust Bank
		June 2004	Director (Non-Board Member Director) of Mitsubishi Trust Bank
		October 2005	Executive Officer of MUTB
		June 2006	Managing Executive Officer of MUTB
		June 2008	Managing Director of MUTB
		June 2009	Senior Managing Director of MUTB
		June 2010	Managing Officer of MUFG
		June 2011	Director of MUFG (incumbent)
		April 2012	President of MUTB (incumbent)
		Saburo Araki (August 6, 1957)	Director
May 2007	General Manager, Human Resources Division of BTMU		
June 2007	Executive Officer of BTMU		
May 2009	Executive Officer of MUFG		
May 2011	Managing Executive Officer of BTMU		
May 2012	Managing Officer of MUFG		
June 2012	Retired from Managing Officer of MUFG Managing Director of BTMU (incumbent) Director of MUFG (incumbent)		
Hiroyuki Noguchi (May 7, 1958)	Director	April 1981	Joined Tokai Bank
		September 2006	General Manager, Shintomicho Commercial Banking Office of BTMU
		May 2009	General Manager, Nihonbashi-Chuo Commercial Banking Office of BTMU
		June 2009	Executive Officer of BTMU
		May 2011	Retired from Executive Officer of BTMU
		June 2011	Senior Executive Officer of MUSHD Senior Executive Officer of MUMSS Managing Director of MUMSS (incumbent) Managing Director of MUSHD (incumbent) Director of MUFG (incumbent)
		Muneaki Tokunari (March 6, 1960)	Director
October 2005	General Manager, Frontier Strategy Planning and Support Division of MUTB		
April 2007	General Manager, Financial Planning Division, Deputy General Manager, Corporate Planning Division, and Co-General Manager, Corporate Risk Management Division of MUFG		
June 2009	Executive Officer of MUTB Executive Officer of MUFG		
June 2011	Managing Executive Officer of MUTB		
April 2012	Managing Director of MUTB (incumbent)		
June 2012	Director of MUFG (incumbent)		

**Table of Contents**

Name			
<b>(Date of Birth)</b>	<b>Position in MUFG</b>	<b>Business Experience</b>	
Ryuji Araki (January 29, 1940)	Director	April 1962	Joined the Toyota Motor Co., Ltd.
		September 1992	Director, Member of the Board of TOYOTA MOTOR CORPORATION (TOYOTA)
		June 1997	Managing Director, Member of the Board of TOYOTA
		June 1999	Senior Managing Director, Member of the Board of TOYOTA
		June 2001	Vice President, Member of the Board and Representative Director of TOYOTA
		June 2002	Auditor of Aioi Insurance Company Limited. (Aioi Insurance)
		June 2005	Senior Advisor to the Board of TOYOTA Chairman of Aioi Insurance Chairman of TOYOTA FINANCIAL SERVICES CORPORATION. (TFS)
		June 2007	Advisor of TFS
		June 2008	Advisor of TOYOTA (incumbent)
		June 2009	Senior Advisor of Aioi Insurance Retired from Advisor of TFS
		October 2010	Director of MUFG (incumbent) Senior Advisor of Aioi Nissay Dowa Insurance Co., Ltd. (Aioi Nissay Dowa Insurance)
		June 2012	Advisor of Aioi Nissay Dowa Insurance (incumbent)
		Kazuhiro Watanabe (May 19, 1947)	Director
July 1998	Assistant Vice-minister of Justice (Deputy Director-General for Criminal Affairs Bureau)		
April 2001	Public Prosecutor, Supreme Public Prosecutors Office		
January 2002	Chief Public Prosecutor, Nara District Public Prosecutors Office		
September 2004	Chief Public Prosecutor, Maebashi District Public Prosecutors Office		
September 2005	Chief Public Prosecutor, Nagoya District Public Prosecutors Office		
June 2007	Chief Public Prosecutor, Yokohama District Public Prosecutors Office		
July 2008	Superintending Prosecutor, Sapporo High Public Prosecutors Office		
July 2009	Retired from Superintending Prosecutor, Sapporo High Public Prosecutors Office		
September 2009	Attorney at Law		
June 2010	Joined Dai-ichi Tokyo Bar Association Professor of Law, Tokai University Law School (incumbent) Director of MUFG (incumbent)		
January 2011	Auditor of Mitsubishi Plastics, Inc. (incumbent) Attorney at Law of Higashimachi LPC (incumbent)		

**Table of Contents****Name**

<b>(Date of Birth)</b>	<b>Position in MUFG</b>		<b>Business Experience</b>
Takuma Otoshi (October 17, 1948)	Director	July 1971	Joined IBM Japan, Ltd. (IBM Japan)
		March 1994	Director of IBM Japan
		March 1997	Managing Director of IBM Japan
		December 1999	President of IBM Japan
		June 2004	Director of MTFG
		October 2005	Director of MUFG (incumbent)
		April 2008	President & Chairman of IBM Japan
		January 2009	Chairman of IBM Japan
		June 2009	Director of TOTO LTD. (incumbent)
		June 2010	Director of CALBEE, Inc. (incumbent)
		July 2010	Director of Kao Corporation (incumbent)
			Director of Meiji Yasuda Life Insurance Company (incumbent)
		May 2012	Senior Advisor of IBM Japan (incumbent)



**Table of Contents**

The following table sets forth our corporate auditors as of July 1, 2012, together with their respective dates of birth, positions and experience:

Name			
(date of birth)	Position in MUFG		Business experience
Tetsuo Maeda (June 10, 1951)	Corporate Auditor (Full-Time)	April 1974	Joined Toyo Trust Bank
		May 2000	Executive Officer of Toyo Trust Bank
		January 2002	Executive Officer of UFJ Trust Bank
		May 2003	Senior Executive Officer of UFJ Trust Bank
		September 2004	Director and Senior Executive Officer of UFJ Trust Bank
		October 2005	Managing Director of MUTB
		June 2006	Senior Managing Director of MUTB
		June 2009	Retired from Senior Managing Director of MUTB Corporate Auditor (Full-Time) of MUFG (incumbent)
Takehiko Nemoto (August 20, 1953)	Corporate Auditor (Full-Time)	April 1976	Joined Mitsubishi Bank
		June 2004	Non-Board Member Director of Bank of Tokyo-Mitsubishi
		October 2005	Executive Officer of MUFG
		January 2006	Executive Officer of BTMU
		October 2008	Managing Executive Officer of BTMU
		May 2009	Managing Officer of MUFG
		June 2009	Managing Director of BTMU
		October 2010	Senior Managing Director of BTMU
		May 2011	Retired from Managing Officer of MUFG
June 2011	Retired from Senior Managing Director of BTMU Corporate Auditor (Full-Time) of MUFG (incumbent)		
Tsutomu Takasuka (February 11, 1942)	Corporate Auditor	April 1967	Became a member of the Japanese Institute of Certified Public Accountants
		June 1985	Partner at Mita Audit Corporation
		February 1990	Partner at Tohmatsu & Co.
		September 2002	Resigned Tohmatsu & Co.
		April 2004	Professor, Department of Business Administration, Bunkyo Gakuin University
		October 2004	Full-time Corporate Auditor of Bank of Tokyo-Mitsubishi
		June 2005	Corporate Auditor of MTFG
		October 2005	Corporate Auditor of MUFG (incumbent)
		January 2006	Full-time Corporate Auditor of BTMU (incumbent)
		March 2010	Retired from Professor, Department of Business Administration, Bunkyo Gakuin University
Kunie Okamoto (September 11, 1944)	Corporate Auditor	June 1969	Joined Nippon Life Insurance Company (Nippon Life)
		July 1995	Director of Nippon Life
		March 1999	Managing Director of Nippon Life
		March 2002	Senior Managing Director of Nippon Life
		April 2005	President of Nippon Life
		June 2005	Corporate Auditor of UFJ Holdings
			Corporate Auditor of TOKYU CORPORATION (incumbent)
		October 2005	Corporate Auditor of MUFG (incumbent)
		June 2010	Director of Kintetsu Corporation (incumbent)
			Corporate Auditor of Daicel Corporation (formerly Daicel Chemical Industries, Ltd.) (incumbent)
April 2011	Chairman of Nippon Life (incumbent)		



**Table of Contents**

Name			
(date of birth)	Position in MUFG		Business experience
Yasushi Ikeda (April 18, 1946)	Corporate Auditor	April 1972	Admitted to the Bar
		April 1977	Joined the Tokyo Bar Association
		June 2001	Partner of the law firm Miyake Imai & Ikeda (incumbent)
		June 2007	Corporate Auditor of KADOKAWA GROUP HOLDINGS, INC. (incumbent)
		June 2009	Director of Nippon Metal Industry Co. Ltd. (incumbent)
			Director of Sony Financial Holdings Inc. (incumbent)
			Corporate Auditor of MUFG (incumbent)

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

All directors and corporate auditors were elected at a general meeting of shareholders. The regular term of office of a director is one year from the date of election, and the regular term of office of a corporate auditor is four years from the date of election. Directors and corporate auditors may serve their terms until the close of the annual general meeting of shareholders held in the last year of their terms. Directors and corporate auditors may serve any number of consecutive terms. No family relationship exists among any of our directors or corporate auditors. None of our directors is party to a service contract with MUFG or any of its subsidiaries that provides for benefits upon termination of employment.

**B. Compensation**

The aggregate amount of compensation paid, including benefits in kind granted and any contingent and deferred compensation but excluding retirement allowances paid, by MUFG and its subsidiaries during the fiscal year ended March 31, 2012 to our directors (excluding outside directors), to corporate auditors (excluding outside auditors) and to outside directors and auditors, was ¥953 million, ¥87 million and ¥106 million, respectively.

The compensation paid by MUFG and its subsidiaries during the fiscal year ended March 31, 2012 to our directors and corporate auditors consists of annual base salaries, stock acquisition rights, bonuses and other benefits. The maximum aggregate amount of each type of compensation for our directors and corporate auditors is approved at a general meeting of our shareholders. The amount and allocation of compensation for each director are then proposed to, and voted upon by, the board of directors. The amount and allocation of compensation for each corporate auditor are determined through discussions and agreement among the corporate auditors. The nomination and compensation committee deliberates and makes proposals to the board of directors regarding matters relating to, among other things, the compensation of our directors. For more information on the nomination and compensation committee, see C. Board Practices.

The following table sets forth details of the aggregate compensation paid by MUFG and its subsidiaries during the fiscal year ended March 31, 2012 to our directors (excluding outside directors) and corporate auditors (excluding outside corporate auditors):

Number of Directors and Corporate Auditors <sup>(1)</sup>	Non-Adjustable Compensation					Retirement Allowances <sup>(2)</sup>	Other
	Aggregate Compensation	Base Salary	Stock Acquisition Rights (in millions)	Adjustable Compensation (Cash Bonuses)			
21	¥ 1,108	¥ 574	¥ 295	¥ 170	¥ 68	¥ 1	

## Notes:

- (1) Includes current directors and corporate auditors as well as those who retired during the fiscal year ended March 31, 2012 but excludes outside directors and corporate auditors.
- (2) Represents the aggregate amount of retirement allowances paid in cash during the fiscal year ended March 31, 2012, pursuant to a one-time shareholders approval in June 2007 for the retirement allowances to be paid to the directors and corporate auditors who were elected prior to that date at the time of their retirement. A reserve in the total amount of such retirement allowances was set aside as of September 30, 2007. For more information, see Retirement Allowances below.

**Table of Contents**

The following table sets forth the details of individual compensation paid, including benefits in kind granted but excluding retirement allowances paid, by MUFG and its subsidiaries in an amount equal to or exceeding ¥100 million during the fiscal year ended March 31, 2012:

Directors	Aggregate amount	Paid by	Compensation paid		
			Annual salary (in millions)	Stock options	Bonus
Takamune Okihara	¥ 118	MUFG	¥ 12	¥ 6	¥ 5
		BTMU	46	25	24
Katsunori Nagayasu	¥ 124	MUFG	¥ 12	¥ 6	¥ 5
		BTMU	49	26	26

*Annual Base Salary*

Annual base salaries are paid to our directors (including outside directors) and corporate auditors (including outside corporate auditors) in the form of monthly cash installment payments. The aggregate annual base salary paid to our directors (excluding outside corporate directors) and corporate auditors (excluding outside corporate auditors) for the fiscal year ended March 31, 2012 was ¥574 million. The aggregate annual base salary paid to our outside directors and outside corporate auditors for the same period was ¥79 million.

*Stock-based Compensation Plans*

We issue stock acquisition rights to further motivate our directors (including outside directors) and corporate auditors (including outside corporate auditors) to contribute to the improvement of our stock prices and profits and, with respect to our corporate auditors, to improve their audits and investigations aiming to increase our corporate value. The number of options granted to each director or corporate auditor is determined by comprehensively taking into account each grantee's seniority of the position held at MUFG or its subsidiaries, experience and contribution to our performance throughout the period of the grantee's service within the maximum aggregate number of options approved by our shareholders.

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

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



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**Table of Contents**

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

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

As part of our compensation structure, on June 29, 2011, the board of directors adopted another stock-based compensation plan entitled Fifth Series of Stock Acquisition Rights of Mitsubishi UFJ Financial Group, Inc. for our directors, corporate auditors and certain of our officers. Under the stock-based compensation plan, on July 20, 2011, we allotted an aggregate of 7,740 stock acquisition rights to our directors and an aggregate of 1,160 stock acquisition rights to our corporate auditors for their respective services to MUFG and its subsidiaries. Each stock acquisition right represents a right to purchase 100 shares of MUFG common stock at ¥1 per share of common stock. The stock acquisition rights are subject to a one-year vesting period. The rights are exercisable until July 19, 2041, 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 ¥33,700.

As part of our compensation structure, on June 28, 2012, the board of directors adopted another stock-based compensation plan entitled Sixth Series of Stock Acquisition Rights of Mitsubishi UFJ Financial Group, Inc. for our directors, corporate auditors and certain of our officers. Under the stock-based compensation plan, on July 18, 2012, we allotted an aggregate of 10,002 stock acquisition rights to our directors and an aggregate of 1,161 stock acquisition rights to our corporate auditors for their respective services to MUFG and its subsidiaries. Each stock acquisition right represents a right to purchase 100 shares of MUFG common stock at ¥1 per share of common stock. The stock acquisition rights are subject to a one-year vesting period. The rights are exercisable until July 17, 2042, 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 ¥33,100.

***Bonuses***

We from time to time pay cash bonuses to our directors to further motivate them to contribute to the improvement of our stock prices and profits if such bonuses are deemed appropriate based on a balanced scorecard approach taking into account the results of operations of the MUFG Group and each director's individual performance of his duties as a director in light of both quantitative and qualitative criteria, including our medium-term strategy for improving our corporate value. None of the outside directors and corporate auditors (including outside corporate auditors) is eligible to receive a cash bonus. The nomination and compensation committee evaluates the amount of cash bonuses annually to determine the reasonableness of the amount in proportion to the aggregate compensation approved by our shareholders. The aggregate cash bonus paid to our directors for the fiscal year ended March 31, 2012 was ¥170 million.

## **Table of Contents**

### *Retirement Allowances*

Prior to June 28, 2007, in accordance with customary Japanese practice, when a director or corporate auditor retired, a proposal to pay a retirement allowance was submitted at the annual ordinary general meeting of shareholders for approval. The retirement allowance consisted of a one-time payment of a portion of the allowance paid at the time of retirement and periodic payments of the remaining amount for a prescribed number of years. After the shareholders' approval was obtained, the retirement allowance for a director or corporate auditor was fixed by the board of directors or by consultation among the corporate auditors in accordance with our internal regulations and practice and generally reflected the position of the director or corporate auditor at the time of retirement, the length of his service as a director or corporate auditor and his contribution to our performance. Historically, MUFG did not set aside reserves for any retirement payments for directors and corporate auditors made under this practice.

Pursuant to a one-time shareholders' approval in June 2007, retirement allowances are paid in cash to the directors and corporate auditors who were elected prior to that date at the time of their retirement. A reserve in the total amount of such retirement allowances was set aside as of September 30, 2007. The aggregate amount of retirement allowances paid in cash by MUFG and its subsidiaries pursuant to the one-time shareholder approval during the fiscal year ended March 31, 2012 to our directors (excluding outside directors), to corporate auditors (excluding outside auditors) and to outside directors and auditors, who have retired from their respective positions held at MUFG or, if such directors and corporate auditors concurrently held positions at MUFG's subsidiaries, who have retired from such positions, was ¥67 million, ¥0 million and nil, respectively.

### **UNBC Employee Equity-Based Incentive Plan**

UNBC has a discretionary employee equity-based incentive plan under which selected employees of UNBC and its subsidiaries are paid some or a portion of annual bonuses in the form Restricted Share Units representing a right to receive American Depositary Receipts, or ADRs, evidencing American Depositary Shares, or ADSs, each exchangeable for one share of MUFG common stock, from an independent trust established to administer the plan grants upon the satisfaction of vesting conditions as determined by the Executive Compensation and Benefits Committee of UNBC's board of directors, consistent with the plan and pursuant to a Restricted Share Unit Agreement between UNBC and the grantees.

Unless otherwise provided in the relevant Restricted Share Unit Agreement, Restricted Share Units will become vested and nonforfeitable as follows: one-third ( $33\frac{1}{3}\%$ ) of a grantee's Restricted Share Units would vest on each one year anniversary of the date of the award such that all of the Restricted Share Units would be fully vested after three years from the date of the award so long as the grantee remains an employee of UNBC or its subsidiaries.

The ADSs to be delivered to grantees will be purchased on the open market by the trustee of the independent trust pursuant to a trust agreement between UNBC and the trustee.



**Table of Contents**

UNBC began granting Restricted Share Units in November 2010. As of June 30, 2012, 9,014,144 Restricted Share Units have been granted under the plan.

**Share Ownership**

As of June 30, 2012, our directors and corporate auditors held the following numbers of shares of our common stock:

<b>Directors</b>	<b>Number of Shares Registered</b>
Takamune Okihara	19,820
Kinya Okauchi	17,400
Katsunori Nagayasu	11,640
Masaaki Tanaka	10,600
Taihei Yuki	135,830
Ichiro Hamakawa	148,400
Akihiko Kagawa	15,800
Toshiro Toyozumi	203,500
Nobuyuki Hirano	28,400
Shunsuke Teraoka	5,440
Tatsuo Wakabayashi	18,100
Saburo Araki	11,780
Hiroyuki Noguchi	95,800
Muneaki Tokunari	8,800
Ryuji Araki	39,400
Kazuhiro Watanabe	0
Takuma Otoshi	3,000

<b>Corporate Auditors</b>	<b>Number of Shares Registered</b>
Tetsuo Maeda	62,330
Takehiko Nemoto	145,800
Tsutomu Takasuka	0
Kunie Okamoto	536
Yasushi Ikeda	0

**C. Board Practices**

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

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

deputy presidents, if any, in the management of our day-by-day operations.

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

## Table of Contents

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

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

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

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

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

the examination of the financial statements, business reports, proposals and other documents which our board of directors prepares and submits to a general meeting of shareholders;

the examination of our directors' administration of our affairs; and

the preparation and submission of a report on their examination to a general meeting of shareholders.

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

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

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

Under the Company Law, if a company has corporate auditors, the company is not obligated to have any outside directors or to have any audit, nomination or compensation committees. Although we have adopted a board of corporate auditors, we have three outside directors as part of our efforts to further enhance corporate

## **Table of Contents**

governance. In an effort to further enhance our corporate governance, we have also voluntarily established an internal audit and compliance committee and a nomination and compensation committee to support our board of directors.

*Internal Audit and Compliance Committee.* The internal audit and compliance committee, a majority of which is comprised of outside directors and specialists, deliberates important matters relating to internal audits, internal control of financial information, financial audits, compliance, corporate risk management, and other internal control systems. This committee makes reports and proposals to the board of directors about important matters for deliberation and necessary improvement measures. We aim to enhance the effectiveness of internal audit functions by utilizing the external view points provided by the internal audit and compliance committee members. The chairman of the internal audit and compliance committee is Ryuji Araki, who is an outside director. The other members of this committee are Kazuhiro Watanabe, an outside director, Yoshinari Tsutsumi, an attorney-at-law, Hideo Kojima, a certified public accountant, and Kinya Okauchi, Deputy Chairman and Chief Audit Officer. The internal audit and compliance committee met thirteen times between April 2011 and March 2012.

*Nomination and Compensation Committee.* The nomination and compensation committee, a majority of which is comprised of outside directors, deliberates matters relating to the appointment and dismissal of our directors and the directors of our subsidiaries, the compensation framework of our directors and the directors of our subsidiaries, as well as the compensation of our top management and the top management of our subsidiaries. The nomination and compensation committee makes reports and proposals to the board of directors about important matters for deliberation and necessary improvement measures. The chairman of the nomination and compensation committee is Takuma Otoshi, an outside director. The other members of this committee are Ryuji Araki and Kazuhiro Watanabe, who are also outside directors, and Katsunori Nagayasu, President & CEO. The nomination and compensation committee met six times between April 2011 and March 2012.

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

**Table of Contents****D. Employees**

As of March 31, 2012, we had approximately 78,800 employees, a decrease of approximately 1,600 employees compared with the number of employees as of March 31, 2011. In addition, as of March 31, 2012, we had approximately 31,700 part-time and temporary employees. The following tables show the percentages of our employees in our different business units and in different locations as of March 31, 2012:

<b>Business unit</b>	
<b>Bank of Tokyo-Mitsubishi UFJ:</b>	
Retail Banking Business Unit	19%
Corporate Banking Business Unit	13
Global Business Unit	27
Global Markets Unit	1
Operations and Systems Unit	10
Corporate Center/Independent Divisions	2
<b>Mitsubishi UFJ Trust and Banking Corporation:</b>	
Trust-Banking	5
Trust Assets	3
Real Estate	2
Global Markets	1
Administration and subsidiaries	3
<b>Mitsubishi UFJ Securities Holdings:</b>	
Sales Marketing Business Unit	4
Global Investment Banking Business Unit	1
Global Markets Business Unit	1
International Business Unit	1
Corporate Center and Others	2
<b>Mitsubishi UFJ NICOS:</b>	
Business Marketing Division	2
Credit Risk Management & Risk Assets Administration Division	1
Operations Division	1
Systems Division	0
Corporate Division	0
<b>Others</b>	1
	100%

**Table of Contents****Location****Bank of Tokyo-Mitsubishi UFJ:**

Japan	45%
United States	16
Europe	2
Asia/Oceania excluding Japan	9
Other areas	1

**Mitsubishi UFJ Trust and Banking Corporation:**

Japan	13
United States	0
Europe	0
Asia/Oceania excluding Japan	0

**Mitsubishi UFJ Securities Holdings:**

Japan	7
United States	0
Europe	1
Asia/Oceania excluding Japan	0

**Mitsubishi UFJ NICOS:**

Japan	4
United States	0
Europe	0
Asia/Oceania excluding Japan	0

**Others**

2

100%

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

**E. Share Ownership**

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

**Table of Contents****Item 7. Major Shareholders and Related Party Transactions.****A. Major Shareholders****Common Stock**

As of March 31, 2012, we had 758,290 registered shareholders of our common stock. The ten largest holders of our common stock appearing on the register of shareholders as of March 31, 2012, and the number and the percentage of such shares held by each of them, were as follows:

Name	Number of shares held	Percentage of total shares in issue
Japan Trustee Services Bank, Ltd. (Trust account) <sup>(1)</sup>	904,582,800	6.39%
The Master Trust Bank of Japan, Ltd. (Trust account) <sup>(1)</sup>	624,695,900	4.41
SSBT OD05 Omnibus Account Treaty Clients	371,872,750	2.62
Japan Trustee Services Bank, Ltd. (Trust account 9) <sup>(1)</sup>	271,399,400	1.91
Nippon Life Insurance Company	271,322,953	1.91
State Street Bank and Trust Company	194,890,757	1.37
Meiji Yasuda Life Insurance Company <sup>(2)</sup>	175,000,000	1.23
The Bank of New York Mellon as Depositary Bank for DR Holders <sup>(3)</sup>	171,735,947	1.21
Toyota Motor Corporation	149,263,153	1.05
State Street Bank and Trust Company	138,920,762	0.98
<b>Total</b>	<b>3,273,684,422</b>	<b>23.12%</b>

## Notes:

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

As of March 31, 2012, 1,183,976 shares, representing less than 0.01% of our outstanding common stock, were held by our directors and corporate auditors. Our major shareholders do not have different voting rights.

As of March 31, 2012, 1,779,317,090 shares, representing 12.57% of our outstanding common stock, were owned by 322 US shareholders of record who are resident in the United States, one of whom is the ADR depository's nominee holding 171,735,947 shares, or 1.21%, of our issued common stock.

**Preferred Stock**

No holder of our preferred stock has the right to vote at a general meeting of shareholders, except:



from the commencement of our ordinary general meeting of shareholders if an agenda for approval to declare a preferred dividend is not submitted to such meeting; or

from the close of any ordinary general meeting of shareholders if a proposed resolution to declare a preferred dividend is not approved at such meeting;

in each case, unless and until such time as a resolution of an ordinary general meeting of shareholders declaring a preferred dividend is passed.

**Table of Contents**

Holders of our preferred stock are entitled to vote at a meeting separately held for their respective classes of preferred stock in accordance with the Company Law. A resolution of a separate meeting of class shareholders is required for the following actions, but only if the action is likely to prejudice the interests of the relevant class shareholders:

an amendment to our articles of incorporation to (a) create a new class of shares, (b) change the terms of shares, or (c) increase the total number of authorized shares or the total number of authorized shares of a class of stock, except in some cases, such as an amendment to change a class of stock to callable stock, the resolution of, or the unanimous consent from, relevant class shareholders is required, regardless of whether the action is likely to prejudice their interests;

a consolidation of shares;

a share split;

an allotment of shares to our existing shareholders;

an allotment of stock acquisition rights to our existing shareholders; and

a merger, corporate split, stock for stock exchange, or stock for stock transfer.

Class 11 preferred stock is convertible into shares of our common stock as described in Item 10.B. Additional Information Memorandum and Articles of Association.

The shareholders of our preferred stock, appearing on the register of shareholders as of March 31, 2012, and the number and the percentage of such shares held by each of them, were as follows:

First series of class 5 preferred stock

Name	Number of shares held	Percentage of total shares in issue
Nippon Life Insurance Company	40,000,000	25.64%
Meiji Yasuda Life Insurance Company	40,000,000	25.64
Taiyo Life Insurance Company	20,000,000	12.82
Daido Life Insurance Company	20,000,000	12.82
Tokio Marine & Nichido Fire Insurance Co., Ltd.	20,000,000	12.82
Nipponkoa Insurance Company, Limited	12,000,000	7.69
Aioi Nissay Dowa Insurance Co., Ltd.	4,000,000	2.56
Total	156,000,000	100%

Class 11 preferred stock

Name	Number of shares held	Percentage of total shares in issue
UFJ Trustee Services PVT. (Bermuda) Limited as the trustee of UFJ International Finance (Bermuda) Trust	1,000	100%
Total	1,000	100%

#### B. Related Party Transactions

We converted the convertible preferred stock issued to us by Morgan Stanley into Morgan Stanley's common stock in June 2011, resulting in us holding approximately 22.4% of the voting rights in Morgan Stanley, and appointed a second representative to Morgan Stanley's board of directors in July 2011. As a result, Morgan Stanley became our equity-method affiliate. As of March 31, 2012, we held approximately 21.8% of the voting

## **Table of Contents**

rights in Morgan Stanley, and had two representatives appointed to Morgan Stanley's board of directors. We and Morgan Stanley continue to pursue a variety of business opportunities in Japan and abroad in accordance with the global strategic alliance.

In April 2011, MUSHD made a ¥30 billion capital contribution to MUMSS. In November 2011, we and Morgan Stanley made an additional ¥45 billion of capital contributions to MUMSS. As of March 31, 2012, we hold a 60% economic interest and a 60% voting interest in MUMSS while Morgan Stanley continues to hold the remaining 40% economic interest and 40% voting interest in MUMSS.

For a detailed discussion of the foregoing transactions relating to our global alliance and securities joint venture with Morgan Stanley, see Item 5. Operating and Financial Review and Prospects—Recent Developments.

We and our banking subsidiaries had, and expect to have in the future, banking transactions and other transactions in the ordinary course of business with our related parties. Although for the fiscal year ended March 31, 2012, such transactions included, but were not limited to, call money, loans, electronic data processing, leases and management of properties, those transactions were immaterial and were made at prevailing market rates, terms and conditions and do not involve more than the normal risk of collectibility or present other unfavorable features.

None of our directors or corporate auditors, and none of the close members of their respective families, has had any transactions or has any presently proposed transactions that are material or any transactions that are unusual in their nature or conditions, involving goods, services or tangible or intangible assets, to which we were, are or will be a party.

No loans have been made to our directors or corporate auditors other than in the normal course of business, on normal commercial terms and conditions, involving the normal risk of collectibility, and presenting normal features. In addition, no loans have been made to our directors or executive officers or corporate auditors other than as permitted under Section 13(k) of the US Securities Exchange Act and Rule 13k-1 promulgated thereunder.

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

As part of our compensation structure, we have granted stock acquisition rights to our directors and corporate auditors. For a detailed discussion of the stock acquisition rights, see Item 6.B. Directors, Senior Management and Employees—Compensation.

## **C. Interests of Experts and Counsel**

Not applicable.

## **Item 8. Financial Information.**

**A. Consolidated Statements and Other Financial Information**

The information required by this item is set forth in our consolidated financial statements starting on page F-1 of this Annual Report and in Selected Statistical Data starting on page A-1 of this Annual Report.

## **Table of Contents**

### **Legal Proceedings**

From time to time, we are involved in various litigation matters and other legal proceedings, including regulatory actions. Although the final resolution of any such matters and proceedings could have a material effect on our consolidated operating results for a particular reporting period, based on our current knowledge and consultation with legal counsel, we believe the current litigation matters and other legal proceedings, when ultimately determined, will not materially affect our results of operations or financial position.

### **Distributions**

Our board of directors submits a recommendation for a year-end dividend for our shareholders' approval at the ordinary general meeting of shareholders customarily held in June of each year. The year-end dividend is usually distributed immediately following shareholders' approval to holders of record at the end of the preceding fiscal year. In addition to year-end dividends, we may make cash distributions by way of interim dividends to shareholders of record as of September 30 of each year as distribution of surplus by resolution of our board of directors. On June 28, 2012, we paid year-end dividends in the amount of ¥6 per share of common stock for the fiscal year ended March 31, 2012.

See Item 10.B. Additional Information Memorandum and Articles of Association for additional information on our dividends policy.

Under the Japanese foreign exchange regulations currently in effect, dividends paid on shares held by non-residents of Japan may be converted into any foreign currency and repatriated abroad. Under the terms of the deposit agreement pursuant to which ADSs are issued, the depositary is required, to the extent that in its judgment it can convert Japanese yen on a reasonable basis into US dollars and transfer the resulting US dollars to the United States, to convert all cash dividends that it receives in respect of deposited shares into US dollars and to distribute the amount received, after deduction of any applicable withholding taxes, to the holders of ADSs. See Item 10.D. Additional Information Exchange Controls and Item 12.D. Description of Securities Other than Equity Securities American Depositary Shares.

### **B. Significant Changes**

Other than as described in this Annual Report, no significant changes have occurred since the date of our consolidated financial statements included in this Annual Report.

**Table of Contents****Item 9. The Offer and Listing.****A. Offer and Listing Details****Market Price Information**

The following table shows, for the periods indicated, the reported high and low sale prices for shares of our common stock on the Tokyo Stock Exchange, or the TSE, and of the ADSs on the New York Stock Exchange, or the NYSE:

	Price per share on the TSE		Price per ADS on the NYSE	
	High	Low	High	Low
	(yen)		(US\$)	
Fiscal year ended March 31, 2008	1,430	782	11.72	7.95
Fiscal year ended March 31, 2009	1,173	377	11.11	3.71
Fiscal year ended March 31, 2010	699	437	6.84	4.79
Fiscal year ended March 31, 2011				
First quarter	520	399	5.56	4.48
Second quarter	440	386	5.06	4.52
Third quarter	446	364	5.42	4.50
Fourth quarter	476	321	5.68	4.44
Fiscal year ended March 31, 2012				
First quarter	404	355	4.98	4.36
Second quarter	419	322	5.29	4.06
Third quarter	362	318	4.68	4.01
Fourth quarter	448	325	5.36	4.23
February	431	351	5.25	4.67
March	448	400	5.36	4.90
Fiscal year ending March 31, 2013				
April	427	383	5.16	4.69
May	383	335	4.72	4.18
June	381	328	4.75	4.16
July (through July 10)	398	379	4.92	4.72

**B. Plan of Distribution**

Not applicable.

**C. Markets**

The primary market for our common stock is the TSE. Our common stock is also listed on the Osaka Securities Exchange and the Nagoya Stock Exchange in Japan. ADSs, each representing one share of common stock, are quoted on the NYSE under the symbol, MTU.

**D. Selling Shareholders**

Not applicable.

**E. Dilution**

Not applicable.

**F. Expenses of the Issue**

Not applicable.



## **Table of Contents**

### **Item 10. Additional Information.**

#### **A. Share Capital**

Not applicable.

#### **B. Memorandum and Articles of Association**

##### **Our Corporate Purpose**

Article 2 of our Articles of Incorporation provides that our corporate purpose is to carry on the following businesses:

administration of management of banks, trust banks, specialized securities companies, insurance companies or other companies which we may own as our subsidiaries under the Japanese Banking Law; and

any other businesses incidental to the foregoing businesses mentioned in the preceding clause.

##### **Board of Directors**

For discussion of the provisions of our Articles of Incorporation as they apply to our directors, see Item 6.C. Directors, Senior Management and Employees Board Practices.

##### **Common Stock**

We summarize below the material provisions of our Articles of Incorporation, our share handling regulations and the Company Law (Law No. 86 of 2005, also known as the Companies Act) as they relate to a type of joint stock company known as *kabushiki kaisha*, within which we fall. Because it is a summary, this discussion should be read together with our Articles of Incorporation and share handling regulations, which have been filed as exhibits to this Annual Report.

##### **General**

A joint stock company is a legal entity incorporated under the Company Law. The investment and rights of the shareholders of a joint stock company are represented by shares of stock in the company and shareholders' liability is limited to the amount of the subscription for the shares.

As of June 28, 2012, our authorized common share capital was comprised of 33,000,000,000 shares of common stock with no par value.

As of March 31, 2012, a total of 14,154,534,220 shares of common stock (including 10,471,043 shares of common stock held by us and our consolidated subsidiaries as treasury stock) had been issued. Each of the shares issued and outstanding was fully paid and non-assessable.

As of June 28, 2012, we were authorized to issue 920,001,000 shares of preferred stock, including 120,000,000 shares of class 3 preferred stock, 400,000,000 shares of each of the first to fourth series of class 5 preferred stock (provided the aggregate number of shares authorized to be issued with respect to the four series of class 5 preferred stock does not exceed 400,000,000 shares), 200,000,000 shares of each of the first to fourth series of class 6 preferred stock (provided the aggregate number of shares authorized to be issued with respect to the four series of class 6 preferred stock does not exceed 200,000,000 shares), 200,000,000 shares of each of the first to fourth series of class 7 preferred stock (provided the aggregate number of shares authorized to be issued with respect to the four series of class 7 preferred stock does not exceed 200,000,000 shares), and 1,000 shares of class 11 preferred stock. As of March 31, 2012, we had 156,000,000 shares of first series of class 5 preferred stock and 1,000 shares of class 11 preferred stock issued and outstanding.

## **Table of Contents**

We may issue shares from our authorized but unissued share capital following a resolution to that effect by our board of directors. An increase in our authorized share capital is only possible by amendment of our Articles of Incorporation, which generally requires shareholders' special approval.

In order to assert shareholder rights against us, a shareholder must have its name and address registered on our register of shareholders, in accordance with the Company Law and our share handling regulations. The registered holder of deposited shares underlying the ADSs is the depository for the ADSs, or its nominee. Accordingly, holders of ADSs will not be able to assert shareholder rights other than as provided in the agreement among us, the depository and the holders of the ADSs.

Under the Law Concerning Book-Entry Transfer of Corporate Bonds, Stocks etc., the shares of all Japanese companies listed on any Japanese stock exchange, including our shares, are traded without share certificates through entry in the books maintained under a central clearing system.

## ***Dividends***

Dividends are distributed in proportion to the number of shares owned by each shareholder on the record date for the dividend. Dividends for each financial period may be distributed following shareholders' approval at a general meeting of shareholders.

Payment of dividends on common stock is subject to the preferential dividend rights of holders of preferred stock.

Under the Banking Law and our Articles of Incorporation, our financial accounts are closed on March 31 of each year, and dividends, if any, are paid to shareholders of record as of March 31 following shareholders' approval at a general meeting of shareholders. In addition to year-end dividends, our board of directors may by resolution declare an interim cash dividend to shareholders of record as of September 30 of each year. Under the Company Law, distribution of dividends will take the form of distribution of surplus (as defined below). We will be permitted to make distributions of surplus to our shareholders any number of times per fiscal year pursuant to resolutions of our general meetings of shareholders, subject to certain limitations described below. Distributions of surplus are in principle required to be authorized by a resolution of a general meeting of shareholders. Distributions of surplus would, however, be permitted to be made pursuant to a resolution of our board of directors if:

- (a) our Articles of Incorporation so provide (our Articles of Incorporation currently contain no such provisions);
- (b) the normal term of office of our directors is one year; and
- (c) certain conditions concerning our non-consolidated annual financial statements and certain documents for the latest fiscal year as required by an ordinance of the Ministry of Justice are satisfied.

In an exception to the above rule, even if the requirements described in (a) through (c) are not met, we are permitted to make distributions of surplus in cash to our shareholders by resolutions of the board of directors once per fiscal year as mentioned above concerning interim cash dividend.

Under the Company Law, distributions of surplus may be made in cash or in kind in proportion to the number of shares of common stock held by each shareholder. A resolution of a general meeting of shareholders or our board of directors authorizing a distribution of surplus must specify the kind and aggregate book value of the assets to be distributed, the manner of allocation of such assets to shareholders, and the effective date of the distribution. If a distribution of surplus is to be made in kind, we may, pursuant to a resolution of a general meeting of shareholders or (as the case may be) our board of directors, grant to our shareholders the right to require us to make such distribution in cash instead of in kind. If no such right is granted to shareholders, the relevant distribution of surplus must be approved by a special resolution of a general meeting of shareholders. See B. Memorandum and Articles of Association Common Stock Voting Rights.

## Table of Contents

Under the Company Law, we may make distribution of surplus to the extent that the aggregate book value of the assets to be distributed to shareholders does not exceed the distributable amount (as defined below) as of the effective date of such distribution of surplus. The amount of surplus (the surplus ) at any given time shall be the amount of our assets and the book value of our treasury stock after subtracting the amounts of items (1) through (5) below as they appear on our non-consolidated balance sheet as of the end of our last fiscal year, and after reflecting the changes in our surplus after the end of our last fiscal year, by adding the amounts of items (6), (7) and (8) below and/or subtracting the amounts of items (9), (10) and (11) below:

- (1) our liabilities;
- (2) our stated capital;
- (3) our additional paid-in capital;
- (4) our accumulated legal reserve;
- (5) other amounts as are set out in an ordinance of the Ministry of Justice;
- (6) (if we transferred our treasury stock after the end of the last fiscal year) the transfer price of our treasury stock after subtracting the book value thereof;
- (7) (if we decreased our stated capital after the end of the last fiscal year) the amount of decrease in our stated capital (excluding the amount transferred to additional paid-in capital or legal reserve);
- (8) (if we decreased our additional paid-in capital or legal reserve after the end of the last fiscal year) the amount of decrease in our additional paid-in capital or legal reserve (excluding the amount transferred to stated capital);
- (9) (if we cancelled our treasury stock after the end of the last fiscal year) the book value of the cancelled treasury stock;
- (10) (if we distributed surplus to shareholders after the end of the last fiscal year) the amount of the assets distributed to shareholders by way of such distribution of surplus; and
- (11) other amounts as are set out in an ordinance of the Ministry of Justice.

A distributable amount (the distributable amount ) at any given time shall be the aggregate amount of (a) the surplus, (b) the amount of profit as recorded for the period after the end of our last fiscal year until the date of an extraordinary settlement of account (if any) as is set out in an ordinance of the Ministry of Justice and (c) the transfer price of our treasury stock in the same period, after subtracting the amounts of the following items:

- (1) the book value of our treasury stock;

- (2) (if we transferred our treasury stock after the end of the last fiscal year) the transfer price of our treasury stock;
- (3) the losses recorded for the period after the end of our last fiscal year until the date of an extraordinary settlement of account (if any) as set out in an ordinance of the Ministry of Justice; and
- (4) other amounts as set out in an ordinance of the Ministry of Justice.

In Japan, the ex-dividend date and the record date for any dividends precede the date of determination of the amount of the dividend to be paid. The market price of shares generally becomes ex-dividend on the third business day prior to the record date. Under our Articles of Incorporation, we are not obligated to pay any dividends which are left unclaimed for a period of five years after the date on which they first became payable.

### *Capital and Reserves*

Under the Company Law, we may reduce our additional paid-in capital or legal reserve (without limitation as to the amount of such reduction) as mentioned previously, generally by resolution of a general meeting of

## **Table of Contents**

shareholders and, if so resolved in the same resolution, may account for the whole or any part of the amount of such reduction as stated capital. We may also reduce our stated capital generally by special resolution of a general meeting of shareholders and, if so resolved in the same resolution, such reduction may account for the whole or any part of the amount of such reduction as additional paid-in capital or legal reserve. Conversely, we may reduce our surplus and increase either (i) stated capital or (ii) additional paid-in capital and/or legal reserve by the same amount, in either case by resolution of a general meeting of shareholders.

### ***Stock Splits***

Stock splits of our outstanding stock may be effected at any time by resolution of the board of directors. When a stock split is to be effected, we may increase the authorized share capital to cover the number of shares to be increased by the stock split by amending our Articles of Incorporation by resolution of the board of directors without approval by special resolution of the general meeting of shareholders, unless more than one class of stock is issued and outstanding. We must give public notice of the stock split, specifying a record date at least two weeks prior to the record date.

We conducted a stock split pursuant to which each of our shares of common and preferred stock were split into 1,000 shares of the respective classes of securities, effective as of September 30, 2007. Our Articles of Incorporation were amended to increase the authorized share capital to cover the number of shares increased by the stock split, which amendment became effective simultaneously with the effectiveness of the stock split.

### ***Unit Share (tan-gen kabu) System***

We have adopted a unit share system, where 100 shares of either common or preferred stock shall each constitute a unit, as the amendment of our Articles of Incorporation to provide for such system was approved at the shareholders' meetings on June 27 and 28, 2007.

Under the unit share system, each unit is entitled to one voting right. A holder of less than one unit has no voting right. Our Articles of Incorporation provide that the holders of shares constituting less than a full unit will not have shareholder rights except for those specified in the Company Law or an ordinance of the Ministry of Justice, including rights (i) to receive dividends, (ii) to receive cash or other assets in case of consolidation or split of shares, stock-for-stock exchange or stock-for-stock transfer, corporate split or merger or (iii) to be allotted rights to subscribe for free for new shares and stock acquisition rights when such rights are granted to shareholders. Shareholders may require us to purchase shares constituting less than a unit at the current market price. In addition, holders of shares constituting less than a unit may require us to sell them such number of shares, which, when combined with the number of shares already held by such holder, shall constitute a whole unit of share; provided that we will be obliged to comply with such request only when we own a sufficient number of shares to accommodate the desired sale and purchase. The board of directors may reduce the number of shares constituting a unit or cease to use the unit share system by amendments to the Articles of Incorporation without shareholders' approval even though amendments to the Articles of Incorporation generally require a special resolution of the general meeting of shareholders.

### ***General Meeting of Shareholders***

The ordinary general meeting of our shareholders is usually held in June of each year in Tokyo. In addition, we may hold an extraordinary general meeting of shareholders whenever necessary by giving at least two weeks' advance notice to shareholders who are entitled to vote at the

relevant general meeting of shareholders. The record date for ordinary general meetings of our shareholders is March 31.

Any shareholder holding at least 300 voting rights or 1% of the total number of voting rights for six consecutive months or longer may propose a matter to be considered at a general meeting of shareholders by submitting a written request to a director at least eight weeks prior to the date of the meeting. The number of



## **Table of Contents**

minimum voting rights, minimum percentage and time period necessary for exercising the minority shareholder rights described above may be decreased or shortened if our Articles of Incorporation so provide. Our Articles of Incorporation currently contain no such provisions.

### ***Voting Rights***

A holder of shares of our common stock is generally entitled to one voting right for each unit of common stock held. The following shares of common stock are not entitled to voting rights even when such shares constitute a whole unit, and such shares of common stock are not considered when determining whether a quorum exists for a shareholders' meeting:

treasury stock;

shares held by a company in which we, we and our subsidiaries or our subsidiaries own 25% or more of the total voting rights; and

shares issued after the record date as a result of conversion of convertible stock, exercise of stock acquisition rights, and fractional shareholders becoming a shareholder of a whole unit share.

On the other hand, holders of certain class of preferred stock shall be entitled to a voting right for each unit of preferred stock held under certain conditions provided for by relevant laws or regulations and our Articles of Incorporation, for example, when a proposal to pay the full amount of preferential dividends on any class of preferred stock in compliance with the terms of such preferred stock is not included in the agenda of the relevant shareholders meeting. See Preferred Stock.

Under our Articles of Incorporation, except as otherwise provided by law or by other provisions of our Articles of Incorporation, a resolution can be adopted at a shareholders' meeting by the holders of a majority of the voting rights represented at the meeting. The Company Law and our Articles of Incorporation require a quorum of not less than one-third of the total number of voting rights for election of our directors and corporate auditors.

The Company Law and our Articles of Incorporation provide that a quorum of not less than one-third of outstanding voting rights, excluding those owned by our subsidiaries and affiliates of which we own, directly or indirectly, 25 percent or more, must be present at a shareholders meeting to approve specified corporate actions, such as:

the amendment of our Articles of Incorporation, except in some limited cases;

the repurchase of our own stock from a specific shareholder other than our subsidiary;

the consolidation of shares;

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the offering to persons other than shareholders of stock at a specially favorable price, or of stock acquisition rights or bonds or notes with stock acquisition rights with specially favorable conditions;

the removal of a corporate auditor;

the exemption from liability of a director or corporate auditor, with certain exceptions;

a reduction in stated capital with certain exceptions in which a shareholders' resolution is not required;

a distribution of in-kind dividends which meets certain requirements;

the transfer of the whole or an important part of our business, except in some limited circumstances;

the acquisition of the whole business of another company, except in some limited circumstances;

a dissolution, merger or consolidation, except for certain types of mergers;

**Table of Contents**

a stock-for-stock exchange (*kabushiki-kokan*) or stock-for-stock transfer (*kabushiki-iten*), except in some limited circumstances; and

a corporate split, except in some limited circumstances.

A special resolution representing at least two-thirds of the voting rights represented at the meeting is required to approve these actions.

Our Articles of Incorporation do not include any provision that grants shareholders cumulative voting rights at elections of directors or corporate auditors.

***Subscription Rights***

Holders of our shares have no preemptive rights under our Articles of Incorporation. Under the Company Law, however, our board of directors may determine that shareholders be given subscription rights in connection with a particular issue of new shares. In this case, these subscription rights must be given on uniform terms to all shareholders, and if a specified record date is set, it must be announced in a public notice at least two weeks prior to the record date. A notification to each individual shareholder must also be given at least two weeks prior to the subscription date.

Under the Company Law, rights to subscribe for new shares may not be transferred; however, we may allot stock acquisition rights to shareholders without consideration, and such rights