

MITSUBISHI UFJ FINANCIAL GROUP INC  
Form 20-F  
July 22, 2013  
Table of Contents

As filed with the Securities and Exchange Commission on July 22, 2013

**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, 2013

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)

Hiroshi Fukunaga, +81-3-3240-8111, +81-3-3240-7073, same address as above

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

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

Title of each class	Name of each exchange on which registered
Common stock, without par value	New York Stock Exchange <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

Restricted Share Units granting rights to common stock pursuant to The Bank of Tokyo-Mitsubishi UFJ, Ltd. Headquarters for the Americas 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:

## Edgar Filing: MITSUBISHI UFJ FINANCIAL GROUP INC - Form 20-F

At March 31, 2013, (1) 14,158,585,720 shares of common stock (including 4,374,857 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>	23
Item 4A. <u>Unresolved Staff Comments</u>	52
Item 5. <u>Operating and Financial Review and Prospects</u>	53
Item 6. <u>Directors, Senior Management and Employees</u>	132
Item 7. <u>Major Shareholders and Related Party Transactions</u>	148
Item 8. <u>Financial Information</u>	150
Item 9. <u>The Offer and Listing</u>	152
Item 10. <u>Additional Information</u>	153
Item 11. <u>Quantitative and Qualitative Disclosures about Credit, Market and Other Risk</u>	175
Item 12. <u>Description of Securities Other than Equity Securities</u>	199
Item 13. <u>Defaults, Dividend Arrearages and Delinquencies</u>	201
Item 14. <u>Material Modifications to the Rights of Security Holders and Use of Proceeds</u>	201
Item 15. <u>Controls and Procedures</u>	201
Item 16A. <u>Audit Committee Financial Expert</u>	205
Item 16B. <u>Code of Ethics</u>	205
Item 16C. <u>Principal Accountant Fees and Services</u>	205
Item 16D. <u>Exemptions from the Listing Standards for Audit Committees</u>	206
Item 16E. <u>Purchases of Equity Securities by the Issuer and Affiliated Purchasers</u>	207
Item 16F. <u>Change in Registrant's Certifying Accountant</u>	207
Item 16G. <u>Corporate Governance</u>	207
Item 16H. <u>Mine Safety Disclosure</u>	209
Item 17. <u>Financial Statements</u>	210
Item 18. <u>Financial Statements</u>	210
Item 19. <u>Exhibits</u>	210
<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 U.S. 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., as single entities, 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 U.S. dollars, U.S. dollar, dollars, U.S.\$ or \$ are to United States dollars, references to euro or € are to the currency of the member states of the European Monetary 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 U.S. Securities and Exchange Commission, or SEC, including this Annual Report, and other reports to shareholders and other communications.

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

Forward-looking statements appear in a number of places in this Annual Report and include statements regarding our current intent, business plan, targets, belief or expectations or the current belief or current expectations of our management with respect to our results of operations and financial condition, including, among other matters, our problem loans and loan losses. In many, but not all cases, we use words such as anticipate, aim, believe, estimate, expect, intend, plan, probability, risk, will, may and similar expressions, as they relate to 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 U.S. GAAP.

Following 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 beginning in 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. These data are qualified in their entirety by reference to all of that information.

**Table of Contents**

	Fiscal years ended March 31,				
	2009	2010	2011	2012	2013
	(in millions, except per share data and number of shares)				
<b>Statement of operations data:</b>					
Interest income <sup>(1)</sup>	¥ 3,895,794	¥ 2,757,866	¥ 2,550,144	¥ 2,595,956	¥ 2,427,521
Interest expense	1,599,389	774,400	670,673	640,139	556,418
Net interest income	2,296,405	1,983,466	1,879,471	1,955,817	1,871,103
Provision for credit losses	626,947	647,793	292,035	223,809	144,542
Net interest income after provision for credit losses	1,669,458	1,335,673	1,587,436	1,732,008	1,726,561
Non-interest income	175,099	2,469,411	1,694,822	1,440,576	2,067,909
Non-interest expense	3,608,784	2,508,060	2,460,446	2,322,642	2,378,599
Income (loss) before income tax expense (benefit)	(1,764,227)	1,297,024	821,812	849,942	1,415,871
Income tax expense (benefit)	(259,928)	413,105	433,625	429,191	296,020
Net income (loss) before attribution of noncontrolling interests	(1,504,299)	883,919	388,187	420,751	1,119,851
Net income (loss) attributable to noncontrolling interests	(36,259)	15,257	(64,458)	4,520	50,727
Net income (loss) attributable to Mitsubishi UFJ Financial Group	¥ (1,468,040)	¥ 868,662	¥ 452,645	¥ 416,231	¥ 1,069,124
Net income (loss) available to common shareholders of Mitsubishi UFJ Financial Group	¥ (1,491,593)	¥ 846,984	¥ 431,705	¥ 398,291	¥ 1,051,184
<b>Amounts per share:</b>					
Basic earnings (loss) per common share net income (loss) available to common shareholders of Mitsubishi UFJ Financial Group	¥ (137.84)	¥ 68.72	¥ 30.55	¥ 28.17	¥ 74.30
Diluted earnings (loss) per common share net income (loss) available to common shareholders of Mitsubishi UFJ Financial Group	(137.84)	68.59	30.43	28.09	74.16
Number of shares used to calculate basic earnings (loss) per common share (in thousands)	10,821,091	12,324,315	14,131,567	14,140,136	14,148,060
Number of shares used to calculate diluted earnings (loss) per common share (in thousands)	10,821,091	12,332,681 <sup>(2)</sup>	14,144,737 <sup>(2)</sup>	14,156,820 <sup>(2)</sup>	14,169,080 <sup>(2)</sup>
Cash dividends per share declared during the fiscal year:					
Common stock	¥ 14.00	¥ 11.00	¥ 12.00	¥ 12.00	¥ 12.00
	\$ 0.14	\$ 0.12	\$ 0.14	\$ 0.15	\$ 0.15
Preferred stock (Class 3)	¥ 60.00	¥ 60.00	¥ 30.00		
	\$ 0.61	\$ 0.65	\$ 0.34		
Preferred stock (Class 5)		¥ 100.50 <sup>(3)</sup>	¥ 115.00	¥ 115.00	¥ 115.00
		\$ 1.10	\$ 1.33	\$ 1.45	\$ 1.42
Preferred stock (Class 8)	¥ 7.95				
	\$ 0.07				
Preferred stock (Class 11)	¥ 5.30	¥ 5.30	¥ 5.30	¥ 5.30	¥ 5.30
	\$ 0.05	\$ 0.06	\$ 0.06	\$ 0.07	\$ 0.07
Preferred stock (Class 12)	¥ 11.50				
	\$ 0.12				
	2009	2010	At March 31, 2011	2012	2013
	(in millions)				
<b>Balance sheet data:</b>					
Total assets	¥ 193,499,417	¥ 200,081,462	¥ 202,850,243	¥ 215,202,514	¥ 230,559,276
Loans, net of allowance for credit losses	99,153,703	90,870,295	86,261,519	91,012,736	97,254,242
Total liabilities	187,032,297	190,980,363	194,187,331	206,344,067	219,617,296
Deposits	128,331,052	135,472,496	136,631,704	139,493,730	148,209,739
Long-term debt	13,273,288	14,162,424	13,356,728	12,593,062	12,182,358



Edgar Filing: MITSUBISHI UFJ FINANCIAL GROUP INC - Form 20-F

Total equity	6,467,120	9,101,099	8,662,912	8,858,447	10,941,980
Capital stock common stock	1,127,552	1,643,238	1,644,132	1,645,144	1,646,035

**Table of Contents**

	Fiscal years ended March 31,				
	2009	2010	2011	2012	2013
	(in millions, except percentages)				
<b>Other financial data:</b>					
Average balances:					
Interest-earning assets	¥ 173,242,745	¥ 175,370,688	¥ 180,260,385	¥ 184,179,147	¥ 193,824,256
Interest-bearing liabilities	156,084,859	158,156,363	161,344,664	165,420,569	173,399,441
Total assets	196,214,390	195,571,703	204,781,984	211,835,389	225,682,785
Total equity	8,069,262	7,871,505	8,987,129	8,594,310	9,244,530
Return on equity and assets:					
Net income (loss) available to common shareholders as a percentage of total average assets	(0.76)%	0.43%	0.21%	0.19%	0.47%
Net income (loss) available to common shareholders as a percentage of total average equity	(18.48)%	10.76%	4.80%	4.63%	11.37%
Dividends per common share as a percentage of basic earnings per common share	(4)	16.01%	39.28%	42.60%	16.15%
Total average equity as a percentage of total average assets	4.11%	4.02%	4.39%	4.06%	4.10%
Net interest income as a percentage of total average interest-earning assets	1.33%	1.13%	1.04%	1.06%	0.97%
Credit quality data:					
Allowance for credit losses	¥ 1,156,638	¥ 1,315,615	¥ 1,240,456	¥ 1,285,507	¥ 1,335,987
Allowance for credit losses as a percentage of loans	1.15%	1.43%	1.42%	1.39%	1.36%
Nonaccrual and restructured loans, and accruing loans contractually past due 90 days or more	¥ 1,792,597	¥ 2,007,619	¥ 2,064,477	¥ 2,178,541	¥ 2,322,504
Nonaccrual and restructured loans, and accruing loans contractually past due 90 days or more as a percentage of loans	1.79%	2.18%	2.36%	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	64.52%	65.53%	60.09%	59.01%	57.52%
Net loan charge-offs	¥ 576,852	¥ 468,400	¥ 342,100	¥ 173,370	¥ 112,862
Net loan charge-offs as a percentage of average loans	0.58%	0.49%	0.39%	0.20%	0.12%
Average interest rate spread	1.23%	1.08%	0.99%	1.02%	0.93%
Risk-adjusted capital ratio calculated under Japanese GAAP <sup>(5)</sup>	11.77%	14.87%	14.89%	14.91%	16.68%

## Notes:

- (1) Interest income for the fiscal year ended March 31, 2012 includes a gain of ¥139,320 million on conversion rate adjustment of Morgan Stanley's 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 upon 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, 2009, which represented one-half of the annual dividend declared for the fiscal year ended March 31, 2010.
- (4) Dividends per common share as a percentage of basic loss per common share has not been presented because such information is not meaningful.
- (5) Risk-adjusted capital ratios have been calculated in accordance with Japanese banking regulations as applicable on the relevant calculation date, based on information derived from our consolidated financial statements prepared in accordance with Japanese GAAP. For a description of the applicable capital ratio calculation and other requirements applicable, see Item 4.B. Information on the Company Business Overview Supervision and Regulation Japan Capital adequacy and Item 5.B. Operating and Financial Review and Prospects Liquidity and Capital Resources Capital Adequacy.

**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 U.S.\$1.00. On July 5, 2013, the noon buying rate was ¥100.94 to U.S.\$1.00 and the inverse noon buying rate was U.S.\$0.99 to ¥100.00.

	Year 2013					
	February	March	April	May	June	July <sup>(1)</sup>
High	¥93.64	¥96.16	¥99.61	¥103.52	¥100.15	¥100.94
Low	¥91.38	¥93.32	¥92.96	¥97.28	¥94.29	¥99.62

Note:

(1) Period from July 1, 2013 to July 5, 2013.

	Fiscal years ended March 31,				
	2009	2010	2011	2012	2013
Average (of month-end rates)	¥100.85	¥92.49	¥85.00	¥78.86	¥83.26

**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, 2011, 2012 and 2013, 71.9%, 69.1% and 65.9% of our total assets were related to Japanese domestic assets, respectively, including Japanese national government and Japanese government agency bonds, which accounted for 77.5%, 81.1% and 80.4% of our total investment securities portfolio, and 22.6%, 23.0% and 21.6% of our total assets, respectively. Interest and non-interest income in Japan represented 67.1% of our total interest and non-interest income for the fiscal year ended March 31, 2013. Furthermore, as of March 31, 2013, our loans in Japan accounted for 70.4% of our total loans outstanding.

## Table of Contents

There is still significant uncertainty surrounding Japan's economy. 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. Since Shinzo Abe became Japan's new prime minister in December 2012, the new government has put forth a series of new policies, including emergency economic measures and a supplementary budget, expanded monetary easing, and a growth strategy. If these policies prove ineffective, however, the growing financial burden of the Japanese government may adversely affect Japan's economy. For example, if the prices of Japanese government bonds decrease, resulting in unexpectedly higher interest rates, our investment securities portfolio as well as our lending, borrowing, trading and other operations may be negatively impacted. In addition, under the legislation enacted by the Japanese Diet in August 2012, the consumption tax rate will increase from the current 5% to 8% in April 2014 and further to 10% by October 2015, which may significantly weaken consumer spending in Japan. Furthermore, the Japanese government's energy policy, including financial assistance to electric utility companies and development of alternative sources of energy, may place significant additional budgetary constraints on Japan. 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 more detailed discussion of the risks related to increases in interest rates, see [Risks Related to Our Business](#). Increases in interest rates could adversely affect the value of our bond portfolio.

Instability in the Japanese stock market and foreign currency exchange rates may also have a significant adverse impact on our asset and liability management as well as our results of operations. Various other factors, including stagnation or deterioration of economic and market conditions in other countries, and growing global competition, may also have a material negative impact on the Japanese economy. For a detailed discussion on the business environment in Japan and abroad, see [Item 5. Operating and Financial Review and Prospects](#) [Business Environment](#).

Since our domestic loans in Japan accounted for a significant portion of our loan portfolio, deteriorating or stagnant economic conditions in Japan may cause adverse effects on our financial results, such as increases in credit costs, as the credit quality of some borrowers could deteriorate. For example, due to the intensifying global competition and weakening consumer spending in recent periods, some Japanese companies, including electronics manufacturers, have experienced significant financial difficulties. 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.

***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, 2013, based principally on the domicile of the obligors, assets related to Europe accounted for approximately 10.1% of our total assets, assets related to Asia and Oceania excluding Japan accounted for approximately 6.9% of our total assets, and assets related to the United States accounted for approximately 13.3% 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, 2013 were ¥2.64 trillion, ¥0.62 trillion and ¥0.01 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.

---

## Table of Contents

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 ¥139.0 billion, ¥195.7 billion and ¥124.2 billion for the fiscal years ended March 31, 2011, 2012 and 2013, respectively. As of March 31, 2013, approximately 43.5% 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 non-recurring basis. Generally, in order to establish the fair value of these instruments, we rely on quoted 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.

As a percentage of total loans, nonaccrual and restructured loans and accruing loans contractually past due 90 days or more ranged from 1.79% to 2.36% as of the five most recent fiscal year-ends, reaching its highest level of 2.36% as of the three most recent fiscal year ends. Nonaccrual and restructured loans and accruing loans contractually past due 90 days or more increased to ¥2.32 trillion at March 31, 2013, from ¥2.18 trillion at March 31, 2012, primarily due to an increase in such loans in our domestic loan portfolio. If the economic conditions in Japan worsen again, our problem loans and credit-related expenses may increase. An increase in problem loans and credit-related expenses would adversely affect our results of operations, weaken our financial condition and erode our capital base. For a discussion of our problem loans, see Item 5.B. Operating and Financial Review and Prospects Liquidity and Capital Resources Financial Condition and Selected Statistical Data Loan Portfolio.

We may provide additional loans, equity capital or other forms of support to troubled borrowers in order to facilitate their restructuring and revitalization efforts. We may also forbear from exercising some or all of our rights as a creditor against them, and we may forgive loans to them in conjunction with their debt 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.

## Edgar Filing: MITSUBISHI UFJ FINANCIAL GROUP INC - Form 20-F

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, 2013, the total notional amount of the protection we sold

---

**Table of Contents**

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, government policies or our borrowers' repayment abilities could require us to provide for additional allowance. For example, companies in the Japanese electronics manufacturing industry in particular have experienced significant declines in sales and financial difficulties due to the weakening consumer spending in Japan and increased global competition. Moreover, the Japanese electric utility companies, including The Tokyo Electric Power Company, Incorporated, have been significantly affected by the accidents at the Fukushima Daiichi Nuclear Power Plants in March 2011 and subsequent developments, including higher fuel prices in recent periods. Other borrowers in 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 a result, our borrowers may incur financial and non-financial 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.

*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 6.6% of our total investment securities portfolio, or 1.8% of our total assets, as of March 31, 2013. 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, 2013, declining to the lowest price of ¥8,238.96 on June 4, 2012 and rising to the highest price of ¥12,650.26 on March 21, 2013. As of July 8, 2013, the closing price of the Nikkei Stock Average was ¥14,109.34. The recent fluctuations in the Nikkei Stock Average have reflected the volatility in the global economy and investor sentiment as investors continue to observe the changes in the economic and monetary policies mainly in Japan, the United States, Eurozone and the United Kingdom. For example, in Japan, if the economic measures under the Japanese government's Abe-nomics policy and measures under the Bank of Japan's quantitative and qualitative monetary easing policy prove ineffective or result in adverse consequences, the Japanese stock market will likely be adversely affected. In addition, weakening or stagnant economic conditions in other regions may have a significant negative impact on Japanese companies, which in turn will cause their stock prices to decline. If stock market prices decline or do not improve, we may incur 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. 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.

*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 U.S. Treasury bonds, that we hold has increased in recent fiscal years to 22.7% of our total assets as of





**Table of Contents**

March 31, 2013. In particular, the Japanese national government and Japanese government agency bonds accounted for 21.6% of our total assets as of March 31, 2013. 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 in Japan continue to decline because of the Bank of Japan's so-called quantitative and qualitative monetary easing policy. As part of this policy, the Bank of Japan has recently expanded its asset purchase program, which currently includes a plan to purchase up to approximately ¥7.5 trillion of Japanese national government bonds each month. The central bank's policies, however, may change, resulting in an interest rate increase. Separate from the central bank's 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. The yield on newly issued ten-year Japanese government bonds rose above 1% in May 2013 for the first time in a year. 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, 2013, the average balance of our foreign interest-earning assets was ¥59.1 trillion and the average balance of our foreign interest-bearing liabilities was ¥37.4 trillion, representing 30.5% of our average total interest-earning assets and 21.6% of our average total interest-bearing liabilities during the same period. For the fiscal year ended March 31, 2013, net foreign exchange losses, which primarily include transaction gains on the translation into Japanese yen of monetary assets and liabilities denominated in foreign currencies and net losses on currency derivatives instruments entered into for trading purposes, were ¥39.0 billion, compared to net foreign exchange gains of ¥34.3 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, 2013 was ¥83.10 per U.S.\$1.00, compared to the average exchange rate for the fiscal year ended March 31, 2012 of ¥79.08 per U.S.\$1.00. The change in the average exchange rate of the Japanese yen against the U.S. dollar and other foreign currencies had the effect of increasing total revenue by ¥39.9 billion, increasing net interest income by ¥22.3 billion and income before income tax expense by ¥26.6 billion, respectively, for the fiscal year ended March 31, 2013. Since the Abe administration's inauguration in December 2012, the exchange rate between the Japanese yen and the U.S. dollar has been fluctuating significantly with the Japanese yen depreciating from ¥84.76 to the U.S. dollar on December 26, 2012 to ¥103.74 to the U.S. dollar on May 22, 2013 and then appreciating to ¥93.79 to the U.S. dollar on June 13, 2013. 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 Business Environment and Item 5.A. Operating and Financial Review and Prospects Operating Results.

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

We conduct our business subject to ongoing regulation and associated regulatory and legal risks. Global financial institutions, including us, currently face heightened regulatory scrutiny as a result of the concerns

## **Table of Contents**

developing in the global financial sector, and growing public pressure to demand even greater regulatory surveillance following several high-profile scandals and risk management failures in the financial industry. In the current regulatory environment, multiple government authorities with overlapping jurisdiction more frequently conduct investigations and take other regulatory actions in coordination with one another or separately on the same or related matters.

The Bank of Tokyo-Mitsubishi UFJ, Ltd., or BTMU conducted a self-initiated internal investigation in 2007 of transactions involving countries subject to U.S. sanctions and reported the results of the investigation to the Office of Foreign Assets Control, or OFAC, of the U.S. Department of the Treasury, the New York State Department of Financial Services, or DFS, and other relevant regulators in 2008. After a series of deliberations and consultations with them, BTMU agreed to make an approximately \$8.6 million payment to OFAC in December 2012 to settle potential civil liability for apparent violations of certain U.S. sanctions regulations from 2006 to 2007. In June 2013, BTMU entered into a consent agreement with DFS to resolve issues relating to certain U.S. dollar payments that were routed through New York from 2002 to 2007. Under the terms of the agreement with DFS, BTMU made a civil monetary payment of \$250 million to DFS and will retain an independent consultant to conduct a compliance review of the relevant controls and related matters in BTMU's current operations. BTMU continues to cooperate closely with all relevant regulators and is undertaking necessary actions.

We have received requests and subpoenas for information from government agencies in some jurisdictions that are conducting investigations into past submissions made by panel members, including us, to the bodies that set various interbank benchmark rates. We are cooperating with these investigations and have been conducting an internal investigation among other things. In connection with these matters, we and other panel members have been named as defendants in a number of civil lawsuits, including putative class actions, in the United States. In June 2013, BTMU was censured by the Monetary Authority of Singapore for deficiencies in its governance, risk management and internal controls for its involvement in benchmark submissions and was directed, among other things, to adopt measures to address these deficiencies.

These developments or other similar matters may result in additional regulatory actions against us or agreements to make significant additional settlement payments. These developments or other similar matters may also expose us to substantial monetary damages, legal defense costs, criminal and civil liability, and restrictions on our business operations as well as damage to our reputation. The outcome of such matters, including the extent of the potential impact of any unfavorable outcome on our financial results, however, is inherently uncertain and difficult to predict. The extent of financial, human and other resources required to conduct any investigations or to implement any corrective or preventive measures is similarly uncertain and could be significant.

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

As a global financial services provider, our business is subject to ongoing changes in laws, regulations, policies, voluntary codes of practice and interpretations in Japan and other markets where we operate. Major global financial institutions currently face an increasingly stricter set of laws, regulations and standards as a result of the concerns enveloping the global financial sector. There is also growing political pressure to demand even greater internal compliance and risk management systems following several high-profile scandals and risk management failures in the financial industry. We may not be able to enhance 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.

Our failure or inability to comply fully with the stricter set of 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. Legal or regulatory compliance failure may also adversely affect our ability to obtain regulatory approvals for future



## **Table of Contents**

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, since March 31, 2013, Japanese banking institutions with international operations have become subject to stricter capital adequacy requirements adopted by the Financial Services Agency of Japan, an agency of the Cabinet Office, or the FSA, based in part on the international regulatory framework generally known as Basel III. 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. and [Item 4.B. Information on the Company Business Overview Supervision and Regulation Japan](#).

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 Wall Street Reform and Consumer Protection Act of 2010, or 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 remains 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. The Proposed Rule on Enhanced Prudential Standards and Early Remediation Requirement for Foreign Banking Organizations and Foreign Non-Bank Financial Companies of the Federal Reserve Board, or the FRB, if finalized substantially in its current form, may also have a significant impact on the current structure of our U.S. operations as well as on the manner in which we oversee and manage those operations. See [Item 4.B. Information on the Company Business Overview Supervision and Regulation United States](#).

***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 income of \$573 million, \$778 million and \$629 million for the fiscal years ended December 31, 2010, 2011 and 2012, respectively. Any adverse developments which could arise at Union Bank may have a significant negative impact on our results of operations and financial condition. The risks relating to Union Bank have increased as Union Bank has been expanding its business through acquisitions of community banks and other financially-related businesses in the United States. If Union Bank is unable to achieve the benefits expected from its business strategies, including its business expansion strategy through acquisitions of community banks and other financially-related businesses, we may suffer an adverse financial impact. For more information on UNBC's recent acquisition transactions, see [Item 5. Operating and Financial Review and Prospects Recent Developments](#).

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, the fiscal challenges being experienced by the U.S. federal and California state governments, substantial competition in the banking markets in California and other states within the United States and uncertainty over the U.S. economy, as well as fluctuating oil prices, negative trends



---

**Table of Contents**

in debt ratings, and interest rate uncertainties. Since the financial crisis in 2008 and 2009, the U.S. banking industry has operated in an extremely low interest rate environment as a result of the highly accommodative monetary policy of the FRB, which has placed downward pressure on the net interest margins of U.S. banks, including Union Bank. To the extent this policy continues, negative pressure on the net interest margins of U.S. banks, including Union Bank, can be expected.

Significant costs may arise from enterprise-wide compliance and risk management requirements, or failure to comply, with applicable laws and regulations, such as the U.S. Bank Secrecy Act and related amendments under the USA PATRIOT Act, and any adverse impact of the implementation of the Dodd-Frank Act. In addition, the FRB and other U.S. bank regulators have proposed to implement the Basel III global regulatory framework for U.S. banks and bank holding companies which would require more and better sources of capital, as well as significantly revise the calculations for risk-weighted assets. The FRB has also proposed to implement various enhanced prudential standards required by the Dodd-Frank Act for larger U.S. bank holding companies, such as UNBC. These standards will require the larger bank holding companies to meet enhanced capital, liquidity and leverage standards. Further, the FRB has proposed regulations applicable to foreign banking organizations, or FBOs, operating in the United States, which would require MUFG's and BTMU's U.S. operations, including those at UNBC, to be restructured and, subject to certain exceptions, conducted under a single U.S. intermediate holding company, or IHC, with its own capital and liquidity requirements. Any actions management may take in response to these proposed regulatory changes may involve the issuance of additional capital or other measures. For more information, see Item 4.B. Information on the Company Business Overview Supervision and Regulation United States.

During 2012 and continuing into 2013, a number of major U.S. banking institutions have been the targets of cyberattacks that have, for limited periods, resulted in the disruption of various operations of the targeted banks. In addition, there have been increasing efforts to breach data security at financial institutions in the United States. Such attacks, even if not directed at Union Bank, could disrupt the overall functioning of the U.S. financial system and undermine consumer confidence in banks in the U.S. generally, to the detriment of other financial institutions, including Union Bank.

***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, while market and regulatory expectations that we manage these risk properly continue to rise. 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. For example, in an effort to further develop our operations in Asia, BTMU entered into a capital and business alliance with Vietnam Joint Stock Commercial Bank for Industry and Trade in December 2012. In addition, in July 2013, BTMU entered into a share tender agreement with GE Capital International Holdings Corporation, or GE Capital, as part of our plan to acquire through a tender offer up to 75% outstanding shares in Bank of Ayudhya Public Company Limited in Thailand, assuming that a group of existing major shareholders holding approximately 25% of the Thai bank's total outstanding shares will not tender the shares they hold. 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

---

**Table of Contents**

and regulatory risks in relation to the expanding scope of our products, services and trading activities or expanding our business beyond our traditional markets, could result in us incurring substantial losses. In addition, our efforts to offer new services and products or penetrate new markets may not succeed if product or market opportunities develop more slowly than expected, if our new services or products are not well accepted among customers, or if the profitability of opportunities is undermined by competitive pressures. For a detailed discussion of our risk management systems, see Item 11. Quantitative and Qualitative Disclosures about Credit, Market and Other Risk. For more information on our recent acquisition transactions, see Item 5. Operating and Financial Review and Prospects Recent Developments.

***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 28.4% from ¥12.41 trillion as of March 31, 2012 to ¥15.94 trillion as of March 31, 2013, accounting for 6.9% of our total assets as of March 31, 2013. 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 U.S. 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, 2013, 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 ¥23.22 trillion, ¥15.94 trillion and ¥8.67 trillion, representing 10.1%, 6.9% and 3.8% of our total assets, respectively. See Item 5.B. Operating and Financial Review and Prospects Liquidity and Capital Resources Financial Condition.

***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 22.0% of the voting rights in Morgan Stanley as of March 31, 2013 and continue to hold approximately \$521.4 million, 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. 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.





## Table of Contents

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

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

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 has 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.

*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, 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 the three fiscal years ended March 31, 2013, with the percentage increasing from 10.2% to 11.0% between March 31, 2012 and March 31, 2013. 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 22.0% voting interest in Morgan Stanley as of March 31, 2013. 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 companies and other financial institutions for managing credit risk exposures, for facilitating client transactions, and for proprietary trading purposes. The notional amount of the protection we sold through these instruments was ¥3.3 trillion as of March 31, 2013.

## **Table of Contents**

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.

***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-sixth 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 ¥671.6 billion as of March 31, 2013, compared to ¥757.9 billion as of March 31, 2012.

Mitsubishi UFJ NICOS's consumer loan portfolio has been adversely affected by a series of regulatory reforms recently implemented in Japan, which has affected 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 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 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, ¥120 billion and ¥100 billion for the fiscal years ended March 31, 2011, 2012 and 2013, respectively.

## **Table of Contents**

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.

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, 2011, 2012 and 2013, we had ¥136.9 billion, ¥99.4 billion and ¥77.6 billion of allowance for repayment of excess interest, respectively. For the same periods, one of our equity method investees engaged in consumer lending, ACOM CO., LTD., had a negative impact of ¥96.4 billion, ¥19.3 billion and ¥17.0 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.

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

***Future changes in accounting standards 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, 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.



---

**Table of Contents**

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

We, through our subsidiaries, engage in 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 U.S. Department of State has designated Iran and other countries as state sponsors of terrorism, and U.S. law generally prohibits U.S. persons from doing business with such countries. We currently have 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 \$4.7 million, representing less than 0.001% of our total assets, as of March 31, 2013. We do not have any loans outstanding to the financial institutions specifically listed by the U.S. 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, processing payments to or from entities in or affiliated with these countries on behalf of our customers, and issuing letters of credit and guarantees in connection with transactions with entities in or affiliated with such countries by our customers. These transactions do not have a material impact on our business or financial condition. For a further discussion of transactions required to be disclosed under the U.S. Iran Threat Reduction and Syria Human Rights Act of 2012, see Item 4.B. Information on the Company Business Overview Supervision and Regulation United States Disclosure under Section 13(r) of the U.S. Securities Exchange Act of 1934.

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

Global financial institutions, including us, have become subject to an increasingly complex set of sanctions laws and regulations in recent years, and this regulatory environment is expected to continue. Moreover, the measures proposed or adopted vary across the major jurisdictions, increasing the cost and resources necessary to design and implement an appropriate global compliance program. The U.S. federal government and some state governments in the United States have enacted legislation designed to limit economic and financial transactions with Iran by limiting the ability of financial institutions that may have engaged in any one of a broad range of activities related to Iran to conduct various transactions in the relevant jurisdictions. The U.S. federal government recently strengthened the Iran-related regulations with the enactment in August 2012 of the Iran Threat Reduction and Syria Human Rights Act, which, among other things, imposes additional disclosure requirements. 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 current Japanese regulatory requirements. There remains a risk of potential U.S. regulatory action against us, however, if U.S. regulators perceive the modified policies and procedures not to be in compliance with applicable regulations.

---

**Table of Contents**

*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, which have been revised as of March 31, 2013, as described below. As of March 31, 2013, our total risk-adjusted capital ratio was 16.68% compared to the minimum risk-adjusted capital ratio required of 8.00%, our Tier 1 capital ratio was 12.74% compared to the minimum Tier 1 capital ratio required of 4.50%, and our Common Equity Tier 1 capital ratio was 11.70% compared to the minimum Common Equity Tier 1 capital ratio required of 3.50%. Our capital ratios are calculated in accordance with Japanese banking regulations based on information derived from our financial statements prepared in accordance with Japanese GAAP. In addition, some of our subsidiaries are also subject to the capital adequacy rules of various foreign countries, including the United States where each of MUFG, BTMU, Mitsubishi UFJ Trust and Banking Corporation, or MUTB, and UNBC is a financial holding company under the U.S. 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 being phased in from the calendar year 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, the Basel Committee on Banking Supervision has proposed additional loss absorbency requirements to supplement the Common Equity Tier 1 capital requirement ranging from 1% to 3.5% for global systemically important banks, or G-SIBs, depending on the bank's systemic importance. The Financial Stability Board identified us as a G-SIB in its most recent annual report published in November 2012, and indicated that, as a G-SIB, we would be required to hold an additional 1.5% of Tier 1 common equity. The group of banks identified as G-SIBs is expected to be updated annually, and the first group of G-SIBs 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 between January 1, 2016 and December 31, 2018 and will become fully effective on January 1, 2019. Based on the Basel III framework, the Japanese capital ratio framework has been revised to implement the more stringent requirements, which are being implemented in phases beginning on March 31, 2013. Likewise, local banking regulators outside of Japan, such as those in the United States, 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.



Under the capital adequacy guidelines of the FSA, which have been revised in connection with the adoption of Basel III, there is a transitional measure relating to the inclusion as a capital item of capital raising instruments issued in or prior to March 2013, and such instruments can be included as a capital item when calculating capital

## **Table of Contents**

ratios to the extent permitted by the transitional measure. Such capital raising instruments may require refinancing upon the expiration of the transition period during which such instruments can be included as a capital item in the calculation of capital ratios. However, in order for newly issued capital raising instruments, other than common stock, to be included as a capital item in the calculation of capital ratios under the revised capital adequacy guidelines, such instruments must have a clause in their terms and conditions that requires them to be written off or converted into common stock when the issuing financial institution is deemed non-viable or when the issuing financial institution's capital ratios decline below prescribed levels. As a result, under certain market conditions, we may be unable to refinance or issue capital raising instruments under terms and conditions similar to those of capital raising instruments issued in or prior to March 2013. If such circumstances arise, our and our banking subsidiaries' capital could be reduced, and our and our bank subsidiaries' capital ratio could decrease.

In addition, under the FSA's revised capital adequacy guidelines, deferred tax assets can be included as a capital item when calculating capital ratios up to a prescribed amount. However, this upper limit is expected to be reduced in phases. If and to the extent the amount of deferred tax assets exceeds this limit and cannot be included in Common Equity Tier 1 capital, our and our banking subsidiaries' capital ratios can decrease.

If our capital ratios fall below required levels, the FSA 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 U.S. 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. U.S. GAAP requires us to test goodwill for impairment at least annually, or more frequently if events or changes in circumstances indicate that goodwill may be impaired. As of March 31, 2013, the balance of goodwill was ¥418.0 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-, although Fitch subsequently upgraded them. A further credit

Edgar Filing: MITSUBISHI UFJ FINANCIAL GROUP INC - Form 20-F

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

## **Table of Contents**

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 and Fitch, 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.

Assuming all of the relevant credit rating agencies downgraded the credit ratings of BTMU, MUTB and MUSHD by one-notch on March 31, 2013, 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 ¥11.0 billion. Assuming a two-notch downgrade by all of the relevant credit rating agencies occurred on the same 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 ¥19.5 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.B. Operating and Financial Review and Prospects Liquidity and Capital Resources Financial Condition Sources of Funding and Liquidity.

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

As our operations expand in volume, complexity and geographic scope, we are exposed to increased risk of confidential information in our possession being lost, leaked, altered or falsified as a result of human or system error, misconduct, unlawful behavior, or natural or human-caused disasters. Our information systems and information management policies and procedures may not be sufficient to safeguard confidential information against such risks.

As a financial institution in possession of customer information, we are required to treat personal and other confidential information as required by the Personal Information Protection Law of Japan, as well as the Banking Law and the Financial Instruments and Exchange Law of Japan. In the event that personal information in our possession about our customers or employees is leaked or improperly accessed and subsequently misused, we may be subject to liability and regulatory action. We may have to provide compensation for economic loss and emotional distress arising out of a failure to protect such information. In addition, such incidents could create a negative public perception of our operations, systems or brand, which may in turn decrease customer and market confidence and materially and adversely affect our business, operating results and financial condition.

Moreover, any loss, leakage, alteration or falsification of confidential information, or any malfunction or failure of our information systems, may result in significant disruptions to our business operations or plans or may require us to incur significant financial, human and other resources to implement corrective measures or enhance our information systems and information management policies and procedures.

## **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 U.S. courts predicated upon the civil liability provisions of the U.S. federal or state securities laws.***

We are a joint stock company incorporated under the laws of Japan. Almost all of our directors, 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 U.S. investors to effect service of process within the United States upon us or these persons

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

## **Table of Contents**

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

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

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

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

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

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

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

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

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

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

## Edgar Filing: MITSUBISHI UFJ FINANCIAL GROUP INC - Form 20-F

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.

## **Table of Contents**

### **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., and other companies engaged in a wide range of financial businesses.

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

On June 29, 2005, the merger agreement between MTFG and UFJ Holdings 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.

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.



On June 30, 2011, we converted all of our Morgan Stanley's convertible preferred stock into Morgan Stanley's common stock, resulting in our holding approximately 22.4% of the voting rights in Morgan Stanley. Further, we appointed a second representative to Morgan Stanley's board of directors on July 20, 2011. Following the conversion on June 30, 2011, Morgan Stanley became our equity-method affiliate. As of March 31, 2013, we held approximately 22.0% 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.

## Table of Contents

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

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

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

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

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

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

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

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

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

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

## **Table of Contents**

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 and Banking and The Tokyo Trust Bank, Ltd., which were previously subsidiaries of Bank of Tokyo-Mitsubishi, was 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 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, 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.

## Edgar Filing: MITSUBISHI UFJ FINANCIAL GROUP INC - Form 20-F

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.

## **Table of Contents**

### **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 joint venture securities companies, see B. Business Overview Global Strategic Alliance with Morgan Stanley.

### **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 ¥231 trillion as of March 31, 2013. 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,

## Edgar Filing: MITSUBISHI UFJ FINANCIAL GROUP INC - Form 20-F

trust banking, securities, credit cards, consumer finance, asset management, leasing and many more fields of financial services. The Group has the largest overseas network among the Japanese banks, comprised of offices and subsidiaries, including Union Bank, 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;

**Table of Contents**

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.

Since April 2004, we have adopted an integrated business group system comprising our core business areas, which serve as the Group's core sources of net operating profit. Currently, we have five business segments: Integrated Retail Banking Business, Integrated Corporate Banking Business, Integrated Trust Assets Business, Integrated Global Business and Global Markets. MUFG's role as the holding company is to strategically manage and integrate the activities of these business segments. 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 U.S. 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*

MUFG Group formulated in May 2012 the Group Corporate Vision to clarify the nature of the Group's overall mission and the type of group it should aspire to be, and as a shared principle to unify the hearts and minds of Group employees, while meeting the expectations of our customers and society. Throughout the Group, the people of MUFG are working under three shared values Integrity and Responsibility, Professionalism and Teamwork, and Challenging Ourselves to Grow while aiming to be the world's most trusted financial group.

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.



## **Table of Contents**

### ***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. In December 2012, we made Mitsubishi UFJ Merrill Lynch PB Securities Co., Ltd. a wholly-owned subsidiary in order to further strengthen private banking services for high net-worth customers.

*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, 2013, BTMU offers our clients a total of 94 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, 2013, BTMU offered 43 varieties of insurance products at 475 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, 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 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

## Edgar Filing: MITSUBISHI UFJ FINANCIAL GROUP INC - Form 20-F

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.

## **Table of Contents**

*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.

*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, 2013, we provided those services through 30 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, 2013, we had 30 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 six 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, 2013, 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.

*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 overseas expansions, inheritance-related business transfers and stock listings.

## **Table of Contents**

### *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. With the aim of further enhancing the business, MUTB has strategic alliances with asset management companies outside of Japan.

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.

*Integrated Global Business Group*

The Integrated Global Business Group was established on July 1, 2011 to effectively coordinate and enhance our group-wide efforts to strengthen and expand overseas operations. Integrated Global Business Group 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

## **Table of Contents**

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, Integrated Global Business Group 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 project finance as well as ECA finance 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 in December 2010 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, we continue to seek to strengthen our project finance business, which is one of the core businesses of CIB.

### *Transaction Banking*

We have Transaction Banking offices in six locations 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. A team of approximately 400 officers 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 U.S. bank holding company with Union Bank being its primary subsidiary. Union Bank is a leading regional bank headquartered in California, ranked by the Federal Deposit Insurance Corporation, or FDIC, as the 21st largest bank in the United States in terms of total deposits as of March 2013. 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 October 2012, Union Bank acquired Smartstreet, formerly a division of Atlanta-based PNC Bank, N.A.

which had approximately \$1.0 billion in deposits and provides banking services nationwide to homeowners associations and community association management companies in the United States. In December 2012, UNBC acquired Pacific Capital Bancorp, a bank holding company based in California with approximately \$6.7 billion in total assets and approximately \$4.7 billion in deposits. In April 2013, Union Bank reached an agreement to acquire PB Capital Corporation's institutional commercial real estate lending division platform.



## **Table of Contents**

Headquartered in New York, the commercial real estate lending division of PB Capital had approximately \$3.5 billion in loans outstanding on properties in various major metropolitan areas in U.S. as of June 14, 2013. In May 2013, Union Bank agreed to assume the deposits and acquire certain assets of First Bank Association Bank Services, a unit of First Bank, which provides a full range of services to homeowners associations and community management companies. For more information, see Item 5. Operating and Financial Review and Prospects Recent Developments.

### *Activities in Asia*

Recently, we have been expanding our operations in Asia in an effort to further develop our operations abroad. For example, in May 2013, BTMU acquired approximately 20% of the ordinary shares of Vietnam Joint Stock Commercial Bank for Industry and Trade, or VietinBank. VietinBank is one of the major Vietnamese state-owned commercial banks in terms of assets. VietinBank is now accounted for under the equity method.

In addition, on July 2, 2013, BTMU entered into a share tender agreement with GE Capital regarding GE Capital's shareholding in Bank of Ayudhya Public Company Limited, or Krungsri, in Thailand. Under the agreement, BTMU will launch a voluntary tender offer for all of the outstanding Krungsri shares upon satisfaction of regulatory and corporate approvals and other conditions, and GE Capital will tender all of the shares it holds in Krungsri, constituting approximately 25.33% of the total outstanding shares of Krungsri, in the tender offer. Krungsri, which was established in 1945, is the fifth-largest commercial bank in Thailand in terms of assets. Krungsri provides banking, consumer finance, investment, asset management, and other financial products and services to individual consumers, SMEs, and large corporation through 601 branches and over 19,000 service outlets in Thailand.

For more information on the above transactions in Asia, see Item 5. Operating and Financial Review and Prospects Recent Developments.

### *Global Markets*

Global Markets covers asset and liability management and strategic investments of BTMU and MUTB, and sales and trading of financial products of BTMU, MUTB and MUSHD. Effective July 1, 2012, the Integrated Global Business Group and Global Markets started working jointly on some of the sales and trading businesses of MUSHD's foreign subsidiaries as part of our efforts to strengthen the cooperation between BTMU and MUSHD of their markets businesses and to expand investor relationships while improving our trading capabilities to seize interest rate and foreign exchange market opportunities for loans and corporate bond transactions. Accordingly, during the year ended March 31, 2013, we began reporting a portion of the securities sales and trading businesses, which previously was presented within the Integrated Global Business Group, as part of Global Markets.

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

As a result of our conversion of Morgan Stanley convertible preferred stock into Morgan Stanley's common stock on June 30, 2011, we hold approximately 432 million shares of Morgan Stanley's common stock representing approximately 22.0% of the voting rights in Morgan Stanley and Series C Preferred Stock with a face value of approximately \$521.4 million, or ¥53.6 billion, and 10% dividend as of March 31, 2013. As of the same date, we had two representatives appointed to Morgan Stanley's board of directors. We adopted the equity method of accounting for our investment in Morgan Stanley beginning with the fiscal year ended March 31, 2012.

In conjunction with Morgan Stanley, we formed two securities joint venture companies in May 2010 to integrate our respective Japanese securities companies. We converted the wholesale and retail securities businesses conducted in Japan by 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

## **Table of Contents**

an entity called Morgan Stanley MUFJ 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 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.

We have also expanded the scope of our global strategic alliance with Morgan Stanley into other geographies and businesses, including (1) a loan marketing joint venture that provides clients in the United States with access to 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 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 financial markets 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, in conjunction with Morgan Stanley, we 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 January 2013, Mizuho Securities and Mizuho Investors Securities Co., Ltd. merged. 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.

## Edgar Filing: MITSUBISHI UFJ FINANCIAL GROUP INC - Form 20-F

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

---

**Table of Contents**

Sony Corporation, which were both non-financial companies, offers 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 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 addition, the Japanese individual savings account system, so-called NISA program, will start from January 2014, which will offer tax exemptions on capital gains and dividend income for investments up to ¥1 million a year for a maximum of five years. Competition in the retail banking sector is also expected to increase due to the implementation of such tax exemption program.

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 one of the world's largest holders 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 financial businesses and increasingly compete with us. 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, and changed its name as SMBC Consumer Finance Co., Ltd. in July 2012. 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 an 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.

## **Table of Contents**

### ***Foreign***

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

In other international markets, we face competition from commercial banks and similar financial institutions, particularly major international banks and the leading domestic banks in the local financial markets in which we conduct business. For example, Japanese mega banks, including us, and other major international banks have been expanding, or are expected to expand, their operations in the Asian market, where leading local banks have been growing recently. In addition, we may face further competition as a result of recent investments, mergers and other business tie-ups among global financial institutions.

### **The Japanese Financial System**

Japanese financial institutions may be categorized into three types:

the central bank, namely the Bank of Japan;

private banking institutions; and

government financial institutions.

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

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

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

Private banking institutions in Japan are commonly classified into two categories (the following numbers are based on information published by the Financial Services Agency of Japan available as of July 1, 2013:

ordinary banks (125 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 four, including BTMU, and regional banks, of which there are 106 and other banks, of which there are 15. On July 1, 2013, Mizuho Bank, Ltd. and Mizuho Corporate Bank merged, wherein Mizuho Corporate Bank was the surviving entity and changed its name to Mizuho Bank, Ltd. The merged bank is one of the four city banks. In general, the operations of ordinary banks correspond to commercial banking operations in the United States. City banks and regional banks are distinguished based on head office location as well as the size and scope of their operations.

The city banks are generally considered to constitute the largest and most influential group of banks in Japan. Generally, these banks are based in large cities, such as Tokyo and Osaka, and operate nationally through networks of branch offices. 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.

## **Table of Contents**

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.

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

**Table of Contents**

*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 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.

In June 2013, the Diet passed a bill to amend various financial regulation related laws, including the Banking Law, which includes certain deregulations on restrictions for shareholdings by banks. For example, although a bank is generally prohibited from holding more than 5% of the outstanding shares of another company (other than certain financial institutions) under the Banking Law, if a bank's shareholding contributes to revitalizing a company's business or the local economy related to such company, the bank may be exempt from such requirement and allowed to hold more than 5% of the outstanding shares of such company. These amendments are expected to become effective within one year from June 19, 2013.

*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. From March 31, 2007 until immediately prior to March 31, 2013, Japanese banks were 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 previous FSA guidelines reflecting Basel II, capital was classified into three tiers, referred to as Tier I, Tier II and Tier III. Under the previous FSA guidelines reflecting Basel II, Tier I capital generally consisted of shareholders' equity items, including common stock, preferred stock, capital surplus, non controlling interests and retained earnings (which includes deferred tax assets). 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, were deducted from Tier I capital. Under the previous FSA guidelines reflecting Basel II, Tier II capital generally consisted of: (1) 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), (2) 45% of the unrealized gains on investment securities classified as securities available for sale under Japanese GAAP, (3) 45% of the land revaluation excess, (4) the balance of perpetual subordinated debt, and (5) 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. Under the previous FSA guidelines reflecting Basel II, Tier III capital generally consisted 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.

**Table of Contents**

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

Certain provisions of Basel III were adopted by the FSA effective March 31, 2013 for Japanese banking institutions with international operations conducted by their foreign offices. Based on the Basel III framework, the Japanese capital ratio framework has been revised to implement more stringent capital adequacy requirements to prevent excessive risk takings. Under Basel III, Common Equity Tier 1, Tier 1 and total capital ratios are used to assess capital adequacy, which ratios are determined by dividing applicable capital components by risk-weighted assets. Total capital is defined as the sum of Tier 1 and Tier 2 capital, and the target minimum total capital ratio is 8.0%, which consists of a target minimum Tier 1 capital ratio of 6.0% (including a target minimum Common Equity Tier 1 capital ratio of 4.5% and a target minimum Additional Tier 1 capital ratio of 1.5%) and a target minimum Tier 2 capital ratio of 2.0%. These minimum capital ratios are applicable to MUFG on a consolidated basis and to BTMU and MUTB on a consolidated as well as stand-alone basis. Core Equity Capital, which was similar to Tier I capital under Basel II, has been regrouped into Common Equity Tier 1 and Additional Tier 1 capital under Basel III, with certain Core Equity Capital items under Basel II being excluded from comprising such capitals. Supplemental Capital, which was similar to Tier II capital under Basel II, has been regrouped into Tier 2 capital under Basel III with certain Supplemental Capital items under Basel II being excluded. Additionally, Quasi-supplemental Capital, which was similar to Tier III capital under Basel II, has been excluded, and the scope of assets comprising risk-weighted assets has been expanded under Basel III.

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

common stock,

capital surplus,

retained earnings, and

other comprehensive income (progressively phased into the capital ratio calculation over several years).

Regulatory adjustments including certain intangible fixed assets, such as goodwill, and defined benefit pension fund net assets (prepaid pension costs) will be deducted from Common Equity Tier 1 capital. The amount of adjustments to be deducted will increase progressively over time.

Additional Tier 1 capital generally consists of Basel III compliant preferred securities and other capital that meet Tier I requirements under the former Basel II standards, net of regulatory adjustments. Subject to

## **Table of Contents**

transitional measures, items including intangible fixed assets, such as goodwill, and foreign currency translation adjustments are deducted from Additional Tier 1 capital with the deduction amounts progressively decreasing over time.

Tier 2 capital generally consists of:

Basel III compliant deferred obligations,

capital that meet Tier II requirements under the former Basel II standards,

allowances for credit losses, and

non-controlling interests in subsidiaries Tier 2 capital instruments.

Subject to transitional measures, certain items including 45% of unrealized profit on securities available for sale and revaluation of land are deducted from Tier 2 capital with the deduction amounts progressively decreasing over time.

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

Risk-weighted assets are the sum of risk-weighted assets compiled for credit risk purposes, quotient of dividing the amount equivalent to market risk by 8%, and quotient of dividing the amount equivalent to operational risk by 8%, and also include amount to be added due to transitional measures as well as floor adjustments, if necessary. Risk-weighted assets include the capital charge of the credit valuation adjustment (CVA), the credit risk related to asset value correlation multiplier for large financial institutions, the 250% risk-weighted threshold items not deducted from Common Equity Tier 1 capital, and certain Basel II capital deductions that were converted to risk-weighted assets under Basel III, such as securitizations and significant investments in commercial entities. Under the FSA guidelines, Basel III is expected to be adopted progressively over several years. For example, from March 31, 2013 until March 30, 2014, the minimum capital ratio is 3.5% for Common Equity Tier 1, 4.5% for Tier 1 capital, and 8.0% for total capital, and the requirement will be progressively raised to meet the Basel III requirement by March 31, 2015. Additionally, certain items that will no longer be counted towards Tier 1 and Tier 2 capital will be progressively phased out of the capital ratio calculation over several years to arrive at the capital base required by Basel III.

We have been granted an approval by the FSA to exclude the majority of our investment in Morgan Stanley from being subject to double gearing adjustments. The approval was granted for a 10-year period, but the approval amount will be phased out by 20% each year starting from March 31, 2019. As of March 31, 2013, a full application of double gearing adjustments with respect to our investment in Morgan Stanley would have reduced our Common Equity Tier 1 capital ratio by approximately 0.5%.

The Basel Committee on Banking Supervision has proposed additional loss absorbency requirements to supplement the Common Equity Tier 1 capital requirement ranging from 1% to 3.5% for global systemically important banks, or G-SIBs, depending on the bank's systemic importance. The Financial Stability Board identified us as a G-SIB in its most recent annual report published in November 2012, and indicated that, as a

## Edgar Filing: MITSUBISHI UFJ FINANCIAL GROUP INC - Form 20-F

G-SIB, we would be required to hold an additional 1.5% of Tier 1 common equity. The group of banks identified as G-SIBs is expected to be updated annually, and the first group of G-SIBs 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 between January 1, 2016 and December 31, 2018 and will become fully effective on January 1, 2019.

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 when adopted in those countries. The new risk-weighted asset structure

## **Table of Contents**

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 (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 1 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.

## Edgar Filing: MITSUBISHI UFJ FINANCIAL GROUP INC - Form 20-F

*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.



## **Table of Contents**

Similarly, registered banks are permitted to provide securities intermediation services and engage in certain other similar types of securities related transactions, including retail sales of investment funds and government and municipal bonds.

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

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

*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 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, 2013, the Deposit Insurance Corporation charges insurance premiums equal to 0.107% per year on the deposits in the settlement accounts, which are fully protected as mentioned above, and premiums equal to 0.082% per year on the deposits in other accounts. If no financial

## **Table of Contents**

institution becomes insolvent during the year ending on March 31, 2014, the premiums will be retrospectively revised to 0.089% per year and 0.068% per year, 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.

In June 2013, the Diet passed the amendments to the Deposit Insurance Act, which establish the new procedures for orderly processing of assets and liabilities of distressed financial institutions to stabilize the financial system, and expand the scope of financial institutions covered by the new procedures to include securities firms and insurance companies. Under the new procedures, in case a designated financial institution becomes distressed, such financial institution will be subject to compulsory management of its operation and assets and receive financial assistance in the form of loans or subscription of shares. These amendments are expected to become effective within nine months from June 19, 2013.

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 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. Although this legislation ended as of March 31, 2013, the FSA is encouraging the financial institutions to continue to provide support to small and medium-sized firms by revising the Inspection Manual, Supervisory Policy and Ordinance for Enforcement of the Banking Law in order to encourage financial institutions to modify the terms of loans, provide smooth financing, and take active roles in supporting operations of such companies.

*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,



## **Table of Contents**

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.

## ***United States***

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

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

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

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

---

**Table of Contents**

modified the role of the FRB by specifying new relationships between the FRB and the functional regulators of non-bank subsidiaries of both bank holding companies and financial holding companies.

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

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 non-banking activities deemed to be closely related to banking, without prior notice to or approval from the FRB. 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 FRB. 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 FRB. In addition, as a financial holding company, we must ensure that our U.S. 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.

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

U.S. branches and agencies of foreign banks must be licensed, and are also supervised and regulated, by a state or by the Office of the Comptroller of the Currency, or the OCC, the federal regulator of U.S. national banks. All of the branches and agencies of BTMU and MUTB in the United States are state-licensed. Under U.S. federal banking laws, state-licensed branches and agencies of foreign banks may engage only in activities that

## **Table of Contents**

would be permissible for their federally-licensed counterparts, unless the FRB determines that the additional activity is consistent with safe and sound practices. U.S. 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.

*U.S. banking subsidiaries.* We indirectly own and control two U.S. 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 Mitsubishi UFJ Trust & Banking Corporation (U.S.A.). The FDIC may take enforcement action, including the issuance of prohibitive and affirmative orders, if it determines that a financial institution under its supervision has engaged in unsafe or unsound banking practices, or has committed violations of applicable laws and regulations. The FDIC insures the deposits of both of our U.S. 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 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 U.S. offices and other claims for administrative expenses and employee compensation are afforded priority over other general unsecured claims, including deposits in offices outside the United States, non-deposit claims in all offices and claims of a parent company. Moreover, under longstanding FRB policy, a bank holding company is expected to act as a source of financial strength for its banking subsidiaries and to commit resources to support such banks.

*Bank capital requirements and capital distributions.* Our U.S. banking subsidiaries are subject to applicable risk-based and leverage capital guidelines issued by U.S. regulators for banks and bank holding companies. In addition, BTMU and MUTB, as foreign banking organizations that have U.S. branches and agencies and that are controlled by us as a financial holding company, are subject to the FRB's requirements that they be well-capitalized based on Japan's risk based capital standards, as well as well managed. All of our U.S. banking subsidiaries and BTMU, MUTB, and UNBC are well-capitalized as defined under, and otherwise comply with, all U.S. regulatory capital requirements applicable to them. The Federal Deposit Insurance Corporation Improvement Act of 1991, or FDICIA, provides, among other things, for expanded regulation of insured depository institutions, including banks, and their parent holding companies. As required by FDICIA, the federal banking agencies



have established five capital tiers ranging from well capitalized to critically

## **Table of Contents**

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

*Anti-Money Laundering Initiatives and the USA PATRIOT Act.* A major focus of U.S. 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 U.S. anti-money laundering laws and regulations by imposing significant new compliance and due diligence obligations, creating new crimes and penalties and expanding the extra-territorial jurisdiction of the United States. The U.S. Department of the Treasury has issued a number of regulations that impose obligations on financial institutions to maintain appropriate policies, procedures and controls to detect, prevent and report 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.

*Foreign Corrupt Practices Act.* In recent years, U.S. regulatory and enforcement agencies including the U.S. Securities and Exchange Commission, or SEC, and the U.S. Department of Justice have significantly increased their enforcement efforts of the Foreign Corrupt Practices Act, or the FCPA. The FCPA prohibits U.S. securities issuers, U.S. domestic entities, and parties doing substantial business within the United States (including their shareholders, directors, agents, officers, and employees) from making improper payments to non-U.S. government officials in order to obtain or retain business. The FCPA also requires U.S. 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 U.S. and foreign-based entities and have been based on a broad variety of alleged fact patterns, and in a number of cases have resulted in the imposition of substantial criminal and civil penalties or in agreed payments in settlement of alleged violations. Failure 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



---

**Table of Contents**

extensive in its coverage and contains a wide range of provisions that would affect financial institutions operating in the United States, including our U.S. operations. Included among these provisions are sweeping reforms designed to reduce systemic risk presented by very large financial firms, promote enhanced supervision, regulation, and prudential standards for financial firms, establish comprehensive supervision of financial markets, impose new limitations on permissible financial institution activities and investments, expand regulation of the derivatives markets, protect consumers and investors from financial abuse, and provide the government with the tools needed to manage a financial crisis. Many aspects of the legislation require subsequent regulatory action by supervisory agencies for the full implementation. While some regulatory rule-making has been adopted as discussed below, others remain pending or require further interpretive guidance by the relevant supervisory agencies. Accordingly, while we expect the legislation to have an impact on our operations, we are unable to assess with certainty the degree of impact of the Dodd-Frank Act on our operations at this time.

Currently, the components of the Dodd-Frank Act that have impacted or 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, incentive-based compensation, the establishment of the Consumer Financial Protection Bureau, and debit interchange fees. Although a significant portion of the regulatory rules regarding the foregoing components are still pending, based on information currently available to us, other than the Volcker Rule and derivatives regulations as discussed below, the impact of these components is expected to be mainly limited to our U.S. operations and not to be material to us on a consolidated basis. We intend to continue to monitor developments relating to the Dodd-Frank Act and the potential impact on our activities inside and outside of the United States.

With respect to the Dodd-Frank Act provisions related to enhanced prudential standards, in December 2012 the FRB issued for public comment proposed rules that would establish enhanced prudential standards for the U.S. operations of foreign banking organizations such as MUFG. These proposed rules would require us to organize all of our U.S. bank and non-bank subsidiaries under a U.S. intermediate holding company that would be subject to U.S. capital requirements and enhanced prudential standards comparable to those applicable to top-tier U.S. bank holding companies of the same size. If these proposed rules are adopted in their current form, we would be required to inject capital into and/or change the structure of our U.S. operations, including the manner in which we oversee and manage those operations. The rule is subject to final rule-making and interpretation and the impact of the rule on our business operations remains uncertain.

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, U.S. 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 U.S. subsidiaries. Accordingly, if the U.S. 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 U.S. 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 U.S. subsidiaries.

U.S. regulators have also begun to issue final regulations governing swaps and derivatives markets as contemplated by the Dodd-Frank Act. To date, BTMU and Mitsubishi UFJ Securities International, plc, or MUSI, have provisionally registered as swap dealers with the U.S. Commodity Futures Trading Commission, or CFTC. Depending on the final outcome of the regulations governing swaps and derivatives markets under the Dodd-Frank Act, as well as the activities of our other subsidiaries located inside and outside of the United States, our other subsidiaries may have to register as swap dealers with, or be subject to the regulations of, the CFTC and/or SEC. Regulation of swap dealers by the CFTC and SEC will impose numerous corporate governance, business conduct, capital, margin, reporting, clearing, execution, and other regulatory requirements on our

## **Table of Contents**

operations, which may adversely impact our derivatives businesses and make us less competitive than those competitors that are not subject to the same regulations. Although many regulations applicable to swap dealers are already in effect, it is difficult to assess the full impact of these requirements because some of the most important rules have not yet been implemented or finalized. For example, U.S. regulators are adopting guidance and rules on the application of U.S. regulations to activities of registered swap dealers outside of the United States. The potential extraterritorial application of swap dealer regulatory requirements 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 the Foreign Account Tax Compliance Act, or FATCA. The U.S. Treasury, acting through the Internal Revenue Service, or the IRS, is responsible for issuing regulations implementing FATCA. Although final regulations of FATCA were issued in January 2013, many important details still remain unclear. As such, intensive discussions between stakeholders and the U.S. Treasury/IRS have been ongoing for clarification.

The FATCA framework has been expanded with the introduction of Intergovernmental Agreements, or IGAs, between the U.S. Treasury and foreign governments, which pursues a framework for intergovernmental cooperation to facilitate the implementation of FATCA. The United States and Japan have recently agreed to a framework for intergovernmental cooperation.

Because of the level of uncertainty and its significant impact on overall FATCA implementation, we are unable to assess with certainty the potential impact of FATCA on our operations at this moment. However, we expect to comply with FATCA, and the relevant obligations imposed thereunder, which require us to develop extensive systems capabilities and internal processes to identify and report U.S. account holders who are subject to FATCA requirements. Developing and implementing those capabilities and processes is likely to be a complex and costly process, and will require significant internal resources and failure to do so in an adequate manner may subject any institution to serious legal and reputational consequences, including the imposition of withholding taxes on certain amounts payable to such institution from U.S. sources.

## **Disclosure under Section 13(r) of the U.S. Securities Exchange Act of 1934**

Section 13(r) of the U.S. Securities Exchange Act of 1934 requires an issuer to disclose whether it or any of its affiliates knowingly engaged in certain activities, transactions or dealings relating to Iran or with natural persons or entities designated by the U.S. government under specified Executive Orders. The scope of activities that must be reported includes activities not prohibited by U.S. law and conducted outside the United States in compliance with applicable local law.

During the fiscal year ended March 31, 2013, one of our non-U.S. affiliates engaged in business activities with entities in or affiliated with Iran, including counterparties owned or controlled by the Iranian government. These activities were consistent with rules and regulations applicable to the non-U.S. affiliate. Specifically, our non-U.S. banking subsidiary, BTMU, issued letters of credit and guarantees and provided remittance and other settlement services mainly in connection with customer transactions related to the purchase and exportation of Iranian crude oil to Japan, and in some cases, in connection with other petroleum-related transactions with Iran by its customers. These transactions did not involve U.S. dollars nor clearing services of U.S. banks for the settlement of payments, and were reviewed for compliance with applicable U.S. and non-U.S. laws and regulations. For the fiscal year ended March 31, 2013, the aggregate interest and fee income relating to these transactions was less than ¥200 million, representing less than 0.01% of our total interest and fee income. Some of these transactions were conducted through the use of non-U.S. dollar correspondent accounts and other similar settlement accounts maintained with BTMU outside the United States by Iranian financial institutions and other



**Table of Contents**

entities in or affiliated with Iran. In addition to such accounts, BTMU has deposits in Japan from fewer than ten Iranian government-related entities and fewer than 100 Iranian government-related individuals such as Iranian diplomats, and maintains settlement accounts outside the United States for certain other financial institutions specified in Executive Order 13382, which settlement accounts were frozen in accordance with applicable laws and regulations. For the fiscal year ended March 31, 2013, the average aggregate balance of deposits held in these accounts represented less than 0.01% of the average balance of our total deposits. The fee income from the transactions attributable to these accounts was less than ¥5 million, representing less than 0.001% of our total fee income. BTMU also holds loans that were arranged prior to changes in applicable laws and regulations to borrowers in or affiliated with Iran, including entities owned by the Iranian government, the outstanding balance of which was approximately ¥500 million, representing less than 0.001% of our total loans, as of March 31, 2013. For the fiscal year ended March 31, 2013, the aggregate gross interest and fee income relating to these loan transactions was less than ¥50 million, representing less than 0.005% of our total interest and fee income.

BTMU will continue to limit its participation in these types of transactions mainly to arrange financing transactions relating to customer imports of Iranian crude oil into Japan, maintain accounts in Japan of Iranian entities and individuals, and obtain interest and fee income and repayment of principal in connection with existing loans to borrowers in or affiliated with Iran, in each case to the extent permitted by applicable laws and regulations.

**Table of Contents**

**C. Organizational Structure**

The following chart presents our corporate structure summary as of March 31, 2013:

Note:

(1) Consumer finance subsidiaries.



**Table of Contents**

Set forth below is a list of our principal consolidated subsidiaries at March 31, 2013:

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, 2012 and 2013 consisted of the following:

	At March 31, 2012                      2013 (in millions)	
Land	¥ 381,977	¥379,943
Buildings	708,223	723,902
Equipment and furniture	687,228	767,733
Leasehold improvements	233,123	236,353
Construction in progress	19,330	17,976
Total	2,029,881	2,125,907
Less accumulated depreciation	1,042,407	1,066,853
Premises and equipment net	¥ 987,474	¥1,059,054

Our registered address is 7-1, Marunouchi 2-chome, Chiyoda-ku, Tokyo 100-8330, Japan. At March 31, 2013, 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, 2013:

	Book value (in millions)
Owned land	¥379,943
Owned buildings	218,922

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, 2013, we invested approximately ¥139.8 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>	54
<u>Business Environment</u>	61
<u>Recent Developments</u>	69
<u>Critical Accounting Estimates</u>	72
<u>Accounting Changes and Recently Issued Accounting Pronouncements</u>	79
<b>A. <u>Operating Results</u></b>	79
<u>Results of Operations</u>	79
<u>Business Segment Analysis</u>	93
<u>Geographic Segment Analysis</u>	99
<u>Effect of Change in Exchange Rates on Foreign Currency Translation</u>	100
<b>B. <u>Liquidity and Capital Resources</u></b>	101
<u>Financial Condition</u>	101
<u>Capital Adequacy</u>	124
<u>Non-exchange Traded Contracts Accounted for at Fair Value</u>	129
<b>C. <u>Research and Development, Patents and Licenses, etc.</u></b>	130
<b>D. <u>Trend Information</u></b>	130
<b>E. <u>Off-Balance Sheet Arrangements</u></b>	130
<b>F. <u>Tabular Disclosure of Contractual Obligations</u></b>	131
<b>G. <u>Safe Harbor</u></b>	131

**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.

**Summary of Our Recent Financial Results**

The following table presents some key figures relating to our financial results:

	Fiscal years ended March 31,		
	2011	2012	2013
	(in billions, except per share data)		
Net interest income <sup>(1)</sup>	¥ 1,879.5	¥ 1,955.8	¥ 1,871.1
Provision for credit losses	292.0	223.8	144.5
Non-interest income <sup>(2)</sup>	1,694.8	1,440.6	2,068.0
Non-interest expense	2,460.5	2,322.7	2,378.7
Income before income tax expense	821.8	849.9	1,415.9
Net income before attribution of noncontrolling interests	388.1	420.7	1,119.9
Net income attributable to Mitsubishi UFJ Financial Group	452.6	416.2	1,069.1
Diluted earnings per common share net income available to common shareholders of Mitsubishi UFJ Financial Group	30.43	28.09	74.16

## Notes:

- (1) Interest income for the fiscal year ended March 31, 2012 includes a gain of ¥139.3 billion on the conversion rate adjustment of Morgan Stanley's convertible preferred stock. For more information, see Note 2 to our consolidated financial statements included elsewhere in this Annual Report.
- (2) Non-interest income for the fiscal year ended March 31, 2012 reflects an impairment loss of ¥579.5 billion on our investment in Morgan Stanley's common stock resulting from a decline in the quoted 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 more information, see Note 2 to our consolidated financial statements included elsewhere in this Annual Report.

We reported net income attributable to Mitsubishi UFJ Financial Group of ¥1,069.1 billion for the fiscal year ended March 31, 2013, an increase of ¥652.9 billion from ¥416.2 billion for the fiscal year ended March 31, 2012. Our diluted earnings per common share (net income available to common shareholders of Mitsubishi UFJ Financial Group) for the fiscal year ended March 31, 2013 was ¥74.16, an increase of ¥46.07 from ¥28.09 for the fiscal year ended March 31, 2012. Income before income tax expense for the fiscal year ended March 31, 2013 was ¥1,415.9 billion, an increase of ¥566.0 billion from ¥849.9 billion for the fiscal year ended March 31, 2012.

For the fiscal year ended March 31, 2013, our domestic revenue, which consists of interest income and non-interest income attributable to our operations in Japan, was ¥3,016.0 billion, while our total foreign revenue, which consists of interest income and non-interest income attributable to our operations outside of Japan, was ¥1,479.5 billion, with revenue attributable to our operations in the United States contributing ¥426.4 billion, Asia and Oceania excluding Japan contributing ¥585.5 billion, and Europe contributing ¥256.5 billion. As a percentage of total revenue, domestic revenue declined to 67.1% for the fiscal year ended March 31, 2013 from 72.8% for the previous fiscal year.

For the fiscal year ended March 31, 2013, domestic net income attributable to Mitsubishi UFJ Financial Group was ¥499.1 billion. Foreign net income attributable to Mitsubishi UFJ Financial Group was ¥570.0 billion for the same period. In particular, Asia and Oceania excluding Japan contributed ¥275.0 billion, while U.S. and Europe contributed ¥95.6 billion and ¥78.4 billion, respectively.

**Table of Contents**

More specifically, our net income attributable to Mitsubishi UFJ Financial Group for the fiscal year ended March 31, 2013 mainly reflected the following:

*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.

Net interest income for the fiscal year ended March 31, 2013 was ¥1,871.1 billion, a decrease of ¥84.7 billion from ¥1,955.8 billion for the fiscal year ended March 31, 2012. The higher interest income for the fiscal year ended March 31, 2012 reflected the one-time gain of ¥139.3 billion on the conversion rate adjustment of convertible preferred stock of Morgan Stanley. Excluding the one-time gain, net interest income would have increased between the same periods primarily because we increased our trading account assets particularly in foreign countries with higher interest rates compared to the previous fiscal year, while the average interest rate on interest bearing liabilities decreased due to lower interest rate environments. The average interest spread decreased 0.09 percentage points to 0.93% for the fiscal year ended March 31, 2013 from 1.02% for the fiscal year ended March 31, 2012 mainly due to the one-time gain on the conversion rate adjustment of Morgan Stanley's convertible preferred stock. In addition, the interest spread in Japan tightened as a result of the continuing low interest environment. Excluding the one-time gain, our average foreign interest spread would have improved primarily because we were able to effectively manage the yields on our interest-earning assets while interest rates on our interest-bearing liabilities decreased as market interest rates declined.

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, 2012 compared to the fiscal year ended March 31, 2011, and the fiscal year ended March 31, 2013 compared to the fiscal year ended March 31, 2012:

	Fiscal Year Ended March 31, 2011 versus Fiscal Year Ended March 31, 2012			Fiscal Year Ended March 31, 2012 versus Fiscal Year Ended March 31, 2013		
	Increase (decrease) due to changes in			Increase (decrease) due to changes in		
	Volume <sup>(1)</sup>	Rate <sup>(1)</sup>	Net change	Volume <sup>(1)</sup>	Rate <sup>(1)</sup>	Net change
	(in millions)					
Domestic	¥ (51,014)	¥ (36,835)	¥ (87,849)	¥ 34,889	¥ (108,724)	¥ (73,835)
Foreign <sup>(2)</sup>	43,905	120,290	164,195	174,449	(185,328)	(10,879)
<b>Total</b>	<b>¥ (7,109)</b>	<b>¥ 83,455</b>	<b>¥ 76,346</b>	<b>¥ 209,338</b>	<b>¥ (294,052)</b>	<b>¥ (84,714)</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 the conversion rate adjustment of Morgan Stanley's convertible preferred stock. For more information, see Note 2 to our consolidated financial statements included elsewhere in this Annual Report.

**Table of Contents**

The following table 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, 2011, 2012 and 2013:

	2011		Fiscal years ended March 31, 2012		2013	
	Average balance	Average rate	Average balance	Average rate	Average balance	Average rate
(in billions, except percentages)						
<b>Interest-earning assets:</b>						
Domestic	¥ 130,922.3	1.16%	¥ 130,856.7	1.07%	¥ 134,759.6	0.95%
Foreign <sup>(1)</sup>	49,338.1	2.08	53,322.4	2.24	59,064.7	1.95
<b>Total</b>	<b>¥ 180,260.4</b>	<b>1.41%</b>	<b>¥ 184,179.1</b>	<b>1.41%</b>	<b>¥ 193,824.3</b>	<b>1.25%</b>
<b>Financed by:</b>						
<b>Interest-bearing liabilities:</b>						
Domestic	¥ 126,908.2	0.29%	¥ 130,916.6	0.26%	¥ 135,974.9	0.21%
Foreign	34,436.5	0.87	34,504.0	0.88	37,424.6	0.73
<b>Total</b>	<b>161,344.7</b>	<b>0.42</b>	<b>165,420.6</b>	<b>0.39</b>	<b>173,399.5</b>	<b>0.32</b>
Non-interest-bearing liabilities	18,915.7		18,758.5		20,424.8	
<b>Total</b>	<b>¥ 180,260.4</b>	<b>0.37%</b>	<b>¥ 184,179.1</b>	<b>0.35%</b>	<b>¥ 193,824.3</b>	<b>0.29%</b>
Interest rate spread		0.99%		1.02%		0.93%
Net interest income as a percentage of total interest-earning assets		1.04%		1.06%		0.97%

Note:

- (1) Interest income on foreign activities for the fiscal year ended March 31, 2012 includes a gain of ¥139.3 billion on the conversion rate adjustment of Morgan Stanley's convertible preferred stock. For more information, see Note 2 to our consolidated financial statements included elsewhere in this Annual Report.

**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. The provision for credit losses for the year ended March 31, 2013 was ¥144.5 billion, a decrease of ¥79.3 billion from ¥223.8 billion for the previous fiscal year. For the details of the provision for credit losses and a description of the approach and methodology used to establish the allowance for credit losses, see B. Liquidity and Capital Resources Financial Condition Loan Portfolio.

**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,

**Table of Contents**

guarantee fees,

fees on investment funds business, and

other fees and commissions,

foreign exchange gains (losses) net, which include gains (losses) on foreign exchange derivative contracts (for example, foreign exchange gains (losses) on currency derivatives), foreign exchange gains (losses) other than derivative contracts (for example, gains (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),

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 earnings (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.

The following table is a summary of our non-interest income for the fiscal years ended March 31, 2011, 2012 and 2013:

	Fiscal years ended March 31,		
	2011	2012	2013
	(in billions)		
Fees and commissions income	¥ 1,128.4	¥ 1,100.0	¥ 1,160.9
Foreign exchange gains (losses) net	260.7	34.3	(39.0)

Edgar Filing: MITSUBISHI UFJ FINANCIAL GROUP INC - Form 20-F

Trading account profits net	133.9	667.3	570.3
Investment securities gains net	121.8	19.4	156.0
Equity in earnings (losses) of equity method investees net	(113.0)	(499.4)	60.2
Gains on sales of loans	14.5	15.6	14.8
Other non-interest income	148.5	103.4	144.8
Total non-interest income	¥ 1,694.8	¥ 1,440.6	¥ 2,068.0

Fees and commissions income for the fiscal year ended March 31, 2013 was ¥1,160.9 billion, an increase of ¥60.9 billion from ¥1,100.0 billion for the fiscal year ended March 31, 2012. This increase was partly due to an increase of ¥27.6 billion in fees and commissions from our securities business as a result of increased

## **Table of Contents**

cross-selling, customer referral and other coordinated efforts between our banking and securities subsidiaries and an increase in our underwriting activity. Other fees and commissions also increased ¥34.3 billion mainly due to an increase in brokerage fees at our banking subsidiaries both in Japan and overseas.

Net foreign exchange losses for the fiscal year ended March 31, 2013 were ¥39.0 billion, compared to ¥34.3 billion of net foreign exchange gains for the fiscal year ended March 31, 2012. The Japanese yen depreciated rapidly against major foreign currencies, including the U.S. dollar, towards the end of the fiscal year ended March 31, 2013 and thus contributed to an increase in yen-denominated foreign exchange gains related to financial instruments accounted for under the fair value option. However, this increase was more than offset by an increase in foreign exchange losses on other than derivative contracts resulting from an increase in foreign exchange trading losses and higher foreign exchange translation losses on monetary liabilities denominated in foreign currencies, which we assumed when the Japanese yen was higher.

Net trading account profits for the fiscal year ended March 31, 2013 were ¥570.3 billion, a decrease of ¥97.0 billion from ¥667.3 billion for the fiscal year ended March 31, 2012. The decrease in net trading account profits was largely due to a ¥160.4 billion decrease in net profits on interest rate and other derivative contracts, which in turn was mainly due to a ¥90.8 billion increase in net losses on equity contracts as a result of an increase in losses at our securities subsidiaries on short positions in equity index future transactions and to a ¥39.0 billion decrease in net profits on interest rate contracts as a result of losses on revaluation of interest rate swap contracts. These decreases were partially offset by a ¥63.4 billion increase in net profits on trading account securities, excluding derivatives, as a result of an increase in the volume of trading transactions, reflecting an improvement in general market conditions.

Net investment securities gains for the fiscal year ended March 31, 2013 were ¥156.0 billion, an increase of ¥136.6 billion from ¥19.4 billion for the fiscal year ended March 31, 2012. This increase was mainly due to a decrease of ¥62.6 billion in impairment losses on marketable equity securities, an increase of ¥43.0 billion in gains on sales of debt securities as a result of an increase in gains on sales of Japanese government bonds in the lower interest rate environment, and ¥30.7 billion of gains on sales of domestic equity securities as a result of an increase in gains on sales of domestic equity securities mainly due to an improvement in the domestic equity market.

Net equity in earnings of equity method investees for the fiscal year ended March 31, 2013 was ¥60.2 billion, compared to net equity in losses of equity method investees of ¥499.4 billion for the previous fiscal year, which included an other-than-temporary impairment loss of ¥579.5 billion on our investment in the common stock of Morgan Stanley. For further information, see Note 2 to our consolidated financial statements included elsewhere in this Annual Report.

## ***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 five areas: Retail, Corporate, Trust Assets, Global, and Global Markets. These five businesses serve as the core sources of our revenue. Operations that are not covered under the integrated business group system, which mainly consists of corporate center of MUFG, BTMU, MUTB and MUMSS and the elimination of net revenues amongst business segments, are classified under 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 practices and is not consistent with our consolidated financial statements included elsewhere in this Annual Report, which have been prepared in accordance with U.S. 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



**Table of Contents**

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, 2013 of the five core business areas and other based on our business segment information:

	<b>Integrated Retail Banking Business Group</b>	<b>Integrated Corporate Banking Business Group</b>	<b>Integrated Trust Assets Business Group</b>	<b>Integrated Other than UNBC</b>	<b>Integrated Global Business Group</b>	<b>Total</b>	<b>Global Markets</b>	<b>Other</b>	<b>Total</b>
	(in billions)								
Net revenue	¥ 1,206.5	¥ 856.6	¥ 138.8	¥ 466.8	¥ 288.5	¥ 755.3	¥ 761.6	¥ (2.3)	¥ 3,716.5
Operating expenses	912.6	439.9	88.3	245.8	205.4	451.2	140.5	176.4	2,208.9
Operating profit (loss)	¥ 293.9	¥ 416.7	¥ 50.5	¥ 221.0	¥ 83.1	¥ 304.1	¥ 621.1	¥ (178.7)	¥ 1,507.6

**Summary of Our Recent Financial Condition**

The following table presents some key figures relating to our financial condition in assets:

	At March 31,	
	2012	2013
	(in trillions)	
Total assets	¥ 215.20	¥ 230.56
Net loans	91.01	97.25
Loans, net of unearned income, unamortized premiums and deferred loan fees	92.30	98.59
Allowance for credit losses	(1.29)	(1.34)
Investment securities	61.04	61.87
Securities available for sale	57.74	58.84
Securities being held to maturity	2.39	2.13
Trading account assets	34.95	40.83
Trading securities	23.40	26.18
Trading derivative assets	11.56	14.65

Total assets as of March 31, 2013 were ¥230.56 trillion, an increase of ¥15.36 trillion from ¥215.20 trillion at March 31, 2012.

Our total loans outstanding as of March 31, 2013 were ¥98.59 trillion, an increase of ¥6.29 trillion from ¥92.30 trillion as of March 31, 2012. Before unearned income, net unamortized premium and net deferred loan fees, our loan balance as of March 31, 2013 consisted of ¥69.44 trillion of domestic loans and ¥29.27 trillion of foreign loans. The increase in domestic loans of ¥1.24 trillion between March 31, 2012 and 2013 was primarily due to an increase in loans to government institutions because of the expanding government expenditures and declining tax revenue. The increase in foreign loans of ¥5.08 trillion between March 31, 2012 and 2013 was primarily due to the appreciation of the relevant foreign currencies against the Japanese yen and the expansion of the foreign operations of our banking subsidiaries.

Total allowance for credit losses as of March 31, 2013 was ¥1,336.0 billion, an increase of ¥50.5 billion from ¥1,285.5 billion as of March 31, 2012. The increase mainly reflected the increase in our total loan volume.

Total investment securities as of March 31, 2013 were ¥61.87 trillion, an increase of ¥0.83 trillion from ¥61.04 trillion as of March 31, 2012. The increase of ¥0.83 trillion consisted of an increase of ¥1.10 trillion in securities available for sale mainly due to an increase in marketable equity securities reflecting strong equity markets and increased investments in Japanese government bonds by our trust banking subsidiaries, and a decrease of ¥0.26 trillion in securities being held to maturity mainly due to the redemption of bonds held by our trust banking subsidiaries without creating new positions, partially offset by an increase in asset-backed securities, or ABS, invested in by our banking subsidiaries.

**Table of Contents**

Trading account assets as of March 31, 2013 were ¥40.83 trillion, an increase of ¥5.88 trillion from ¥34.95 trillion as of March 31, 2012. This increase consisted of an increase of ¥2.78 trillion in trading securities and an increase of ¥3.09 trillion in trading derivative assets. The increase in trading securities was mainly due to an increase in Japanese national government bonds in our securities portfolio reflecting the relatively favorable market conditions for such bonds towards the end of the fiscal year ended March 31, 2013. The depreciation of the Japanese yen against major foreign currencies also resulted in an increase in the Japanese yen equivalent amount of foreign currency denominated bonds. The increase in trading derivative assets was mainly due to an increase in interest rate swap assets in overseas offices in our banking and securities subsidiaries.

The following table presents some key figures relating to our financial condition in liabilities:

	At March 31, 2012      2013 (in trillions)	
Total liabilities	¥ 206.34	¥ 219.62
Total deposits	139.49	148.21
Domestic	114.59	118.33
Overseas	24.90	29.88
Payables under repurchase agreements	13.57	15.70
Other short-term borrowings	10.88	11.61
Trading account liabilities	11.97	14.97
Long-term debt	12.59	12.18

Total liabilities as of March 31, 2013 were ¥219.62 trillion, an increase of ¥13.28 trillion from ¥206.34 trillion as of March 31, 2012.

Total deposits as of March 31, 2013 were ¥148.21 trillion, an increase of ¥8.72 trillion from ¥139.49 trillion as of March 31, 2012. Of the ¥8.72 trillion increase, ¥3.74 trillion was attributable to our domestic offices, and ¥4.98 trillion was to our foreign offices. The increase in domestic offices was mainly due to an increase of ¥3.39 trillion in interest-bearing deposits in our banking subsidiaries, while the increase in overseas offices was mainly due to an increase of ¥4.20 trillion in interest-bearing deposits in foreign branches of our banking subsidiaries and Union Bank. Approximately 65% of the increase in deposits was due to the revaluation of foreign assets based on the depreciated Japanese yen, and approximately 10% of the increase was due to the acquisition of banking institutions by Union Bank.

Payables under repurchase agreements as of March 31, 2013 were ¥15.70 trillion, an increase of ¥2.13 trillion from ¥13.57 trillion as of March 31, 2012. This increase was primarily due to an increase in the volume of transactions by our banking subsidiaries and the depreciation of the Japanese yen against other currencies.

Other short-term borrowings as of March 31, 2013 were ¥11.61 trillion, an increase of ¥0.73 trillion from ¥10.88 trillion as of March 31, 2012. The increase was primarily due to an increase in borrowings from the Bank of Japan and issuances of commercial paper outside of Japan by our banking and trust banking subsidiaries.

Trading account liabilities as of March 31, 2013 were ¥14.97 trillion, an increase of ¥3.00 trillion from ¥11.97 trillion as of March 31, 2012. This is mainly due to increases in liabilities related to interest rate swaps and currency swaps traded in the U.S. and Asian branches of our banking and securities subsidiaries.



## Edgar Filing: MITSUBISHI UFJ FINANCIAL GROUP INC - Form 20-F

Long-term debt as of March 31, 2013 was ¥12.18 trillion, a decrease of ¥0.41 trillion from ¥12.59 trillion as of March 31, 2012. This decrease was mainly due to decreases in subordinated borrowings and obligations under loan securitization transactions, and the redemption of subordinated bonds issued by our banking subsidiaries, partially offset by an increase in long-term borrowings by our banking and securities subsidiaries.

**Table of Contents****Shareholders Equity**

The following table presents some key figures relating to MUFG shareholders equity:

	At March 31,	
	2012	2013
	(in trillions)	
Shareholders equity	¥ 8.58	¥ 10.61
Retained earnings	0.72	1.60
Unrealized gains on investment securities available for sale, net of tax	0.48	1.11
Foreign currency translation adjustment, net of tax	(0.68)	(0.21)

Shareholders equity as of March 31, 2013 was ¥10.61 trillion, an increase of ¥2.03 trillion from ¥8.58 trillion as of March 31, 2012.

Retained earnings as of March 31, 2013 were ¥1.60 trillion, an increase of ¥0.88 trillion from ¥0.72 trillion as of March 31, 2012, reflecting higher net income of our banking and trust banking subsidiaries for the fiscal year ended March 31, 2013 compared to the previous fiscal year. We raised our annual dividend to ¥13 per share for the fiscal year ended March 31, 2013 from ¥12 per share for the previous fiscal year.

Unrealized gains on investment securities available for sale, net of tax, as of March 31, 2013 were ¥1.11 trillion, an increase of ¥0.63 trillion from ¥0.48 trillion as of March 31, 2012. These increases were mainly due to the general decline in short-term interest rates in the bond market and favorable price movements in the equity market after the implementation of measures under the Japanese government's new economic policy generally referred to as Abe-nomics and measures under the Bank of Japan's quantitative and qualitative monetary easing policy.

Foreign currency translation adjustment, net of tax, as of March 31, 2013 was a negative adjustment of ¥0.21 trillion, an improvement of ¥0.47 trillion from a negative adjustment of ¥0.68 trillion as of March 31, 2012. This improvement was mainly due to the positive impact of the depreciation of the Japanese yen against other currencies on foreign currency translation adjustments related to our investment in Morgan Stanley, UNBC, and banking subsidiaries in China as well as redemption of mutual fund investments focused on foreign bonds.

**Business Environment**

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

general economic conditions;

interest rates;

currency exchange rates; and

stock and real estate prices.

***Economic Environment in Japan***

The stagnant economic conditions in Japan that began with the recent global financial crisis in 2008 and was further impacted by the Great East Japan Earthquake in March 2011 generally continued through the end of the

**Table of Contents**

calendar year 2012. Signs of improvement started to emerge after the Abe administration took office in December 2012 and began to propose and implement various measures under an economic reform policy generally referred to as the Abe-nomics policy.

The Japanese government announced three fundamental strategies to its policy. As part of the first fundamental strategy, a series of anti-deflation and other monetary measures are being implemented in coordination with the Bank of Japan. Under the new leadership appointed by Prime Minister Abe, the Bank of Japan has put forth an inflation target of 2% in terms of a year-on-year rate of change in the consumer price index to be achieved within two years, and has begun to implement measures under its quantitative and qualitative monetary easing policy. The policy measures set forth by the Bank of Japan include:

money market operations with an aim to double Japan's monetary base in two years,

market purchases of Japanese national government bonds of up to approximately ¥7.5 trillion per month, and

market purchases of exchange-traded funds, Japanese real estate investment trusts, commercial paper and corporate bonds.

The second fundamental strategy set forth by the Abe administration includes increased government spending to stimulate the economy. The third fundamental strategy includes deregulation and other growth measures and plans focused on, among other things, the health, energy, infrastructure and agriculture sectors, foreign investment and trade, as well as labor and employment.

There is still significant uncertainty surrounding Japan's economy, including the medium and long-term effect of these measures on Japan's economy. 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.

The following table sets forth the growth rates of Japan's real gross domestic product and its components on a quarter-on-quarter basis for the periods indicated:

	(Unit: %)											
	2010				Calendar Year 2011				2012			
	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q
Gross Domestic Product	1.0	1.5	(0.3)	(2.0)	(0.8)	2.7	0.2	1.2	(0.2)	(0.9)	0.3	1.0
Private Consumption	0.1	1.4	(0.2)	(1.6)	0.9	1.4	0.7	0.8	0.2	(0.4)	0.4	0.9
Private Residential Investment	1.0	0.4	3.8	1.7	(2.4)	4.9	(0.9)	(1.5)	2.3	1.5	3.5	1.9
Private Non-Residential Investment	4.6	1.1	(1.6)	0.2	(0.3)	1.8	8.1	(2.5)	(0.2)	(3.3)	(1.5)	(0.3)
Government Consumption	1.5	0.3	0.5	0.1	0.3	0.2	0.3	1.5	0.2	0.4	0.7	0.4
Public Investment	(8.2)	1.8	(1.6)	(4.4)	0.9	(0.5)	(2.4)	7.0	6.3	3.2	2.7	0.4
Exports	4.8	2.0	0.2	(0.8)	(7.1)	9.2	(3.0)	2.7	(0.0)	(4.4)	(2.9)	3.8
Imports	5.2	1.7	0.8	1.3	(0.4)	3.3	1.7	2.0	1.8	(0.3)	(2.2)	1.0

Source: Cabinet Office, Government of Japan

## Edgar Filing: MITSUBISHI UFJ FINANCIAL GROUP INC - Form 20-F

Japan's GDP declined for the two consecutive quarters ended September 30, 2012 and grew for the two consecutive quarters ended March 31, 2013, resulting in annual GDP growth of 1.2% for the fiscal year ended March 31, 2013, compared to the previous fiscal year. The following trends were observed in the components of Japan's GDP in recent periods:

Private consumption weakened during the quarter ended September 30, 2012 due to declines in demand for television sets, personal computers and automobiles. Private consumption improved in the subsequent quarters particularly after the inauguration of the Abe administration. Private consumption

**Table of Contents**

may significantly weaken, however, when the consumption tax rate is raised from the current 5% to 8% in April 2014 and further to 10% in October 2015 in accordance with the legislation enacted by the Japanese Diet in August 2012.

Private residential investment grew during the fiscal year ended March 31, 2013, primarily due to a larger number of new housing constructions in the northeastern part of Japan, which suffered damages from the Great East Japan Earthquake. However, private residential spending may significantly weaken after the expected increase in the consumption tax rate.

Private non-residential investment decreased during the fiscal year ended March 31, 2013. Corporate investments in the electronics, automobile, personal computer and industrial machinery manufacturing industries declined due to weaker demand for such products.

Government consumption grew during the fiscal year ended March 31, 2013 mainly due to increased social benefit expenses, including government spending on medical and nursing care services.

Public investment grew during the fiscal year ended March 31, 2013 primarily due to increased public projects in the northeastern part of Japan, which suffered damages from the Great East Japan Earthquake.

Net exports, which represents exports less imports, were adversely affected by declining exports for the three quarters ended December 31, 2012 primarily due to the stagnant global economy. Exports to China rapidly decreased during the same period because of the diplomatic tension between Japan and China. Exports grew during the quarter ended March 31, 2013 mainly due to an increase in exports of automobiles, following the depreciation of the Japanese yen against other currencies. Imports also grew during the quarter ended March 31, 2013 mainly due to larger volumes of petroleum, natural gas and coals imported to meet the increased need for such natural resources for thermal electricity generation after the Great East Japan Earthquake.

The following table sets forth the growth rates of Japan's nationwide consumer price indices on a quarter-on-quarter basis for the periods indicated:

	Calendar Year											
	2010			2011				2012			2013	
	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q
Consumer Price Index	0.1%	(0.6)%	0.2%	(0.3)%	0.2%	0.0%	(0.2)%	0.3%	0.1%	(0.6)%	(0.1)%	(0.1)%

Source: Ministry of Internal Affairs and Communications of Japan

Japan's consumer prices increased in April and May 2013 with the rate of growth of the nationwide price indices on month-on-month basis being 0.3% in April 2013 and 0.1% in May 2013.

The following table sets forth Japan's nationwide unemployment rates for the periods indicated:

	Calendar Year											
	2010			2011				2012			2013	
	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q
Unemployment Rate	5.3%	5.1%	4.8%	4.8%	4.8%	4.5%	4.3%	4.5%	4.6%	4.3%	4.0%	4.3%

Source: Ministry of Internal Affairs and Communications of Japan

Japan's nationwide unemployment rate for May 2013 was 4.1%.

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 Japanese economy. Euro-yen-3-month Tokyo Interbank Offered Rate, or TIBOR, was around 0.23% as of early July 2013, the lowest level since 2006, reflecting the monetary policy of the Bank of Japan. Long-term interest rates have fluctuated significantly since the introduction of the Abe-nomics measures. The yield on newly issued ten-year Japanese national government bonds fell to the historical

**Table of Contents**

low level of around 0.325% shortly after the introduction of the Abe-nomics measures, and rose to around 1% in May 2013 due to concerns over the impact of increasing government spending and debt on Japan's financial health and a general shift in investors' allocation of capitals from the debt markets to the improving stock markets. Since late May 2013, the newly issued ten-year Japanese national government bonds has been trading in a range of 0.8% to 0.9%.

The following chart shows the interest rate trends in Japan since April 2011:

Source: Bank of Japan

With regard to the Japanese stock market, the closing price of the Nikkei Stock Average, which is the average of 225 blue chip stocks listed on the Tokyo Stock Exchange, decreased from ¥10,083.56 on March 30, 2012 to ¥8,870.16 at September 28, 2012. After declining to an intra-day low of ¥8,238.96 in early June 2012, the Nikkei Stock Average remained weak around the mid-high ¥8,000 level throughout October 2012. The weakness in stock prices reflected the general sentiment of persistent risk aversion and uncertainty surrounding the economy, affected by multiple factors such as the European sovereign debt problems, the possibility of global economic recession, and the appreciation of the Japanese yen which adversely affected the Japanese export industry. The Nikkei Stock Average began to improve in December 2012 due to stronger demand from foreign investors in anticipation of the positive impact of the Abe-nomics measures on the Japanese economy, rising to ¥12,397.91 at the end of trading on March 29, 2013 and further to an intra-day high of ¥15,942.60 on May 23, 2013.

The Tokyo Stock Price Index, or TOPIX, a composite index of all stocks listed on the First Section of the Tokyo Stock Exchange, similarly fluctuated from April 2012 through early December 2012 due to the same reasons as those for the Nikkei Stock Average. The TOPIX generally maintained a downward trend until it reached an intra-day low of 692.18 in early June 2012, and remained at around the mid to high 700s throughout early December 2012. TOPIX began to improve in late December 2012, rising to 1,034.71 at the end of trading on March 29, 2013 and further to an intra-day high of 1,289.77 on May 23, 2013.



**Table of Contents**

The stock prices have since remained volatile with the Nikkei Stock Average declining to ¥12,415.85 on June 13, 2013 and increasing to ¥14,497.65 on July 8, 2013, and TOPIX declining to 1,033.02 on June 7, 2013 and increasing to 1,202.44 on July 8, 2013. The fluctuations in stock prices have reflected investors' uncertainty over the effectiveness of the current governmental policies and future changes in such policies in major markets. For example, foreign investors increased their investments in financial products in response to the monetary easing policies in Japan and the United States. After the FRB commenced discussions of its strategy to exit from the current monetary easing policy in the United States, investors began to reduce their investments in the financial market. In addition, investors remain alert to the economic conditions in the Eurozone as well as Japan.

The following chart shows the daily closing price of the Nikkei Stock Average since April 2011:

The Japanese yen appreciated against other currencies, including against the US dollar, from the closing price of ¥82.87 to U.S.\$1 on March 30, 2012 to the historical low of ¥77.13 on September 13, 2012, despite the Bank of Japan's efforts to mitigate the trend. The Japanese yen appreciation was mainly due to reduced outflow of capital from Japan as interest rates globally decreased significantly to near-zero levels. After the Abe administration took office in December 2012, the Japanese yen depreciated rapidly in response to the Bank of Japan's monetary policy measures. As a result, the Japanese yen depreciated to the closing price of ¥94.22 to U.S.\$1 as of March 29, 2013, and further depreciated to ¥103.74 to U.S.\$1 as of May 22, 2013. As of July 8, 2013, the Japanese yen stood at the closing price of ¥100.97 to U.S.\$1.

**Table of Contents**

The following chart shows the foreign exchange rates expressed in Japanese yen per U.S. dollar since April 2011:

Source: Bank of Japan

Based on a survey conducted of land prices by the Japanese government, the average residential land prices in Japan declined by 1.6% between January 1, 2012 and January 1, 2013. The average commercial land prices in Japan also declined by 2.1% during the same period. In the three major metropolitan areas of Tokyo, Osaka and Nagoya, the average residential land prices declined by 0.6% between January 1, 2012 and January 1, 2013, while the average commercial land prices in those areas declined by 0.5% during the same period. In the local regions of Japan, which consist of regions other than the three major metropolitan areas in Japan, average residential land prices continued to decline with the rate of decline between January 1, 2012 and January 1, 2013, being 2.5%, and commercial land prices also continued to decline with the rate of decline between January 1, 2012 and January 1, 2013, being 3.3%.

According to Teikoku Databank, a Japanese research institution, the number of companies that filed for legal bankruptcies in Japan from April 2012 to March 2013 was approximately 10,700, a decrease of 6.3% from the same period of the previous year. 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 following the Great East Japan Earthquake. The number of companies that filed for legal bankruptcy with debt exceeding ¥10 billion was 26 in the fiscal year ended March 31, 2013, the lowest number in ten years. As a percentage of the total number of legal bankruptcy filings made in the same fiscal year, the number of such filings made by businesses that are either unincorporated or capitalized at less than ¥10 million constituted 54.8%. The aggregate amount of liabilities subject to bankruptcy filings from April 2012 to March 2013 was approximately ¥2.93 trillion, a decrease of ¥0.99 trillion, excluding financial institutions' bankruptcy filings. As a result, the aggregate amount of liabilities subject to bankruptcy filings decreased approximately 25.2% compared to the same period of the previous year.

**Table of Contents****International Financial Markets***U.S. Economy*

The U.S. economy demonstrated signs of continued improvement during the fiscal year ended March 31, 2013. However, since the economy continued to lack strong evidence of sustained growth, 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 December 2012, the Federal Open Market Committee, or the FOMC, announced that it will continue to maintain the zero interest rate policy at least as long as the unemployment rate remains above 6.5%, inflation between one and two years ahead is projected to be no more than 0.5 percentage points above the FOMC's 2% target, and longer-term inflation expectations continue to be well anchored. Additionally, in January 2013, the FOMC stated that it will continue purchasing agency mortgage-backed securities at a pace of \$40 billion per month and longer-term Treasury securities at a pace of \$45 billion per month to lower long-term interest rates and support sustained economic growth. Recently, the FRB commenced discussing its strategy to exit from the current monetary easing policy.

The following table sets forth the growth rates of U.S. real gross domestic product and its components on a quarter-on-quarter basis for the periods indicated:

	(Unit: %)											
	2010				Calendar Year 2011				2012			
	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q
Gross Domestic Product	2.2	2.6	2.4	0.1	2.5	1.3	4.1	2.0	1.3	3.1	0.4	1.8
Personal Consumption Expenditures	2.6	2.5	4.1	3.1	1.0	1.7	2.0	2.4	1.5	1.6	1.8	2.6
Gross Private Domestic Investment	14.6	16.4	(5.9)	(5.3)	12.5	5.9	33.9	6.1	0.7	6.6	1.3	7.4
Fixed Investment	14.5	(1.0)	7.6	(1.3)	12.4	15.5	10.0	9.8	4.5	0.9	14.0	3.0
Non-residential	12.3	7.7	9.2	(1.3)	14.5	19.0	9.5	7.5	3.6	(1.8)	13.2	0.4
Residential	23.1	(28.6)	1.5	(1.4)	4.1	1.4	12.1	20.5	8.5	13.5	17.6	14.0
Government Consumption Expenditures and Gross Investment	2.8	(0.3)	(4.4)	(7.0)	(0.8)	(2.9)	(2.2)	(3.0)	(0.7)	3.9	(7.0)	(4.8)
Exports	9.6	9.7	10.0	5.7	4.1	6.1	1.4	4.4	5.3	1.9	(2.8)	(1.1)
Imports	20.2	13.9	0.0	4.3	0.1	4.7	4.9	3.1	2.8	(0.6)	(4.2)	(0.4)

Source: U.S. Department of Commerce Bureau of Economic Analysis

The U.S. economy grew during the fiscal year ended March 31, 2013. Although Hurricane Sandy which affected the east coast of the United States at the end of October 2012 adversely affected the rate of growth during the October-December 2012 period, the U.S. economy maintained a positive growth of 0.4% during the same period, reflecting strong consumption. Consumption, which accounts for approximately 70.9% of the U.S. real GDP, demonstrated consistent growth during the fiscal year ended March 31, 2013, mainly due to increase in purchasing activities resulting from higher residential property and equity prices.

Government Consumption generally decreased during the fiscal year ended March 31, 2013. The positive growth of 3.9% in the July-September 2012 period was mainly attributable to the increase in the defense expenditure.

Consumer Price Index for All Urban Consumers, or CPI-U, for all items increased by 1.5% before seasonal adjustment over the 12 months ended March 31, 2013. CPI-U, however, decreased by 0.4% in April 2013 followed by an increase of 0.1% in May 2013 from that of the preceding month on a seasonally adjusted basis.

Housing prices showed signs of improvement during the fiscal year ended March 31, 2013. As of April 2013, the Federal Housing Finance Agency's U.S. house price index exhibited a 15 consecutive month price increase in the purchase-only, seasonally adjusted index. With the FRB's monetary easing policy and the purchase of mortgage-backed securities, the housing related statistics including the number of houses sold and the housing prices showed signs of recovery in the housing markets.

**Table of Contents**

Stock prices in the United States have been fluctuating during the first half of the fiscal year ended March 31, 2013 but since mid-November 2012, U.S. stock prices have been improving, with the Dow Jones Industrial Average reaching a historical high price of 15,542.40, and the NASDAQ composite index reaching 3,532.04 on May 22, 2013. The stock prices have since remained volatile with the Dow Jones Industrial Average fluctuating between mid-14,000s and mid-15,000s and the NASDAQ composite index fluctuating between 3,200s and 3,500s.

The following table sets forth U.S. unemployment rates on a month-on-month basis for the periods indicated:

	Apr. 2012	May 2012	Jun. 2012	Jul. 2012	Aug. 2012	Sep. 2012	Oct. 2012	Nov. 2012	Dec. 2012	Jan. 2013	Feb. 2013	Mar. 2013	Apr. 2013	May 2013	Jun. 2013
Unemployment Rate	8.1%	8.2%	8.2%	8.2%	8.1%	7.8%	7.9%	7.8%	7.8%	7.9%	7.7%	7.6%	7.5%	7.6%	7.6%

Source: United States Department of Labor, Bureau of Labor Statistics, BLS Information

*Eurozone Economy*

The Eurozone economy remained weak during the fiscal year ended March 31, 2013. In September 2012, the European Central Bank, or the ECB, introduced Outright Monetary Transactions where the ECB will purchase the bonds from the markets. In July 2012, the ECB lowered its policy rate to 0.75%, and in May 2013, the ECB lowered the policy rate to 0.5%, the historical low level, to stimulate the Eurozone economy.

The following table sets forth the growth rates of Eurozone real gross domestic product and its main expenditure components on a quarter-on-quarter basis for the periods indicated:

	Calendar Year												(Unit: %)
	2010			2011				2012				2013	
	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	
Gross Domestic Product	1.0	0.4	0.4	0.7	0.2	0.1	(0.3)	(0.1)	(0.2)	(0.1)	(0.6)	(0.3)	
Private Final Consumption	0.2	0.3	0.5	0.0	(0.5)	0.3	(0.8)	(0.2)	(0.5)	(0.1)	(0.6)	0.0	
Gross Fixed Capital Formation	1.8	0.1	(0.6)	2.2	(0.4)	(0.5)	(0.6)	(1.3)	(1.8)	(0.8)	(1.5)	(1.9)	
Government Final Consumption	0.1	0.4	0.0	(0.2)	0.0	(0.1)	0.1	(0.1)	(0.3)	(0.1)	0.0	(0.2)	
Exports	4.5	1.9	2.0	1.8	0.5	1.3	0.0	0.8	1.5	0.8	(0.9)	(0.9)	
Imports	4.1	1.3	1.8	1.5	(0.1)	0.5	(1.4)	0.0	0.3	0.2	(1.2)	(1.2)	

Source: European Central Bank Eurosystem

Gross Domestic Product: Real GDP in the Eurozone economy showed negative growth during the fiscal year ended March 31, 2013. Consumption showed negative growth during the fiscal year ended March 31, 2013 mainly due to weak labor markets and the tight fiscal policies that the Eurozone countries introduced.

## Edgar Filing: MITSUBISHI UFJ FINANCIAL GROUP INC - Form 20-F

The net exports were positive during the fiscal year ended March 31, 2013 because of smaller volume of imports reflecting lower demand for products generally within the Eurozone.

The following table sets forth Eurozone unemployment rates on a month-on-month basis for the periods indicated:

	<b>Apr. 2012</b>	<b>May 2012</b>	<b>Jun. 2012</b>	<b>Jul. 2012</b>	<b>Aug. 2012</b>	<b>Sep. 2012</b>	<b>Oct. 2012</b>	<b>Nov. 2012</b>	<b>Dec. 2012</b>	<b>Jan. 2013</b>	<b>Feb. 2013</b>	<b>Mar. 2013</b>	<b>Apr. 2013</b>	<b>May 2013</b>
Unemployment Rate	11.2%	11.3%	11.4%	11.4%	11.5%	11.6%	11.7%	11.8%	11.9%	12.0%	12.1%	12.1%	12.1%	12.2%

Source: European Central Bank Eurosystem

## **Table of Contents**

The unemployment rate slowly increased during the fiscal year ended March 31, 2013, recording 12.1% as of March 2013. The unemployment rate remained the same in April 2013 and increased to 12.2% in May 2013, marking a historical high rate.

## **Recent Developments**

We continue to pursue global growth opportunities, including opportunities to strengthen our business in Southeast Asia and expand the operation of Union Bank in the United States during the fiscal year ended March 31, 2013. 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. In order to respond to the increasingly complex market and legal risks, we will continue to enhance our compliance and internal control frameworks.

### ***Share Tender Agreement with GE Capital Regarding Bank of Ayudhya***

On July 2, 2013, BTMU entered into a share tender agreement with GE Capital regarding GE Capital's shareholding in Bank of Ayudhya Public Company Limited, or Krungsri, in Thailand. Under the agreement, BTMU will launch a voluntary tender offer for the Krungsri shares at THB 39 per shares upon satisfaction of regulatory and corporate approvals and other conditions. GE Capital has agreed to tender all of the shares it holds in Krungsri, constituting approximately 25.33% of the total outstanding shares of Krungsri, in the tender offer. There is no minimum or maximum acceptance condition for the tender offer. BTMU aims to launch the tender offer in November 2013 and close the transaction in December 2013. If BTMU acquires expected maximum of approximately 75% of Krungsri's total outstanding shares through the tender offer based on the assumption that the shares held by Ratanarak Group, which is a group of existing major shareholders in Krungsri holding approximately 25% of the total outstanding shares of Krungsri, will not be tendered in the tender offer, the total purchase price will be approximately ¥560 billion based on the currency exchange rate of ¥3.16 to the Thai baht.

Krungsri, which was established in 1945, is the fifth-largest commercial bank in Thailand in terms of assets. Krungsri provides banking, consumer finance, investment, asset management, and other financial products and services to individual consumers, SMEs, and large corporation through 601 branches and over 19,000 service outlets in Thailand. Through the contemplated strategic investment in Krungsri, BTMU aims to: (1) establish a full commercial banking platform in Thailand and respond to various customers' needs with comprehensive financial services, (2) accelerate our Asian growth strategy through the expansion of retail and SME banking business along with further expansion of corporate banking business, (3) provide high-value financial services to a variety of clients by mutually complementing each other, namely the use of Krungsri's local franchise and BTMU's global expertise, retaining current solid operational platforms, and (4) accelerate expansion of business in Greater Mekong, which BTMU believes offers high growth potential driven by the establishment of ASEAN Economic Community (AEC) in 2015, by leveraging Krungsri as a platform.

### ***MUTB's Acquisition of Butterfield Fulcrum Group***

In June 2013, MUTB entered into a stock purchase agreement to acquire FGL Lux Holdings, S.a r.l., a holding company of Butterfield Fulcrum Group headquartered in Bermuda. Butterfield Fulcrum Group is a global alternative fund administrator and services more than \$100 billion of client assets. The acquisition is expected to be completed in the fall of 2013, subject to certain customary closing conditions, including approvals from the relevant authorities.

*Recent Regulatory Developments in the United States*

BTMU conducted a self-initiated internal investigation in 2007 of transactions involving countries subject to U.S. sanctions and reported the results of the investigation to the Office of Foreign Assets Control, or OFAC, of



## **Table of Contents**

the U.S. Department of the Treasury, the New York State Department of Financial Services, or DFS, and other relevant regulators in 2008. After a series of deliberations and consultations with them, BTMU agreed to make an approximately \$8.6 million payment to OFAC in December 2012 to settle potential civil liability for apparent violations of certain U.S. sanctions regulations from 2006 to 2007. In June 2013, BTMU entered into a consent agreement with DFS to resolve issues relating to certain U.S. dollar payments that were routed through New York from 2002 to 2007. Under the terms of the agreement with DFS, BTMU made a civil monetary payment of \$250 million to DFS and will retain an independent consultant to conduct a compliance review of the relevant controls and related matters in BTMU's current operations. BTMU continues to cooperate closely with all relevant regulators and is undertaking necessary actions.

For a detailed description of these and other recent regulatory and legal developments, see Item 3.D. Key Information Risk Factors Risks Related to Our Business. We may become subject to regulatory actions or other legal proceedings relating to our transactions or other aspects of our operations, which could result in significant financial losses, restrictions on our operations and damage to our reputation.

### ***Union Bank's Acquisition of PB Capital Corporation's Institutional Commercial Lending Portfolio***

In June 2013, Union Bank acquired PB Capital Corporation's institutional commercial real estate lending division. Headquartered in New York, the commercial real estate lending division of PB Capital had approximately \$3.5 billion in loans outstanding on properties in various U.S. major metropolitan areas as of June 14, 2013.

### ***Union Bank's Agreement to Acquire Certain Assets of First Bank Association Bank Services***

In May 2013, Union Bank agreed to assume the deposits and acquire certain assets of First Bank Association Bank Services, a unit of First Bank, which provides a full range of services to homeowners associations and community management companies. The acquisition is subject to approval from banking regulators and other customary closing conditions, and is expected to be completed in the fall of 2013.

### ***Agreement to Invest in VietinBank***

In May 2013, BTMU acquired approximately 20% of the ordinary shares of Vietnam Joint Stock Commercial Bank for Industry and Trade, or VietinBank. VietinBank is one of the major Vietnamese state-owned commercial banks by asset size. BTMU's acquisition of newly issued shares for approximately 15.5 trillion Vietnamese Dong (equivalent to approximately ¥74.9 billion based on the currency exchange rate of ¥0.005 to the Vietnamese Dong) resulted in BTMU becoming the second largest shareholder of VietinBank. In addition, BTMU has appointed two directors to the VietinBank board. As a result, VietinBank is accounted for under the equity method beginning in the six months ending September 30, 2013.

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

In December 2012, UNBC completed its acquisition of Pacific Capital Bancorp, a bank holding company based in California, for \$1.5 billion. Upon completion of the transaction, Union Bank acquired \$3.8 billion in loans held for investment and \$4.7 billion in deposits.

*Union Bank's Acquisition of Smartstreet*

In October 2012, Union Bank acquired Smartstreet, formerly a division of Atlanta-based PNC Bank, N.A. with approximately \$1.0 billion in deposits. Smartstreet provides banking services nationwide to homeowners associations and community association management companies in the United States. As a result of Union Bank's acquisition, Smartstreet operates as a division of Union Bank, but retains its brand in the U.S. homeowner association market.

**Table of Contents****Exposures to Selected European Countries**

Several European countries, including Italy, Spain, Portugal, Ireland and Greece, have recently been experiencing severe weaknesses in their economic and fiscal situations in varying degrees of severity. We are closely monitoring our exposures in these countries.

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, 2013. 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 credit default swap, or 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, 2013						
	Loans (funded & unfunded)	Securities <sup>(1)</sup>	Derivatives <sup>(2)</sup>	CDS protection sold <sup>(3)</sup> (in billions)	Gross exposure (funded & unfunded)	CDS protection bought	Net exposure <sup>(4)</sup>
Italy	\$5.7	\$2.0	\$1.1	\$0.0	\$8.8	\$0.6	\$8.2
Sovereign		1.9			1.9		1.9
Financial Institutions	0.0	0.1	0.0	0.0	0.1	0.0	0.1
Others	5.7	0.0	1.1	0.0	6.8	0.6	6.2
Spain	4.7	0.3	0.0	0.0	5.0	0.3	4.7
Sovereign		0.1			0.1		0.1
Financial Institutions	0.0	0.1	0.0	0.0	0.1	0.0	0.1
Others	4.7	0.1	0.0	0.0	4.8	0.3	4.5
Portugal	0.4	0.0	0.0		0.4	0.1	0.3
Sovereign							
Financial Institutions	0.0	0.0			0.0		0.0
Others	0.4	0.0	0.0		0.4	0.1	0.3
Ireland	0.1	0.0	0.0		0.1		0.1
Sovereign		0.0			0.0		0.0
Financial Institutions		0.0	0.0		0.0		0.0
Others	0.1	0.0	0.0		0.1		0.1
Greece	0.0				0.0		0.0
Sovereign							
Financial Institutions							
Others	0.0				0.0		0.0
Total	\$10.9	\$2.3	\$1.1	\$0.0	\$14.3	\$1.0	\$13.3
Sovereign		2.0			2.0		2.0
Financial Institutions	0.0	0.2	0.0	0.0	0.2	0.0	0.2
Others	10.9	0.1	1.1	0.0	12.1	1.0	11.1

## Edgar Filing: MITSUBISHI UFJ FINANCIAL GROUP INC - Form 20-F

### Notes:

- (1) Securities include securities being held to maturity, securities available for sale, and trading securities. Securities being held to maturity are shown at amortized cost, and securities available for sale and trading securities are shown at fair value.
- (2) Derivatives amounts represent current exposures, taking into consideration legally enforceable master netting agreements.
- (3) CDS protection amounts represent notional amounts.
- (4) Net exposure represents gross exposure (funded & unfunded), net of CDS protection bought.
- (5) To the extent financial instruments are originally denominated in currencies other than U.S. dollars, the exposure amounts have been translated into U.S. dollars at an internal exchange rate used for our internal risk management purposes as of March 31, 2013.

## **Table of Contents**

Based on information collected for internal risk management purposes as of March 31, 2013, 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.

As of March 31, 2013, 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, 2013, we had a total balance of \$2.0 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 or Greek government bonds as of March 31, 2013. Approximately three quarters of our Italian and Spanish government bonds were held in our trading accounts as of March 31, 2013.

As of March 31, 2013, we had a total of \$11.3 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.

In addition to these exposures, we may also identify indirect exposures. Examples of indirect exposures include country risk exposures related to the collateral received on secured financing transactions. These indirect exposures are managed in the normal course of business through our credit, market and operational risk management framework.

## **Critical Accounting Estimates**

Our consolidated financial statements included elsewhere in this Annual Report are prepared in accordance with U.S. 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 best 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.

We divide our loan portfolio into the following segments Commercial, Residential, Card and UNBC based on the segments used to determine the allowance for credit losses. We further divide the Commercial segment into classes based on initial measurement attributes, risk characteristics, and our approach to monitoring and

## **Table of Contents**

assessing credit risk. 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 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, 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.

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*

U.S. 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



**Table of Contents**

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 Bankrupt or Bankrupt or de facto Bankrupt status under the Japanese banking regulations, Likely to become Bankrupt, Virtually Bankrupt

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 comprehensive income.

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.

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 unlisted preferred securities mainly issued by public companies as well as equity securities of companies that are not publicly traded or are thinly traded. The securities consist of cost-method investments, which are primarily carried at cost because their fair values are not readily determinable. For nonmarketable equity securities issued by public companies, such as preferred stock convertible to marketable common stock in the future, we estimate 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 other 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

## **Table of Contents**

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 on investments is other than temporary, through 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 on the basis of a 2006 ruling of the Japanese Supreme Court, or the Ruling. Under the Ruling, lenders are generally required to reimburse borrowers for interest payments made in excess of the limits stipulated by the Interest Rate Restriction 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.

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



## **Table of Contents**

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.

*Recognition and Measurement of 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 of management's control. To the extent that 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***

*Accounting for Goodwill.* U.S. GAAP requires us to test goodwill for impairment at least annually, or more frequently if events or changes in circumstances indicate that goodwill may be impaired, using a two-step

**Table of Contents**

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 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. 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.

*Accounting for Intangible Assets.* 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 U.S. 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 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 U.S. GAAP, actual results that differ from the assumptions are accumulated and amortized over future periods, and affect our recognized net

## **Table of Contents**

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 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 prices are not available to determine fair value of derivatives, the fair value is based upon valuation techniques that use, where possible, current market-based or independently sourced parameters, such as interest rates, yield curves, foreign exchange rates, volatilities and credit curves. The fair values of trading liabilities are determined by discounting future cash flows at a rate which incorporates our own creditworthiness. In addition, valuation adjustments may be made to ensure that the financial instruments are recorded at fair value. These adjustments include, but are not limited to, amounts that reflect counterparty credit quality, liquidity risk, and model risk. Our financial models are validated and periodically reviewed by risk management departments independent of divisions that created the models.

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





**Table of Contents****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, 2011, 2012 and 2013:

	Fiscal years ended March 31,		
	2011	2012	2013
	(in billions)		
Interest income <sup>(1)</sup>	¥ 2,550.2	¥ 2,595.9	¥ 2,427.5
Interest expense	670.7	640.1	556.4
<b>Net interest income</b>	<b>1,879.5</b>	<b>1,955.8</b>	<b>1,871.1</b>
Provision for credit losses	292.0	223.8	144.5
Non-interest income <sup>(2)</sup>	1,694.8	1,440.6	2,068.0
Non-interest expense	2,460.5	2,322.7	2,378.7
<b>Income before income tax expense</b>	<b>821.8</b>	<b>849.9</b>	<b>1,415.9</b>
Income tax expense	433.7	429.2	296.0
<b>Net income before attribution of noncontrolling interests</b>	<b>¥ 388.1</b>	<b>¥ 420.7</b>	<b>¥ 1,119.9</b>
Net income (loss) attributable to noncontrolling interests	(64.5)	4.5	50.8
<b>Net income attributable to Mitsubishi UFJ Financial Group</b>	<b>¥ 452.6</b>	<b>¥ 416.2</b>	<b>¥ 1,069.1</b>

## Notes:

- (1) Interest income for the fiscal year ended March 31, 2012 includes a gain of ¥139.3 billion on the conversion rate adjustment of Morgan Stanley's convertible preferred stock. For more information, see Note 2 to our consolidated financial statements included elsewhere in this Annual Report.
- (2) Non-interest income for the fiscal year ended March 31, 2012 reflects an impairment loss of ¥579.5 billion on our investment in Morgan Stanley's common stock resulting from a decline in the quoted 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 more information, see Note 2 to our consolidated financial statements included elsewhere in this Annual Report.

We reported net income attributable to Mitsubishi UFJ Financial Group of ¥1,069.1 billion for the fiscal year ended March 31, 2013, an increase of ¥652.9 billion from ¥416.2 billion for the fiscal year ended March 31, 2012. Our diluted earnings per common share (net income available to common shareholders of Mitsubishi UFJ Financial Group) for the fiscal year ended March 31, 2013 was ¥74.16, an increase of ¥46.07 from ¥28.09 for the fiscal year ended March 31, 2012. Income before income tax expense for the fiscal year ended March 31, 2013 was ¥1,415.9 billion, an increase of ¥566.0 billion from ¥849.9 billion for the fiscal year ended March 31, 2012.



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

The following table is a summary of the interest rate spread for the fiscal years ended March 31, 2011, 2012 and 2013:

	2011		Fiscal years ended March 31, 2012		2013	
	Average balance	Average rate	Average balance	Average rate	Average balance	Average rate
(in billions, except percentages)						
<b>Interest-earning assets:</b>						
Domestic	¥ 130,922.3	1.16%	¥ 130,856.7	1.07%	¥ 134,759.6	0.95%
Foreign <sup>(1)</sup>	49,338.1	2.08	53,322.4	2.24	59,064.7	1.95
<b>Total</b>	<b>¥ 180,260.4</b>	<b>1.41%</b>	<b>¥ 184,179.1</b>	<b>1.41%</b>	<b>¥ 193,824.3</b>	<b>1.25%</b>
<b>Financed by:</b>						
<b>Interest-bearing liabilities:</b>						
Domestic	¥ 126,908.2	0.29%	¥ 130,916.6	0.26%	¥ 135,974.9	0.21%
Foreign	34,436.5	0.87	34,504.0	0.88	37,424.6	0.73
<b>Total</b>	<b>161,344.7</b>	<b>0.42</b>	<b>165,420.6</b>	<b>0.39</b>	<b>173,399.5</b>	<b>0.32</b>
Non-interest-bearing liabilities	18,915.7		18,758.5		20,424.8	
<b>Total</b>	<b>¥ 180,260.4</b>	<b>0.37%</b>	<b>¥ 184,179.1</b>	<b>0.35%</b>	<b>¥ 193,824.3</b>	<b>0.29%</b>
Interest rate spread		0.99%		1.02%		0.93%
Net interest income as a percentage of total interest-earning assets		1.04%		1.06%		0.97%

Note:

(1) Interest income on foreign activities for the fiscal year ended March 31, 2012 includes a gain of ¥139.3 billion on the conversion rate adjustment of Morgan Stanley's convertible preferred stock. For more information, see Note 2 to our consolidated financial statements included elsewhere in this Annual Report.

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 U.S. 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 Trading account profits net. Therefore, our net interest income for each of the fiscal years ended March 31, 2011, 2012 and 2013 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, 2013 Compared to Fiscal Year Ended March 31, 2012**

Net interest income for the fiscal year ended March 31, 2013 was ¥1,871.1 billion, a decrease of ¥84.7 billion from ¥1,955.8 billion for the fiscal year ended March 31, 2012. The higher interest income for the fiscal year ended March 31, 2012 reflected the one-time gain of ¥139.3 billion on the conversion rate adjustment of convertible preferred stock of Morgan Stanley. Exclusive of the one-time gain, net interest income for the

## Edgar Filing: MITSUBISHI UFJ FINANCIAL GROUP INC - Form 20-F

fiscal year ended March 31, 2013 was ¥1,871.1 billion, an increase of ¥54.6 billion compared to the previous fiscal year, primarily due to a decrease in interest expense on deposits, short-term borrowings, and long-term debt reflecting the lower interest rate environment in the fiscal year ended March 31, 2013, and redemption of some of our subordinated bonds.

Interest income decreased ¥168.4 billion to ¥2,427.5 billion for the fiscal year ended March 31, 2013 from ¥2,595.9 billion for the previous fiscal year. For the fiscal year ended March 31, 2013, compared to the previous fiscal year, interest income on activities in Japan decreased ¥124.7 billion and interest income on foreign activities decreased ¥43.8 billion. The decrease in interest income on activities in Japan was primarily due to

**Table of Contents**

lower interest rates. The higher interest income on foreign activities for the fiscal year ended March 31, 2012 compared to the fiscal year ended March 31, 2013 reflected the one-time gain of ¥139.3 billion on the conversion rate adjustment of convertible preferred stock of Morgan Stanley.

Interest expense also decreased ¥83.7 billion to ¥556.4 billion for the fiscal year ended March 31, 2013 from ¥640.1 billion for the previous fiscal year. For the fiscal year ended March 31, 2013, compared to the previous fiscal year, interest expense on activities in Japan decreased ¥50.8 billion and interest expense on foreign activities decreased ¥32.9 billion. The lower interest expense on activities in Japan was mainly due to lower interest rates and redemption of some of our subordinated bonds. The lower interest expense on foreign activities was mainly due to lower interest rates.

The average interest rate spread (average interest rate for interest-earning assets minus average interest rate for interest-bearing liabilities) decreased 0.09 percentage points to 0.93% for the fiscal year ended March 31, 2013 from 1.02% for the previous fiscal year. For the fiscal year ended March 31, 2013 compared to the previous fiscal year, the average interest rate on interest-earning assets decreased 0.16 percentage points to 1.25% from 1.41%, while the average interest rate on interest-bearing liabilities decreased 0.07 percentage points to 0.32% from 0.39%, which resulted in the overall decrease in the average interest rate spread. The average interest rate spread on domestic activities decreased 0.07 percentage points to 0.74% for the fiscal year ended March 31, 2013 from 0.81% for the previous fiscal year as interest rates on interest-earning assets decreased at steeper rates than interest-bearing liabilities in the current near-zero interest rate environment. The average interest rate spread on foreign activities decreased 0.14 percentage points to 1.22% for the fiscal year ended March 31, 2013 from 1.36% for the previous fiscal year. Excluding the one-time gain on the conversion rate adjustment of Morgan Stanley's convertible preferred stock, our average foreign interest rate spread would have improved primarily because we were able to effectively manage the yields on our interest-earning assets while interest rates on our interest-bearing liabilities decreased as market interest rates declined.

In Japan, the Bank of Japan maintained its monetary easing policies and zero interest rate policy throughout the reporting period. As a result, the average interest rate on domestic interest-earning assets continued to decline while the average interest rate on domestic interest-bearing liabilities reached and remained at historically low levels. If the Bank of Japan continues to maintain its zero interest rate policy on its short-term policy interest rate as well as other monetary easing policies, our interest rate spread on domestic activities 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 activities may also be negatively impacted. Our interest rate spread may be affected by changes in long-term interest rates, which, for example, have been fluctuating to an increasing degree in Japan in recent periods due to wider fluctuations in long-term Japanese government bond prices.

Average interest-earning assets for the fiscal year ended March 31, 2013 were ¥193,824.3 billion, an increase of ¥9,645.2 billion from ¥184,179.1 billion for the fiscal year ended March 31, 2012. Average domestic interest-earning assets for the fiscal year ended March 31, 2013 were ¥134,759.6 billion, an increase of ¥3,902.9 billion from ¥130,856.7 billion for the previous fiscal year, mainly due to increases in loans, trading account assets and investment securities. The increase in domestic loans was mainly due to an increase in loans to the national government and large corporations in the manufacturing industry. Average foreign interest-earning assets for the fiscal year ended March 31, 2013 were ¥59,064.7 billion, an increase of ¥5,742.3 billion from ¥53,322.4 billion for the previous fiscal year, mainly due to increases in loans and trading account assets. The increase in foreign loans was mainly due to an increase in loans at overseas branches of BTMU due to stronger demand, partially reflecting the improving general market conditions globally, and BTMU's improved overseas market presence. The increase in foreign trading account assets was primarily due to an increase in the value of foreign bonds translated into Japanese yen resulting from the depreciation of the Japanese yen against other currencies towards the end of the fiscal year ended March 31, 2013, as well as an increase in trading derivative assets reflecting an increase in interest rate derivatives assets in foreign branches of our banking subsidiaries and an increase in interest rate swap trading in our securities subsidiaries outside of Japan. Despite the increase in the

**Table of Contents**

average balance of interest-earning assets, the smaller average interest rate spread resulted in the decrease in our interest income for the fiscal year ended March 31, 2013 compared to the previous fiscal year.

Average interest-bearing liabilities for the fiscal year ended March 31, 2013 were ¥173,399.5 billion, an increase of ¥7,978.9 billion from ¥165,420.6 billion for the fiscal year ended March 31, 2012. Average domestic interest-bearing liabilities for the fiscal year ended March 31, 2013 were ¥135,974.9 billion, an increase of ¥5,058.3 billion from ¥130,916.6 billion for the previous fiscal year, mainly due to increases in call money, funds purchased, and payables under repurchase agreements and securities lending transactions as well as deposits. The increase in domestic call money, funds purchased, and payables under repurchase agreements and securities lending transactions was mainly due to an increase in the volume of payables under repurchase agreement in our banking and securities subsidiaries. Average foreign interest-bearing liabilities for the fiscal year ended March 31, 2013 were ¥37,424.6 billion, an increase of ¥2,920.6 billion from ¥34,504.0 billion for the previous fiscal year, mainly due to an increase in the value of foreign currency-denominated deposits, reflecting the depreciation of the Japanese yen against other currencies towards the end of the fiscal year ended March 31, 2013. Despite the increase in the average balance of interest-bearing liabilities, the smaller average interest rate spread resulted in the decrease in our interest expense for the fiscal year ended March 31, 2013 compared to the previous fiscal year.

***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.

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 0.03 percentage 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 0.01 percentage 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



**Table of Contents**

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.

***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 more information on our provision for credit losses and a 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, 2013 Compared to Fiscal Year Ended March 31, 2012***

The provision for credit losses for the fiscal year ended March 31, 2013 was ¥144.5 billion, a decrease of ¥79.3 billion from ¥223.8 billion for the fiscal year ended March 31, 2012. The provision for credit losses decreased ¥53.5 billion, ¥28.2 billion and ¥15.5 billion in our Commercial segment, Residential segment and Card segment, respectively. On the other hand, the provision for credit losses increased ¥17.9 billion in our UNBC segment.

The decrease in the provision in the Commercial segment was mainly due to a reduction of provision for loans to smaller enterprises for the fiscal year ended March 31, 2013 compared to the fiscal year ended March 31, 2012, when the operating environment and outlook for such enterprises were more negative. The decrease in the provision in the Residential segment was mainly due to the decrease of provision rate as our collection and default rates improved in this segment.

The provision for credit losses in our domestic loan portfolio was ¥115.7 billion, a decrease of ¥104.0 billion from ¥219.7 billion for the fiscal year ended March 31, 2012. The provision for credit losses in our foreign portfolio for the fiscal year ended March 31, 2013 was ¥28.8 billion, an increase of ¥24.7 billion compared to the provision for credit losses of ¥4.1 billion for the previous fiscal year. Although the significant improvement in the credit quality of UNBC's loan portfolio resulted in a reversal of provision in the UNBC segment in the fiscal year ended March 31, 2012, the pace of improvement slowed in the fiscal year ended March 31, 2013, resulting in a provision for credit losses of ¥2.9 billion.

*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.

**Table of Contents**

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.

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.

**Non-Interest Income**

The following table is a summary of our non-interest income for the fiscal years ended March 31, 2011, 2012 and 2013:

	Fiscal years ended March 31,		
	2011	2012	2013
	(in billions)		
Fees and commissions income:			
Trust fees	¥ 100.5	¥ 95.0	¥ 92.5
Fees on funds transfer and service charges for collections	142.5	139.8	137.3
Fees and commissions on international business	58.5	57.7	58.9
Fees and commissions on credit card business	146.6	149.9	149.7
Service charges on deposits	22.2	18.2	16.7
Fees and commissions on securities business	138.9	128.4	156.0
Fees on real estate business	22.6	23.6	28.0
Insurance commissions	27.5	33.7	33.6
Fees and commissions on stock transfer agency services	51.9	49.3	49.1
Guarantee fees	64.3	58.4	55.4
Fees on investment funds business	130.4	126.6	130.0
Other fees and commissions	222.5	219.4	253.7
<b>Total</b>	<b>1,128.4</b>	<b>1,100.0</b>	<b>1,160.9</b>
Foreign exchange gains (losses) net	260.7	34.3	(39.0)
Trading account profits net:			
Net profits (losses) on interest rate and other derivative contracts	(3.1)	77.7	(82.7)
Net profits on trading account securities, excluding derivatives	137.0	589.6	653.0
<b>Total</b>	<b>133.9</b>	<b>667.3</b>	<b>570.3</b>
Investment securities gains net:			
Net gains on sales of securities available for sale:			
Debt securities	147.0	142.9	185.9
Marketable equity securities	87.4	34.1	64.8
Impairment losses on securities available for sale:			
Debt securities	(20.5)	(13.8)	(8.3)
Marketable equity securities	(115.6)	(176.1)	(113.5)
Other	23.5	32.3	27.1

Edgar Filing: MITSUBISHI UFJ FINANCIAL GROUP INC - Form 20-F

Total	121.8	19.4	156.0
Equity in earnings (losses) of equity method investees net	(113.0)	(499.4)	60.2
Gains on sales of loans	14.5	15.6	14.8
Other non-interest income	148.5	103.4	144.8
Total non-interest income	¥ 1,694.8	¥ 1,440.6	¥ 2,068.0

## **Table of Contents**

### *Fees and commissions income*

Fees and commissions income is comprised of income from fees and commissions listed in the above table. Trust fees consist primarily of fees earned on fiduciary asset management and administration services for corporate pension plans, investment funds and other clients. Fees on funds transfer and service charges for collection are fees earned by providing settlement services such as domestic fund remittances and domestic collection services. Fees and commissions on international business primarily consist of fees from international fund transfer and collection services, and trade-related financing services. Fees and commissions on credit card business are composed of interchange income, annual fees, royalty and other service charges from franchisees. Service charges on deposits are fees charged for withdrawal and other services relating to deposits such as checking account deposits. Fees and commissions on securities business include those on underwriting, brokerage and advisory services and arrangement fees on securitizations. Fees on real estate business primarily consist of fees from real estate agent services. Insurance commissions are commissions earned by acting as agent for insurance companies to sell insurance products. Fees and commissions on stock transfer agency services consist of fees earned primarily on stock title transfers and agency services for the calculation and payment of dividends. Guarantee fees are fees earned by providing guarantees on residential mortgage loans. Fees on investment funds business primarily consist of management fees for investment funds. Other fees and commissions include various arrangement fees and agent fees excluding the fees and commissions mentioned above.

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

Net foreign exchange gains (losses) are comprised of foreign exchange gains (losses) on derivative contracts, foreign exchange gains (losses) on 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 (losses) on other than derivative contracts include foreign exchange trading gains (losses) as well as transaction gains (losses) on the translation into Japanese yen of monetary assets and liabilities denominated in foreign currencies. The transaction gains (losses) on the translation into Japanese yen fluctuate from period to period depending upon the spot rates at the end of each fiscal year. In principle, all transaction gains (losses) on translation of monetary assets and liabilities denominated in foreign currencies are included in current earnings. 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.

### *Net trading accounts profit*

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

## **Table of Contents**

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 (losses) on trading account securities, excluding derivatives.

Net profits (losses) on interest rate and other derivative contracts are reported for net profits (losses) on derivative instruments which 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.

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

Net profits (losses) on trading account securities, excluding derivatives, 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 (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*

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

*Fiscal Year Ended March 31, 2013 Compared to Fiscal Year Ended March 31, 2012*

Non-interest income for the fiscal year ended March 31, 2013 was ¥2,068.0 billion, an increase of ¥627.4 billion from ¥1,440.6 billion for the fiscal year ended March 31, 2012. This increase was mainly attributable to net equity in earnings of equity method investees of ¥60.2 billion for the fiscal year ended March 31, 2013, compared to net equity in losses of equity method investees of ¥499.4 billion for the previous fiscal year, which included an other-than-temporary impairment loss on our investment in the common stock of Morgan Stanley. Other factors which contributed to the increase in non-interest income included a ¥136.6 billion increase in investment securities gains resulting from an increase in net gains on sales of securities available for sale and a decrease in impairment losses on securities available for sale. These increases were partially offset by a ¥97.0 billion decrease in trading account profits and ¥39.0 billion of net foreign exchange losses compared to net foreign exchange gains of ¥34.3 billion in the previous fiscal year.



**Table of Contents***Fees and commissions income*

Fees and commissions income for the fiscal year ended March 31, 2013 was ¥1,160.9 billion, an increase of ¥60.9 billion from ¥1,100.0 billion for the fiscal year ended March 31, 2012. This increase was partly due to an increase of ¥27.6 billion in fees and commissions from our securities business as a result of increased cross-selling, customer referral and other coordinated efforts between our banking and securities subsidiaries and an increase in our underwriting activity. Other fees and commissions also increased ¥34.3 billion mainly due to an increase in brokerage fees at our banking subsidiaries both in Japan and overseas.

*Net foreign exchange gains (losses)*

The following table sets forth the details of our foreign exchange gains and losses for the fiscal years ended March 31, 2012 and 2013:

	Fiscal years ended March 31, 2012                      2013 (in billions)	
Foreign exchange gains (losses) net:		
Net foreign exchange losses on derivative contracts	¥ (94.9)	¥ (94.2)
Net foreign exchange gains (losses) on other than derivative contracts	72.1	(2,130.7)
Net foreign exchange gains related to the fair value option	57.1	2,185.9
<b>Total</b>	<b>¥ 34.3</b>	<b>¥ (39.0)</b>

Net foreign exchange losses for the fiscal year ended March 31, 2013 were ¥39.0 billion, compared to ¥34.3 billion of net foreign exchange gains for the fiscal year ended March 31, 2012. The Japanese yen depreciated rapidly against major foreign currencies, including the U.S. dollar, towards the end of the fiscal year ended March 31, 2013 and thus contributed to an increase in yen-denominated foreign exchange gains related to the fair value option. However, this increase was more than offset by an increase in foreign exchange losses on other than derivative contracts resulting from an increase in foreign exchange trading losses and higher foreign exchange translation losses on monetary liabilities denominated in foreign currencies, which we assumed when the Japanese yen was higher.

*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, 2012 and 2013:

	Fiscal years ended March 31, 2012                      2013 (in billions)	
Trading account profits net:		
Net profits (losses) on interest rate and other derivative contracts		
Interest rate contracts	¥ 160.4	¥ 121.4
Equity contracts	(46.8)	(137.6)

Edgar Filing: MITSUBISHI UFJ FINANCIAL GROUP INC - Form 20-F

Commodity contracts	(1.3)	3.8
Credit derivatives	1.6	(10.9)
Other	(36.2)	(59.4)
Total	¥ 77.7	¥ (82.7)
Net profits on trading account securities, excluding derivatives		
Trading account securities	¥ 149.7	¥ 341.2
Trading account securities under the fair value option	439.9	311.8
Total	¥ 589.6	¥ 653.0
Total	¥ 667.3	¥ 570.3

**Table of Contents**

Net trading account profits for the fiscal year ended March 31, 2013 were ¥570.3 billion, a decrease of ¥97.0 billion from ¥667.3 billion for the fiscal year ended March 31, 2012. The decrease in net trading account profits was largely due to a ¥160.4 billion decrease in net profits on interest rate and other derivative contracts, which in turn was primarily due to a ¥90.8 billion increase in net losses on equity contracts as a result of an increase in losses at our securities subsidiaries on short positions in equity index futures and to a ¥39.0 billion decrease in net profits on interest rate contracts as a result of losses on revaluation of interest rate swap contracts. These decreases were partially offset by a ¥63.4 billion increase in net profits on trading account securities, excluding derivatives, as a result of an increase in volume on trading transactions, reflecting an improvement in general market conditions. In particular, despite a decrease in net profits on trading account securities under the fair value option of ¥128.1 billion mainly due to a smaller increase in the value of foreign debt securities reflecting a smaller decrease in applicable interest rates, net profits on trading account securities, excluding derivatives, increased due to a ¥191.5 billion increase in net profits on trading account securities other than those under the fair value option, reflecting an increase in the volume of our securities trading activity.

*Net investment securities gains*

Net investment securities gains for the fiscal year ended March 31, 2013 were ¥156.0 billion, an increase of ¥136.6 billion from ¥19.4 billion for the fiscal year ended March 31, 2012. This increase was mainly due to a decrease of ¥62.6 billion in impairment losses on marketable equity securities, an increase of ¥43.0 billion in gains on sales of debt securities as a result of an increase in gains on sales of Japanese government bonds in the lower interest rate environment, and ¥30.7 billion of gains on sales of marketable equity securities as a result of an increase in gains on sales of domestic equity securities mainly due to an improvement in the domestic equity market.

*Net equity in earnings (losses) of equity method investees*

Net equity in earnings of equity method investees for the fiscal year ended March 31, 2013 was ¥60.2 billion, compared to net equity in losses of equity method investees of ¥499.4 billion for the previous fiscal year, which included an other-than-temporary impairment loss of ¥579.5 billion on our investment in Morgan Stanley's common stock. For further information, see Note 2 to our consolidated financial statements included elsewhere in this Annual Report.

***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 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.

**Table of Contents***Net foreign exchange gains*

The following table sets forth the details of our foreign exchange gains and losses for the fiscal years ended March 31, 2011 and 2012:

	Fiscal years ended March 31,	
	2011	2012
	(in billions)	
Foreign exchange gains net:		
Net foreign exchange gains (losses) on derivative contracts	¥ 79.8	¥ (94.9)
Net foreign exchange gains on other than derivative contracts	1,018.4	72.1
Net foreign exchange gains (losses) related to the fair value option	(837.5)	57.1
<b>Total</b>	<b>¥ 260.7</b>	<b>¥ 34.3</b>

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 U.S. dollar remained relatively small compared to the previous fiscal year. Net 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, net 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.

*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:

	Fiscal years ended March 31,	
	2011	2012
	(in billions)	
Trading account profits net:		
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>
Net profits on trading account securities, excluding derivatives		
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>

Total	¥ 133.9	¥ 667.3
-------	---------	---------

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.

**Table of Contents**

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.

*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 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.

*Non-Interest Expense*

The following table shows a summary of our non-interest expense for the fiscal years ended March 31, 2011, 2012 and 2013:

	Fiscal years ended March 31,		
	2011	2012	2013
	(in billions)		
Salaries and employee benefits	¥ 864.0	¥ 900.1	¥ 932.4
Occupancy expenses net	162.5	150.8	151.1
Fees and commission expenses	212.5	204.7	209.8
Outsourcing expenses, including data processing	194.8	191.1	198.1
Depreciation of premises and equipment	99.7	94.8	94.0
Amortization of intangible assets	220.0	212.2	207.6
Impairment of intangible assets	26.6	31.0	3.4
Insurance premiums, including deposit insurance	113.9	115.4	98.7
Communications	53.0	49.3	47.1

Edgar Filing: MITSUBISHI UFJ FINANCIAL GROUP INC - Form 20-F

Taxes and public charges	65.9	65.6	66.9
Provision for repayment of excess interest	85.7		
Other non-interest expenses	361.9	307.7	369.6
Total non-interest expense	¥ 2,460.5	¥ 2,322.7	¥ 2,378.7



## **Table of Contents**

### ***Fiscal Year Ended March 31, 2013 Compared to Fiscal Year Ended March 31, 2012***

Non-interest expense for the fiscal year ended March 31, 2013 was ¥2,378.7 billion, an increase of ¥56.0 billion from ¥2,322.7 billion for the previous fiscal year. This increase was mainly due to a ¥32.3 billion increase in salaries and employee benefits expenses reflecting an increase in the number of employees and larger employee retirement benefits at BTMU and a ¥61.9 billion increase in other non-interest expenses mainly due to realization of losses, which were previously recorded in foreign currency translation included in accumulated other comprehensive income, resulting from the deconsolidation of several overseas VIEs, and a ¥24.5 billion of civil monetary payment to DFS. These increases were partially offset by a ¥27.6 billion decrease in impairment of intangible assets and a ¥16.7 billion decrease in insurance premiums, including deposit insurance.

#### *Salaries and employee benefits*

Salaries and employee benefits for the fiscal year ended March 31, 2013 were ¥932.4 billion, an increase of ¥32.3 billion from ¥900.1 billion for the previous fiscal year. This increase was mainly due to an increase in the number of employees, larger retirement benefit expenses at BTMU, an increase in bonuses at MUMSS reflecting improved business performance and an increase in retirement benefit expenses at our trust banking subsidiaries.

#### *Impairment of intangible assets*

Impairment of intangible assets for the fiscal year ended March 31, 2013 was ¥3.4 billion, a decrease of ¥27.6 billion from ¥31.0 billion for the fiscal year ended March 31, 2012. This decrease mainly reflected impairment losses on intangible assets related to our trust banking and securities subsidiaries' customer relationships from fund contracts for the fiscal year ended March 31, 2012, while we did not recognize significant impairment losses for the fiscal year ended March 31, 2013.

#### *Other non-interest expenses*

Other non-interest expenses for the fiscal year ended March 31, 2013 were ¥369.6 billion, an increase of ¥61.9 billion from ¥307.7 billion for the fiscal year ended March 31, 2012. This increase was mainly due to realization of losses, which were previously recorded in foreign currency translation included in accumulated other comprehensive income, resulting from the deconsolidation of several overseas VIEs, and a ¥24.5 billion, or U.S.\$250.0 million, civil monetary payment to DFS. For more information on the civil monetary payment, see Recent Developments.

### ***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.

*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 commission expenses*

Fees and commission 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.

**Table of Contents***Amortization of intangible assets*

Amortization of intangible assets for the fiscal year ended March 31, 2012 was ¥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 of 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.

*Income Tax Expense*

The following table shows a summary of our income tax expense for the fiscal years ended March 31, 2011, 2012 and 2013:

	<b>Fiscal years ended March 31,</b>		
	<b>2011</b>	<b>2012</b>	<b>2013</b>
	<b>(in billions, except percentages)</b>		
Income before income tax expense	¥ 821.8	¥ 849.9	¥ 1,415.9
Income tax expense	433.7	429.2	296.0
Effective income tax rate	52.8%	50.5%	20.9%
Combined normal effective statutory tax rate	40.6%	40.6%	38.0%

Reconciling items between the combined normal effective statutory tax rates and the effective income tax rates for the fiscal years ended March 31, 2011, 2012 and 2013 are summarized as follows:

	<b>Fiscal years ended March 31,</b>		
	<b>2011</b>	<b>2012</b>	<b>2013</b>
Combined normal effective statutory tax rate	40.6%	40.6%	38.0%

Edgar Filing: MITSUBISHI UFJ FINANCIAL GROUP INC - Form 20-F

Increase (decrease) in taxes resulting from:			
Nondeductible expenses	0.3	0.2	0.1
Dividends from foreign subsidiaries	0.1	0.1	0.0
Foreign tax credits and payments	3.3	(2.1)	(0.8)
Lower tax rates applicable to income of subsidiaries	(0.6)	(0.5)	(0.5)
Change in valuation allowance	10.6	2.3	(7.3)
Realization of previously unrecognized tax effects of subsidiaries	(3.7)	0.0	(10.7)
Nontaxable dividends received	(2.7)	(3.4)	(2.3)
Undistributed earnings of subsidiaries	(1.5)	0.2	1.5
Tax and interest expense for uncertainty in income taxes	0.2	0.1	(0.1)
Expiration of loss carryforward	6.4	4.8	2.1
Effect of changes in tax laws		9.1	
Other net	(0.2)	(0.9)	0.9
Effective income tax rate	52.8%	50.5%	20.9%

**Table of Contents**

The effective income tax rate for the fiscal year ended March 31, 2013 was 20.9%, 17.1 percentage points lower than the combined normal effective statutory tax rate of 38.0%. This lower effective income tax rate primarily reflected the liquidation of a subsidiary, whose assets and operations we took over after the liquidation, and the realization of tax benefits from the temporary differences not previously recognized as part of deferred tax assets. For more information, see Note 7 to our consolidated financial statements included elsewhere in this Annual Report. The lower effective tax rate also reflected a ¥161.7 billion decrease in valuation allowance to ¥483.0 billion at March 31, 2013 from ¥644.7 billion at March 31, 2012. The valuation allowance was reduced to the extent that it was more likely than not that the deferred tax assets would be realized primarily because certain subsidiaries were considered to have returned to sustained profitability.

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 was 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.

On November 30, 2011, the Japanese Diet enacted two tax related laws, namely 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.

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.

***Net income (loss) attributable to noncontrolling interests******Fiscal Year Ended March 31, 2013 Compared to Fiscal Year Ended March 31, 2012***

We recorded net income attributable to noncontrolling interests of ¥50.7 billion for the fiscal year ended March 31, 2013, compared to net income attributable to noncontrolling interests of ¥4.5 billion for the previous fiscal year. This increase was mainly due to an increase in net income recorded at MUMSS, in which MUFJ has a 60% economic interest, in the fiscal year ended March 31, 2013.

***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.

**Business Segment Analysis**

We measure the performance of each of our business segments primarily in terms of operating profit. Operating profit and other segment information in this Annual Report are based on the financial information

## **Table of Contents**

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 U.S. 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 U.S. GAAP), foreign

exchange gains (losses) and investment securities gains (losses). 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. 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 five areas: Retail, Corporate, Trust Assets, Global, and Global Markets. Operations that are not covered by the integrated business group system are classified under Other.

The following is a brief explanation of our business segments:

*Integrated Retail Banking Business Group* Covers all domestic retail businesses, including commercial banking, trust banking and securities businesses. This business group integrates the retail businesses 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 clients.

*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 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.

*Global Markets* Covers asset and liability management and strategic investments of BTMU and MUTB, and sales and trading of financial products of BTMU, MUTB and MUSHD. Effective July 1, 2012, the Integrated Global Business Group and Global Markets started working

jointly on some of the sales and trading businesses of MUSHD's foreign subsidiaries as part of our efforts to strengthen the cooperation between BTMU and MUSHD of their markets businesses and to expand investor relationships while improving our trading capabilities to seize interest rate and foreign exchange market opportunities for loans and corporate bond transactions. Accordingly, during the year ended March 31, 2013, we began reporting a portion of the securities sales and trading businesses, which previously was presented within the Integrated Global Business Group, as part of Global Markets.



**Table of Contents**

*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*.

Effective April 1, 2012, we modified some of our managerial accounting methodologies, including redefining items to be included in Operating profit (loss), in order to integrate the managerial accounting methodologies among our group companies.

Prior period business segment information has been reclassified to enable comparisons between the relevant amounts for the fiscal years ended March 31, 2011, 2012 and 2013, respectively.

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

The following table set forth our business segment information for the fiscal years ended March 31, 2011, 2012 and 2013:

	<b>Integrated Retail Banking Business Group</b>	<b>Integrated Corporate Banking Business Group</b>	<b>Integrated Trust Assets Business Group</b>	<b>Integrated Other than UNBC</b>	<b>Global Business Group UNBC (in billions)</b>	<b>Total</b>	<b>Global Markets</b>	<b>Other</b>	<b>Total</b>
<b>Fiscal year ended March 31, 2011:</b>									
Net revenue:	¥ 1,302.2	¥ 883.7	¥ 148.2	¥ 310.6	¥ 267.2	¥ 577.8	¥ 587.7	¥ 11.2	¥ 3,510.8
Operating expenses	953.5	460.9	87.8	176.6	173.3	349.9	130.5	149.9	2,132.5
Operating profit (loss)	¥ 348.7	¥ 422.8	¥ 60.4	¥ 134.0	¥ 93.9	¥ 227.9	¥ 457.2	¥ (138.7)	¥ 1,378.3
<b>Fiscal year ended March 31, 2012:</b>									
Net revenue:	¥ 1,225.9	¥ 865.3	¥ 140.1	¥ 365.7	¥ 252.0	¥ 617.7	¥ 726.8	¥ 5.3	¥ 3,581.1
Operating expenses	911.2	446.2	87.3	195.4	173.0	368.4	126.1	163.4	2,102.6
Operating profit (loss)	¥ 314.7	¥ 419.1	¥ 52.8	¥ 170.3	¥ 79.0	¥ 249.3	¥ 600.7	¥ (158.1)	¥ 1,478.5
<b>Fiscal year ended March 31, 2013:</b>									
Net revenue:	¥ 1,206.5	¥ 856.6	¥ 138.8	¥ 466.8	¥ 288.5	¥ 755.3	¥ 761.6	¥ (2.3)	¥ 3,716.5
Operating expenses	912.6	439.9	88.3	245.8	205.4	451.2	140.5	176.4	2,208.9
Operating profit (loss)	¥ 293.9	¥ 416.7	¥ 50.5	¥ 221.0	¥ 83.1	¥ 304.1	¥ 621.1	¥ (178.7)	¥ 1,507.6

***Fiscal Year Ended March 31, 2013 Compared to Fiscal Year Ended March 31, 2012******Integrated Retail Banking Business Group***

## Edgar Filing: MITSUBISHI UFJ FINANCIAL GROUP INC - Form 20-F

Net revenue of the Integrated Retail Banking Business Group decreased ¥19.4 billion to ¥1,206.5 billion for the fiscal year ended March 31, 2013 from ¥1,225.9 billion for the fiscal year ended March 31, 2012. 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 mainly reflected a decrease in income generated from funds deposited with us due to the impact of the declining interest rate environment that continued throughout the fiscal year ended March 31, 2013, and a decrease in income related to our group companies engaged in the consumer finance business reflecting a decrease in volume of consumer loans, partially offset by an increase in fees from sales of insurance and other investment products.

Operating expenses of the Integrated Retail Banking Business Group increased ¥1.4 billion to ¥912.6 billion for the fiscal year ended March 31, 2013 from ¥911.2 billion for the fiscal year ended March 31, 2012.

Operating profit of the Integrated Retail Banking Business Group decreased ¥20.8 billion to ¥293.9 billion for the fiscal year ended March 31, 2013 from ¥314.7 billion for the fiscal year ended March 31, 2012.

## **Table of Contents**

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

Net revenue of the Integrated Corporate Banking Business Group decreased ¥8.7 billion to ¥856.6 billion for the fiscal year ended March 31, 2013 from ¥865.3 billion for the fiscal year ended March 31, 2012. 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 the low interest rate environment and the generally stagnant demand for loans from customers except for a few large corporate borrowers, partially offset by increases in investment banking business related to structured financing and asset finance business primarily due to increased cross-selling, customer referral and other coordinated efforts between our banking and securities subsidiaries.

Operating expenses of the Integrated Corporate Banking Business Group were ¥439.9 billion for the fiscal year ended March 31, 2013, a decrease of ¥6.3 billion from ¥446.2 billion for the fiscal year ended March 31, 2012.

Operating profit of the Integrated Corporate Banking Business Group decreased ¥2.4 billion to ¥416.7 billion for the fiscal year ended March 31, 2013 from ¥419.1 billion for the fiscal year ended March 31, 2012.

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

Net revenue of the Integrated Trust Assets Business Group decreased ¥1.3 billion to ¥138.8 billion for the fiscal year ended March 31, 2013 from ¥140.1 billion for the fiscal year ended March 31, 2012. 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 the volume of our investment trust business affected by the market slowdown in the first half of the fiscal year ended March 31, 2013, partially offset by an increase in the volume of our global custody business.

Operating expenses of the Integrated Trust Assets Business Group increased by ¥1.0 billion to ¥88.3 billion for the fiscal year ended March 31, 2013 from ¥87.3 billion for the fiscal year ended March 31, 2012.

Operating profit of the Integrated Trust Assets Business Group decreased ¥2.3 billion to ¥50.5 billion for the fiscal year ended March 31, 2013 from ¥52.8 billion for the fiscal year ended March 31, 2012.

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

Net revenue of the Integrated Global Business Group increased ¥137.6 billion to ¥755.3 billion for the fiscal year ended March 31, 2013 from ¥617.7 billion for the fiscal year ended March 31, 2012. Net revenue of the Integrated Global Business Group mainly consists of commercial banking businesses outside of Japan, including loan, deposit and cash management, investment banking, retail banking, trust banking and securities businesses. The increase in net revenue was mainly due to increases in interest income attribute to non-Japanese customers mainly in

Asia and income from investment banking business especially in Europe and the United States.

Operating expenses of the Integrated Global Business Group increased ¥82.8 billion to ¥451.2 billion for the fiscal year ended March 31, 2013 from ¥368.4 billion for the fiscal year ended March 31, 2012, reflecting the geographic expansion of our operations and an increase in regulatory costs for our banking business.

Operating profit of the Integrated Global Business Group increased ¥54.8 billion to ¥304.1 billion for the fiscal year ended March 31, 2013 from ¥249.3 billion for the fiscal year ended March 31, 2012.

## **Table of Contents**

### ***Global Markets***

Net revenue of Global Markets increased ¥34.8 billion to ¥761.6 billion for the fiscal year ended March 31, 2013 from ¥726.8 billion for the fiscal year ended March 31, 2012. This increase was mainly due to gains from our asset and liability management business, gains attributable to the sales and trading business, and profits from the overseas fixed income businesses of MUMSS.

Operating expenses of Global Markets increased ¥14.4 billion to ¥140.5 billion for the fiscal year ended March 31, 2013 from ¥126.1 billion for the fiscal year ended March 31, 2012.

Operating profit of the Global Markets increased ¥20.4 billion to ¥621.1 billion for the fiscal year ended March 31, 2013 from ¥600.7 billion for the fiscal year ended March 31, 2012. This increase was mainly due to the gains from our asset and liability management business.

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

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

Net revenue of the Integrated Retail Banking Business Group decreased ¥76.3 billion to ¥1,225.9 billion for the fiscal year ended March 31, 2012 from ¥1,302.2 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 ¥42.3 billion to ¥911.2 billion for the fiscal year ended March 31, 2012 from ¥953.5 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.

Operating profit of the Integrated Retail Banking Business Group decreased ¥34.0 billion to ¥314.7 billion for the fiscal year ended March 31, 2012 from ¥348.7 billion for the fiscal year ended March 31, 2011.

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

Net revenue of the Integrated Corporate Banking Business Group decreased ¥18.4 billion to ¥865.3 billion for the fiscal year ended March 31, 2012 from ¥883.7 billion for the fiscal year ended March 31, 2011. Net revenue of the Integrated Corporate Banking Business Group mainly

## Edgar Filing: MITSUBISHI UFJ FINANCIAL GROUP INC - Form 20-F

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 ¥446.2 billion for the fiscal year ended March 31, 2012, a decrease of ¥14.7 billion from ¥460.9 billion for the fiscal year ended March 31, 2011.

Operating profit of the Integrated Corporate Banking Business Group slightly decreased by ¥3.7 billion to ¥419.1 billion for the fiscal year ended March 31, 2012 from ¥422.8 billion for the fiscal year ended March 31, 2011.

## **Table of Contents**

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

Net revenue of the Integrated Trust Assets Business Group decreased ¥8.1 billion to ¥140.1 billion for the fiscal year ended March 31, 2012 from ¥148.2 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 ¥0.5 billion to ¥87.3 billion for the fiscal year ended March 31, 2012 from ¥87.8 billion for the fiscal year ended March 31, 2011.

Operating profit of the Integrated Trust Assets Business Group decreased ¥7.6 billion to ¥52.8 billion for the fiscal year ended March 31, 2012 from ¥60.4 billion for the fiscal year ended March 31, 2011.

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

Net revenue of the Integrated Global Business Group increased ¥39.9 billion to ¥617.7 billion for the fiscal year ended March 31, 2012 from ¥577.8 billion for the fiscal year ended March 31, 2011. Net revenue of the Integrated Global Business Group mainly consists of business 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 ¥18.5 billion to ¥368.4 billion for the fiscal year ended March 31, 2012 from ¥349.9 billion for the fiscal year ended March 31, 2011.

Operating profit of the Integrated Global Business Group increased ¥21.4 billion to ¥249.3 billion for the fiscal year ended March 31, 2012 from ¥227.9 billion for the fiscal year ended March 31, 2011.

### ***Global Markets***

Net revenue of Global Markets increased ¥139.1 billion to ¥726.8 billion for the fiscal year ended March 31, 2012 from ¥587.7 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 ¥4.4 billion to ¥126.1 billion for the fiscal year ended March 31, 2012 from ¥130.5 billion for the fiscal year ended March 31, 2011.

Operating profit of the Global Markets increased ¥143.5 billion to ¥600.7 billion for the fiscal year ended March 31, 2012 from ¥457.2 billion for the fiscal year ended March 31, 2011. This increase was mainly due to the gains from our asset liability management business.



**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, 2011, 2012 and 2013. 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,		
	2011	2012	2013
	(in billions)		
<b>Total revenue (interest income and non-interest income):</b>			
Domestic	¥ 2,969.0	¥ 2,936.9	¥ 3,016.0
<b>Foreign:</b>			
United States of America <sup>(1)</sup>	431.1	192.8	426.4
Europe	238.7	290.5	256.5
Asia/Oceania excluding Japan	470.9	450.6	585.5
Other areas <sup>(2)</sup>	135.3	165.7	211.1
<b>Total foreign</b>	<b>1,276.0</b>	<b>1,099.6</b>	<b>1,479.5</b>
<b>Total</b>	<b>¥ 4,245.0</b>	<b>¥ 4,036.5</b>	<b>¥ 4,495.5</b>
<b>Income before income tax expense :</b>			
Domestic	¥ 186.1	¥ 498.1	¥ 767.2
<b>Foreign:</b>			
United States of America	164.5	(91.8)	98.8
Europe	108.1	139.4	96.5
Asia/Oceania excluding Japan	232.1	227.4	317.1
Other areas <sup>(2)</sup>	131.0	76.8	136.3
<b>Total foreign</b>	<b>635.7</b>	<b>351.8</b>	<b>648.7</b>
<b>Total</b>	<b>¥ 821.8</b>	<b>¥ 849.9</b>	<b>¥ 1,415.9</b>
<b>Net income (loss) attributable to Mitsubishi UFJ Financial Group</b>			
Domestic	¥ (103.0)	¥ 163.3	¥ 499.1
<b>Foreign:</b>			
United States of America	162.7	(119.8)	95.6
Europe	90.0	113.6	78.4
Asia/Oceania excluding Japan	193.4	192.8	275.0
Other areas <sup>(2)</sup>	109.5	66.3	121.0
<b>Total foreign</b>	<b>555.6</b>	<b>252.9</b>	<b>570.0</b>
<b>Total</b>	<b>¥ 452.6</b>	<b>¥ 416.2</b>	<b>¥ 1,069.1</b>

Notes:

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

***Fiscal Year Ended March 31, 2013 Compared to Fiscal Year Ended March 31, 2012***

Domestic net income attributable to Mitsubishi UFJ Financial Group for the fiscal year ended March 31, 2013 was ¥499.1 billion, compared to net income of ¥163.3 billion for the fiscal year ended March 31, 2012. This was mainly due to a decrease in tax expenses resulting from a change in valuation allowance and the realization of previously unrecognized tax benefits of subsidiaries, as well as a decrease in expenses relating to provision for credit losses recorded in our banking subsidiaries.

## **Table of Contents**

Foreign net income attributable to Mitsubishi UFJ Financial Group for the fiscal year ended March 31, 2013 was ¥570.0 billion, an increase of ¥317.1 billion from ¥252.9 billion for the fiscal year ended March 31, 2012. This increase reflected a ¥579.5 billion other-than-temporary impairment loss on our investment in Morgan Stanley's common stock recorded in the fiscal year ended March 31, 2012. Exclusive of this item, foreign net income attributable to Mitsubishi UFJ Financial Group for the fiscal year ended March 31, 2013 would have decreased ¥262.4 billion mainly due to a decrease in interest income from U.S. government bonds reflecting a decrease in the average balance during the fiscal year ended March 31, 2013.

### ***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.

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

#### ***Fiscal Year Ended March 31, 2013 Compared to Fiscal Year Ended March 31, 2012***

The average exchange rate for the fiscal year ended March 31, 2013 was ¥83.10 per U.S.\$1.00, compared to the average exchange rate of ¥79.08 per U.S.\$1.00 for the previous fiscal year. The average exchange rate for the conversion of the U.S. dollar financial statements of some of our foreign subsidiaries for the fiscal year ended December 31, 2012 was ¥79.82 per U.S.\$1.00, compared to the average exchange rate for the fiscal year ended December 31, 2011 of ¥79.84 per U.S.\$1.00.

The change in the average exchange rate of the Japanese yen against the U.S. dollar and other foreign currencies had the effect of increasing total revenue by ¥39.9 billion, net interest income by ¥22.3 billion and income before income tax expense by ¥26.6 billion, respectively, for the fiscal year ended March 31, 2013.

#### ***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 U.S.\$1.00, compared to the prior fiscal year's average exchange rate of ¥85.72 per U.S.\$1.00. The average exchange rate for the conversion of the U.S. dollar financial statements of some of our

## Edgar Filing: MITSUBISHI UFJ FINANCIAL GROUP INC - Form 20-F

foreign subsidiaries for the fiscal year ended December 31, 2011 was ¥79.84 per U.S.\$1.00, compared to the average exchange rate for the fiscal year ended December 31, 2010 of ¥87.81 per U.S.\$1.00.

The change in the average exchange rate of the Japanese yen against the U.S. dollar and other foreign currencies had the effect of decreasing total revenue by ¥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.

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

Our total assets as of March 31, 2013 were ¥230.56 trillion, an increase of ¥15.36 trillion from ¥215.20 trillion as of March 31, 2012. The increase in total assets mainly reflected increases in net loans of ¥6.24 trillion, trading derivative assets of ¥3.09 trillion, trading securities of ¥2.78 trillion, interest-earning deposits in other banks of ¥2.21 trillion, and receivables under resale agreement of ¥1.18 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 U.S. dollar and other foreign currencies. Foreign assets are denominated primarily in U.S. dollars. The following table shows our total assets as of March 31, 2012 and 2013 by geographic region based principally on the domicile of the obligors:

	At March 31,	
	2012	2013
	(in trillions)	
Japan	¥ 148.70	¥ 152.00
Foreign:		
United States	28.46	30.73
Europe	18.62	23.22
Asia/Oceania excluding Japan	12.41	15.94
Other areas <sup>(1)</sup>	7.01	8.67
Total foreign	66.50	78.56
Total	¥ 215.20	¥ 230.56

Note:

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

The Japanese yen amount of foreign currency-denominated assets increase as the relevant foreign exchange rates appreciated against the Japanese yen. For example, as of March 31, 2013 the exchange rate was ¥94.05 per U.S.\$1.00, as compared with ¥82.19 as of March 31, 2012. This depreciation of the Japanese yen against the U.S. dollar and other foreign currencies between March 31, 2012 and March 31, 2013 resulted in a ¥7.53 trillion increase in the Japanese yen amount of our total assets as of March 31, 2013.

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

The following table sets forth our loans outstanding, before deduction of allowance for credit losses, at March 31, 2012 and 2013, based on the industry segment loan classifications as defined by the Bank of Japan for regulatory reporting purposes, which is not necessarily based on the use of proceeds:

	At March 31,	
	2012	2013
	(in billions)	
Domestic:		
Manufacturing	¥ 11,451.7	¥ 11,767.4
Construction	1,155.9	1,056.3
Real estate	11,035.0	11,143.8
Services	3,239.7	2,881.7
Wholesale and retail	8,492.2	8,330.6
Banks and other financial institutions <sup>(1)</sup>	3,511.1	3,622.0
Communication and information services	1,284.6	1,314.5
Other industries	10,390.2	12,191.5
Consumer	17,636.6	17,132.3
<b>Total domestic</b>	<b>68,197.0</b>	<b>69,440.1</b>
Foreign:		
Governments and official institutions	554.9	673.5
Banks and other financial institutions <sup>(1)(3)</sup>	5,871.7	7,259.0
Commercial and industrial <sup>(3)</sup>	15,693.5	18,738.8
Other <sup>(3)</sup>	2,072.2	2,601.3
<b>Total foreign</b>	<b>24,192.3</b>	<b>29,272.6</b>
Unearned income, unamortized premium net and deferred loan fees net	(91.1)	(122.5)
<b>Total<sup>(2)</sup></b>	<b>¥ 92,298.2</b>	<b>¥ 98,590.2</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 ¥46.6 billion and ¥35.3 billion at March 31, 2012 and 2013, respectively, which are carried at the lower of cost or estimated fair value.
- (3) The amount of loans previously reported for Banks and other financial institutions category within Foreign loans as of March 31, 2012 was restated from ¥4,722.6 billion to ¥5,871.7 billion. The amount of loans previously reported for Commercial and industrial category within Foreign loans as of March 31, 2012 was restated from ¥15,676.0 billion to ¥15,693.5 billion. The amount of loans previously reported for Other category within Foreign loans as of March 31, 2012 was restated from ¥3,238.8 billion to ¥2,072.2 billion.

Loans are our primary use of funds. The average loan balance accounted for 47.4% of total interest-earning assets for the fiscal year ended March 31, 2012 and 48.0% for the fiscal year ended March 31, 2013.

## Edgar Filing: MITSUBISHI UFJ FINANCIAL GROUP INC - Form 20-F

At March 31, 2013, our total loans were ¥98.59 trillion, an increase of ¥6.29 trillion from ¥92.30 trillion at March 31, 2012. Before unearned income, net unamortized premiums and net deferred loan fees, our loan balance at March 31, 2013 consisted of ¥69.44 trillion of domestic loans and ¥29.27 trillion of foreign loans, while the loan balance at March 31, 2012 consisted of ¥68.20 trillion of domestic loans and ¥24.19 trillion of foreign loans.

The domestic loan balance increased 2% between March 31, 2012 and March 31, 2013. The increase was mainly due to an increase in loans to the government institutions, which are included in the other industries category. The loan demand from government institutions continued to increase because of the expanding government expenditures and reducing tax revenue. Although loans to the private sector also increased, there is less certainty in the loan demand in the domestic private sector. Loans to consumers continued to decline as a result of the continuing negative impact of the regulatory reforms in the consumer finance sector that limits lending to consumers and severe competition among lenders in the residential mortgage loan market in Japan.

**Table of Contents**

Foreign loans increased 21% between March 31, 2012 and March 31, 2013, mainly due to the appreciation of the relevant foreign currencies against the Japanese yen. The amount of foreign loans based on their original currency also increased. In particular, loans in the United States have been growing strongly reflecting the economic recovery in the United States. Loans in other regions, including Europe and Asia, have been increasing as well, but the pace of growth appears to be slowing.

*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 year ended March 31, 2011:

	<b>Fiscal year ended March 31, 2011 (in billions)</b>
Balance at beginning of fiscal year	¥ 1,315.6
Provision for credit losses	292.0
Charge-offs	385.8
Less Recoveries	43.7
<b>Net charge-offs</b>	<b>342.1</b>
Others <sup>(1)</sup>	(25.0)
<b>Balance at end of fiscal year</b>	<b>¥ 1,240.5</b>

Note:

(1) Others are principally comprised of gains or losses from foreign exchange translation.

The following table shows a summary of the changes in the allowance for credit losses by portfolio segment for the fiscal years ended March 31, 2012 and 2013:

<b>Fiscal year ended March 31, 2012:</b>	<b>Commercial</b>	<b>Residential</b>	<b>Card</b>	<b>UNBC</b>	<b>Total</b>
	<b>(in billions)</b>				
Allowance for credit losses:					
Balance at beginning of fiscal year	¥ 895.6	¥ 165.2	¥ 82.7	¥ 97.0	¥ 1,240.5
Provision for credit losses	181.4	29.5	27.9	(15.0)	223.8
Charge-offs	126.2	23.1	43.1	24.4	216.8
Recoveries	36.1	0.2	1.4	5.7	43.4
<b>Net charge-offs</b>	<b>90.1</b>	<b>22.9</b>	<b>41.7</b>	<b>18.7</b>	<b>173.4</b>
Others <sup>(1)</sup>	(2.6)			(2.8)	(5.4)
<b>Balance at end of fiscal year</b>	<b>¥ 984.3</b>	<b>¥ 171.8</b>	<b>¥ 68.9</b>	<b>¥ 60.5</b>	<b>¥ 1,285.5</b>
 <b>Fiscal year ended March 31, 2013:</b>	 <b>Commercial</b>	 <b>Residential</b>	 <b>Card</b>	 <b>UNBC</b>	 <b>Total</b>
	<b>(in billions)</b>				



Edgar Filing: MITSUBISHI UFJ FINANCIAL GROUP INC - Form 20-F

Allowance for credit losses:					
Balance at beginning of fiscal year	¥ 984.3	¥ 171.8	¥ 68.9	¥ 60.5	¥ 1,285.5
Provision for credit losses	127.9	1.3	12.4	2.9	144.5
Charge-offs	80.5	16.3	32.1	15.6	144.5
Recoveries	23.4	0.4	2.7	5.2	31.7
Net charge-offs	57.1	15.9	29.4	10.4	112.8
Others <sup>(1)</sup>	13.4			5.4	18.8
Balance at end of fiscal year	¥ 1,068.5	¥ 157.2	¥ 51.9	¥ 58.4	¥ 1,336.0

Note:

(1) Others are principally comprised of gains or losses from foreign exchange translation.

---

**Table of Contents**

The provision for credit losses for the fiscal year ended March 31, 2013 was ¥144.5 billion, a decrease of ¥79.3 billion from ¥223.8 billion for the fiscal year ended March 31, 2012. The provision for credit losses decreased ¥53.5 billion, ¥28.2 billion and ¥15.5 billion in our Commercial segment, Residential segment and Card segment, respectively. On the other hand, the provision for credit losses increased ¥17.9 billion in our UNBC segment.

The decrease in the provision in the Commercial segment was mainly due to a reduction of provision for loans to smaller enterprises for the fiscal year ended March 31, 2013 compared to the fiscal year ended March 31, 2012, when the operating environment and outlook for such enterprises were more negative. The decrease in the provision in the Residential segment was mainly due to the decrease of provision rate as our historical collection/default rate improved in this segment.

The provision for credit losses in our domestic loan portfolio was ¥115.7 billion, a decrease of ¥104.0 billion from ¥219.7 billion for the fiscal year ended March 31, 2012. The provision for credit losses in our foreign portfolio for the fiscal year ended March 31, 2013 was ¥28.8 billion, an increase of ¥24.7 billion compared to the provision for credit losses of ¥4.1 billion for the previous fiscal year. Although the significant improvement in the credit quality of UNBC's loan portfolio resulted in a reversal of provision in the UNBC segment in the fiscal year ended March 31, 2012, the pace of improvement slowed in the fiscal year ended March 31, 2013 resulting in a provision for credit losses of ¥2.9 billion.

For the fiscal year ended March 31, 2013, the ratio of the provision for the credit losses of ¥144.5 billion to the average loan balance of ¥93.04 trillion was 0.16%. The ratio of the provision for credit losses to the total average interest-earning assets for the same period of ¥193.82 trillion was 0.07%.

Charge-offs for the fiscal year ended March 31, 2013 were ¥144.5 billion, a decrease of ¥72.3 billion from ¥216.8 billion for the fiscal year ended March 31, 2012. The charge-offs decreased ¥45.7 billion in the Commercial segment mainly due to a decrease in number of borrower bankruptcies during the fiscal year ended March 31, 2013.

The total allowance for credit losses at March 31, 2013 was ¥1,336.0 billion, an increase of ¥50.5 billion from ¥1,285.5 billion at March 31, 2012, as we recorded a provision for credit losses of ¥144.5 billion while we had net charge-offs of ¥112.8 billion for the fiscal year ended March 31, 2013. For further information on our allowance for credit losses, see *Allowance for credit losses* below.

*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.

## Edgar Filing: MITSUBISHI UFJ FINANCIAL GROUP INC - Form 20-F

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 allowances. 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

**Table of Contents**

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, 2013, 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.

*Allowance for credit losses*

Allowance for credit losses and recorded investment in loans by portfolio segment at March 31, 2012 and 2013 are shown below:

<b>At March 31, 2012:</b>	<b>Commercial</b>	<b>Residential</b>	<b>Card (in billions)</b>	<b>UNBC</b>	<b>Total</b>
<b>Allowance for credit losses:</b>					
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
<b>Total</b>	<b>¥ 984.3</b>	<b>¥ 171.8</b>	<b>¥ 68.9</b>	<b>¥ 60.5</b>	<b>¥ 1,285.5</b>
<b>Loans:</b>					
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
<b>Total<sup>(1)</sup></b>	<b>¥ 71,796.0</b>	<b>¥ 15,586.9</b>	<b>¥ 757.9</b>	<b>¥ 4,201.9</b>	<b>¥ 92,342.7</b>
<b>At March 31, 2013:</b>					
<b>Allowance for credit losses:</b>					
Individually evaluated for impairment	¥ 784.8	¥ 117.6	¥ 37.9	¥ 3.6	¥ 943.9

Edgar Filing: MITSUBISHI UFJ FINANCIAL GROUP INC - Form 20-F

Collectively evaluated for impairment	248.8	37.4	13.8	54.7	354.7
Loans acquired with deteriorated credit quality	34.9	2.2	0.2	0.1	37.4
<b>Total</b>	<b>¥ 1,068.5</b>	<b>¥ 157.2</b>	<b>¥ 51.9</b>	<b>¥ 58.4</b>	<b>¥ 1,336.0</b>
Loans:					
Individually evaluated for impairment	¥ 1,677.2	¥ 309.4	¥ 123.5	¥ 54.2	¥ 2,164.3
Collectively evaluated for impairment	75,771.9	14,874.6	534.9	5,099.4	96,280.8
Loans acquired with deteriorated credit quality	101.3	17.2	13.2	100.6	232.3
<b>Total<sup>(1)</sup></b>	<b>¥ 77,550.4</b>	<b>¥ 15,201.2</b>	<b>¥ 671.6</b>	<b>¥ 5,254.2</b>	<b>¥ 98,677.4</b>

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.

**Table of Contents**

The total allowance for credit losses at March 31, 2013 was ¥1,336.0 billion, an increase of ¥50.5 billion from ¥1,285.5 billion at March 31, 2012. This increase mainly reflected the increase in our total loan volume. In the Commercial segment, the increase in allowance for credit losses reflected the higher loan volume as well as the continuing deterioration of the credit quality of some of our domestic borrowers in the manufacturing industry and the wholesale and retail industry. In the Residential segment and the Card segment, improvements in our historical rate of delinquencies allowed us to decrease the applicable provision rates. Allowance for credit losses in the UNBC segment decreased despite the increase in total loans for the segment reflecting the improved credit quality of our borrowers in this segment mainly due to improvements in U.S. economic conditions. 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 1.36% of our total loan portfolio at March 31, 2013, a decrease of 0.03 percentage points from 1.39% at March 31, 2012. 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 Residential, UNBC and Card segments.

The total allowance for the Commercial segment at March 31, 2013 was ¥1,068.5 billion, an increase of ¥84.2 billion from ¥984.3 billion at March 31, 2012. The total allowance for the Residential segment at March 31, 2013 was ¥157.2 billion, a decrease of ¥14.6 billion from ¥171.8 billion at March 31, 2012. The total allowance for the Card segment at March 31, 2013 was ¥51.9 billion, a decrease of ¥17.0 billion from ¥68.9 billion at March 31, 2012. The total allowance for the UNBC segment at March 31, 2013 was ¥58.4 billion, a decrease of ¥2.1 billion from ¥60.5 billion at March 31, 2012.

*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 credit commitments, guarantees and standby letters of credit. This allowance is included in other liabilities. With regards to the specific allocated allowance for specifically identified credit exposures 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 ¥55.9 billion at March 31, 2013, a decrease of ¥4.6 billion from ¥60.5 billion at March 31, 2012.

*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 (in billions)	Reversal of allowance for credit losses
For the fiscal year ended March 31, 2012	¥ 27.5	¥ 7.6	¥ 19.9	¥ (6.4)
For the fiscal year ended March 31, 2013	¥ 37.9	¥ 3.5	¥ 34.4	¥ (3.1)

Notes:

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

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

Due to the inherent uncertainty of factors that may affect negotiated prices which reflect the borrowers' financial condition and the value of underlying collateral, the fact that we recorded no additional cost during 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 ¥16.3 billion and net gains of ¥14.3 billion for the fiscal years ended March 31, 2012 and 2013, respectively.

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

Loans are generally placed in nonaccrual status when substantial doubt exists as to the full and timely collection of either principal or interest, when principal or interest is contractually past due one month or more with respect to loans within all classes of the Commercial segment, three months or more with respect to loans within the Card 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 borrower was classified as Likely to become Bankrupt or Legally/Virtually Bankrupt in our internal borrower rating system and the loan was in 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.



**Table of Contents**

For a more detailed discussion of nonaccrual, restructured and impaired loans, see [Impaired loans and impairment allowance](#) below.

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, 2012 and 2013:

	At March 31,	
	2012	2013
	(in billions, except percentages)	
<b>Nonaccrual loans:</b>		
Domestic:		
Manufacturing	¥ 200.1	¥ 213.2
Construction	40.1	37.5
Real estate	127.8	206.0
Services	86.0	87.1
Wholesale and retail	238.0	250.2
Banks and other financial institutions	7.8	14.0
Communication and information services	33.4	32.1
Other industries	49.2	43.6
Consumer	288.4	269.7
Total domestic	1,070.8	1,153.4
Foreign	119.0	141.7
Total nonaccrual loans	1,189.8	1,295.1
<b>Restructured loans:</b>		
Domestic:		
Manufacturing	171.5	255.7
Construction	16.4	15.6
Real estate	87.8	77.6
Services	103.3	86.0
Wholesale and retail	134.7	128.5
Banks and other financial institutions	1.9	1.3
Communication and information services	18.4	21.3
Other industries	15.6	10.4
Consumer	281.3	251.4
Total domestic	830.9	847.8
Foreign	92.2	138.1
Total restructured loans	923.1	985.9
<b>Accruing loans contractually past due 90 days or more:</b>		
Domestic		
Foreign <sup>(1)</sup>	65.5	41.2
	0.1	0.3
Total accruing loans contractually past due 90 days or more	65.6	41.5
Total nonaccrual and restructured loans and accruing loans contractually past due 90 days or more	¥ 2,178.5	¥ 2,322.5
Total loans	¥ 92,298.2	¥ 98,590.2

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 ¥12.8 billion and ¥10.7 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, 2012 and 2013, respectively.

**Table of Contents**

Nonaccrual and restructured loans and accruing loans contractually past due 90 days or more increased ¥144.0 billion to ¥2,322.5 billion at March 31, 2013 from ¥2,178.5 billion at March 31, 2012. The percentage of such nonperforming loans to the total loans remained unchanged at 2.36% between March 31, 2012 and March 31, 2013.

Total nonaccrual loans were ¥1,295.1 billion at March 31, 2013, an increase of ¥105.3 billion from ¥1,189.8 billion at March 31, 2012. Domestic nonaccrual loans increased ¥82.6 billion between March 31, 2012 and March 31, 2013, mainly due to the downgrade of some large borrowers in the real estate category and the wholesale and retail category from Normal to Likely to become Bankrupt under our internal borrower ratings. Foreign nonaccrual loans increased ¥22.7 billion between March 31, 2012 and March 31, 2013, mainly due to the appreciation of the relevant foreign currency against the Japanese yen.

Total restructured loans were ¥985.9 billion at March 31, 2013, an increase of ¥62.8 billion from ¥923.1 billion at March 31, 2012. The restructured loans set forth in the above table are current in accordance with the applicable restructured contractual terms. Domestic restructured loans increased ¥16.9 billion to ¥847.8 billion at March 31, 2013 from ¥830.9 billion at March 31, 2012. In particular, restructured loans in the manufacturing category increased ¥84.2 billion, mainly due to the restructuring of loans to a large borrower in Japan that was adversely affected by increased global competition and sought restructuring of its outstanding loans to improve its liquidity and capital position. This increase was partially offset by a ¥29.9 billion decrease in restructured loans in the consumer category and a ¥17.3 billion decrease in restructured loans in the service category. Foreign restructured loans increased ¥45.9 billion to ¥138.1 billion at March 31, 2013 from ¥92.2 billion at March 31, 2012, primarily due to the appreciation of the relevant foreign currency against the Japanese yen.

*Impaired loans and impairment allowance*

The following table shows information about impaired loans by class at March 31, 2012 and 2013:

	At March 31, 2012				
	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	¥ 1,045.3	¥ 279.4	¥ 1,324.7	¥ 1,387.0	¥ 616.8
Manufacturing	302.2	56.3	358.5	376.4	187.1
Construction	33.8	22.0	55.8	60.5	20.0
Real estate	112.4	51.0	163.4	176.5	52.1
Services	140.2	36.4	176.6	182.0	74.7
Wholesale and retail	299.6	69.1	368.7	375.5	192.7
Banks and other financial institutions	9.4	0.3	9.7	11.8	2.3
Communication and information services	39.1	12.5	51.6	54.1	23.3
Other industries	54.2	8.9	63.1	63.3	40.5
Consumer	54.4	22.9	77.3	86.9	24.1
Foreign-excluding UNBC	154.2	0.2	154.4	155.4	89.1
Loans acquired with deteriorated credit quality	34.5	0.1	34.6	56.1	10.7
<b>Residential</b>	303.4	23.5	326.9	406.7	102.9
<b>Card</b>	145.2	1.6	146.8	164.7	47.4
<b>UNBC</b>	29.6	14.9	44.5	50.0	5.3

Total	¥ 1,712.2	¥	319.7	¥	2,031.9	¥	2,219.9	¥	872.2
-------	-----------	---	-------	---	---------	---	---------	---	-------

**Table of Contents**

	At March 31, 2013				
	Requiring an Impairment Allowance	Recorded Loan Balance Not Requiring an Impairment Allowance <sup>(1)</sup>	Total (in billions)	Unpaid Principal Balance	Related Allowance
<b>Commercial</b>					
Domestic	¥ 1,158.9	¥ 318.0	¥ 1,476.9	¥ 1,537.2	¥ 662.4
Manufacturing	400.9	55.8	456.7	475.9	221.1
Construction	35.6	16.9	52.5	59.4	22.6
Real estate	139.2	100.6	239.8	247.7	55.3
Services	122.8	37.8	160.6	166.5	67.2
Wholesale and retail	309.9	62.3	372.2	380.3	209.7
Banks and other financial institutions	15.2	0.1	15.3	17.4	8.0
Communication and information services	40.2	13.0	53.2	55.0	23.7
Other industries	43.0	9.8	52.8	53.8	33.5
Consumer	52.1	21.7	73.8	81.2	21.3
Foreign-excluding UNBC	199.9	0.3	200.2	200.5	122.4
Loans acquired with deteriorated credit quality	30.9	0.1	31.0	47.9	9.9
<b>Residential</b>	300.2	13.8	314.0	363.5	118.8
<b>Card</b>	123.6	0.8	124.4	139.2	37.9
<b>UNBC</b>	31.3	23.0	54.3	60.7	3.6
<b>Total<sup>(2)</sup></b>	<b>¥ 1,844.8</b>	<b>¥ 356.0</b>	<b>¥ 2,200.8</b>	<b>¥ 2,349.0</b>	<b>¥ 955.0</b>

## Notes:

- (1) These loans do not require an allowance for credit losses because the fair values of the impaired loans equal or exceed the recorded investments in the loans.  
(2) In addition to impaired loans presented in the above table, there were loans held for sale that were impaired of ¥0.8 billion at March 31, 2013.

**Table of Contents**

The following table shows information regarding the average recorded loan balance and recognized interest income on impaired loans for the fiscal years ended March 31, 2012 and 2013:

	Fiscal years ended March 31,			
	2012	2013		2013
	Average Recorded Loan Balance	Recognized Interest Income	Average Recorded Loan Balance	Recognized Interest Income
	(in billions)			
<b>Commercial</b>				
Domestic	¥ 1,270.8	¥ 21.4	¥ 1,414.3	¥ 24.0
Manufacturing	333.5	5.7	418.4	7.0
Construction	63.2	1.4	54.7	1.2
Real estate	173.7	2.5	198.1	2.7
Services	176.0	3.2	170.0	3.2
Wholesale and retail	326.4	5.2	376.0	6.2
Banks and other financial institutions	9.8	0.1	11.5	0.2
Communication and information services	55.4	1.2	51.9	1.0
Other industries	57.6	0.9	58.1	1.3
Consumer	75.2	1.2	75.6	1.2
Foreign-excluding UNBC	138.9	1.0	172.5	2.5
Loans acquired with deteriorated credit quality	35.3	2.0	33.0	2.0
<b>Residential</b>	318.5	6.5	320.2	6.0
<b>Card</b>	149.3	6.9	135.6	6.5
<b>UNBC</b>	45.3	1.4	46.9	1.8
<b>Total</b>	¥ 1,958.1	¥ 39.2	¥ 2,122.5	¥ 42.8

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 Japanese banking regulations). Substantially all nonaccrual loans are also impaired loans. We consider a loan to be a restructured loan when we grant concessions to the borrower when the borrower is facing financial difficulties. Concessions may include 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 if the ultimate collectibility of all amounts contractually due on the

restructured loan is not in doubt. 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

**Table of Contents**

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.

For information on our troubled debt restructurings during the fiscal year ended March 31, 2013, see Note 4 to our consolidated financial statements included elsewhere in this Annual Report.

Impaired loans increased ¥168.9 billion from ¥2,031.9 billion at March 31, 2012 to ¥2,200.8 billion at March 31, 2013, mainly due to an increase in the balance of impaired loans requiring an impairment allowance, which increased from ¥1,712.2 billion at March 31, 2012 to ¥1,844.8 billion at March 31, 2013. This was mainly due to the downgrade of some large borrowers in the real estate category from Normal to Likely to become Bankrupt under our internal borrower ratings, and the restructuring of loans to a large borrower in the manufacturing category. Impaired loans in the Residential segment and the Card segment, however, decreased between March 31, 2012 and March 31, 2013.

The total related allowance was ¥955.0 billion at March 31, 2013, an increase of ¥82.8 billion from ¥872.2 billion at March 31, 2012. This increase reflected an increase of ¥34.0 billion in related allowance for the domestic manufacturing category in the Commercial segment, an increase of ¥17.0 billion in related allowance for the domestic wholesale and retail category in the Commercial segment and an increase of ¥33.3 billion in related allowance for the foreign-excluding UNBC category in the Commercial segment, partially offset by a decrease of ¥9.5 billion in related allowance for the Card segment.

*Credit quality indicator*

The following table sets forth credit quality indicators of loans by class at March 31, 2012 and 2013:

**At March 31, 2012:**

	Normal	Close Watch	Likely to become Bankrupt or Legally/Virtually Bankrupt (in billions)	Total <sup>(1)</sup>
<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



Edgar Filing: MITSUBISHI UFJ FINANCIAL GROUP INC - Form 20-F

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

**Table of Contents**

	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

	Credit Quality Based on the Number of Delinquencies		Credit Quality Based on Internal Credit Ratings <sup>(3)(4)</sup>			Total <sup>(1)(2)</sup>
	Accrual	Nonaccrual	Pass (in billions)	Special Mention	Classified	
<b>UNBC</b>	¥ 1,784.4	¥ 24.0	¥ 2,104.7	¥ 81.2	¥ 74.8	¥ 4,069.1

At March 31, 2013:

	Normal	Close Watch	Likely to become Bankrupt or Legally/Virtually Bankrupt (in billions)		Total <sup>(1)</sup>
<b>Commercial</b>					
Domestic	¥ 48,099.4	¥ 4,476.8	¥	911.9	¥ 53,488.1
Manufacturing	10,062.4	1,481.4		212.0	11,755.8
Construction	797.5	220.5		37.4	1,055.4
Real estate	9,570.1	898.6		185.7	10,654.4
Services	2,417.7	362.7		86.0	2,866.4
Wholesale and retail	7,297.2	748.0		249.3	8,294.5
Banks and other financial institutions	3,239.7	367.2		14.0	3,620.9
Communication and information services	1,183.3	98.7		31.9	1,313.9
Other industries	11,951.4	192.3		42.6	12,186.3
Consumer	1,580.1	107.4		53.0	1,740.5
Foreign-excluding UNBC	22,341.0	1,530.2		89.8	23,961.0
Loans acquired with deteriorated credit quality	31.0	52.0		18.3	101.3
<b>Total</b>	¥ 70,471.4	¥ 6,059.0	¥	1,020.0	¥ 77,550.4

	Accrual	Nonaccrual (in billions)	Total <sup>(1)</sup>
<b>Residential</b>	¥ 15,067.8	¥ 133.4	¥ 15,201.2
<b>Card</b>	¥ 582.5	¥ 89.1	¥ 671.6

	Credit Quality Based on the Number of Delinquencies		Credit Quality Based on Internal Credit Ratings <sup>(3)</sup>			Total <sup>(1)(2)</sup>
	Accrual	Nonaccrual	Pass (in billions)	Special Mention	Classified	
<b>UNBC</b>	¥ 2,260.8	¥ 31.3	¥ 2,745.4	¥ 69.5	¥ 80.4	¥ 5,187.4

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 ¥132.8 billion and ¥66.9 billion at March 31, 2012 and 2013, respectively. The amount of excluded loans as of March 31, 2012 has been restated from ¥160.2 billion to ¥132.8 billion. We will be reimbursed for a substantial portion of any future losses on FDIC covered loans under the terms of the FDIC loss share agreements. See Note 2 to our consolidated financial statements included elsewhere in this Annual Report for more information on FDIC covered loans.
- (3) The amount of loans previously reported for Criticized within the UNBC segment was further divided into Special mention and Classified as of March 31, 2013, and that of March 31, 2012 was reclassified into these two categories as well to enable comparisons between the relevant amounts as of March 31, 2012

## Edgar Filing: MITSUBISHI UFJ FINANCIAL GROUP INC - Form 20-F

and 2013, respectively.

- (4) The amounts of loans previously reported for Pass and Criticized as of March 31, 2012 have been restated to include ¥20.7 billion and ¥6.7 billion, respectively, of loans that were not previously reported.

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

---

**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 an assessment of the level of earnings and an analysis of the borrower's net worth. Based on the internal borrower rating, loans within the Commercial segment are categorized as Normal (internal borrower ratings of 1 through 9), Close Watch (internal borrower ratings of 10 through 12), and Likely to become Bankrupt or Legally/Virtually Bankrupt (internal borrower ratings of 13 through 15). Loans to borrowers categorized as Normal represent those that are not deemed to have collectibility issues. Loans to borrowers categorized as Close Watch represent those that require close monitoring as the borrower has begun to exhibit elements of potential concern with respect to its business performance and financial condition, the borrower has begun to exhibit elements of serious concern with respect to its business performance and financial condition, including business problems requiring long-term solutions, or the borrower's loans are 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 based on 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 information as of March 31. For the UNBC segment, credit quality indicators are generally based on information as of December 31.

The ratio of loans classified as Close Watch or below in the Commercial segment increased 0.2 percentage points to 9.1% as of March 31, 2013 from 8.9% as of March 31, 2012. The increase was consistent with the increased volume of loans in the Manufacturing category and Foreign-excluding UNBC loans. Loans classified as Close Watch in the Manufacturing category increased ¥381.4 billion mainly due to a downgrade in credit rating of a large borrower that experienced financial difficulties due to intense international competition. Loans classified as Close Watch in Foreign-excluding UNBC increased due to downgrades in credit ratings of various small borrowers.

The ratio of loans classified as Nonaccrual status in the Residential segment increased 0.1 percentage points to 0.9% as of March 31, 2013 from 0.8% as of March 31, 2012. Loans in the Nonaccrual status in the Residential segment increased ¥7.7 billion to ¥133.4 billion as of March 31, 2013, because we had smaller charge-offs in the segment during the fiscal year ended March 31, 2013 resulting in a larger amount of nonaccrual loans remaining in our loan balance.

## Edgar Filing: MITSUBISHI UFJ FINANCIAL GROUP INC - Form 20-F

The ratio of loans classified as Nonaccrual status in the Card segment decreased 1.9 percentage points to 13.3% as of March 31, 2013 from 15.2% as of March 31, 2012 as a result of screening of borrowers that occurred subsequent to the regulatory reforms in the consumer finance sector.

**Table of Contents**

The ratio of loans classified as Special mention or below and Nonaccrual in the UNBC segment decreased 0.9 percentage points to 3.5% as of March 31, 2013 from 4.4% as of March 31, 2012. The decrease reflected gradually improving economic conditions in the United States.

*Past due analysis*

Ages of past due loans by class at March 31, 2012 and 2013 are shown below:

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	
<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

At March 31, 2013:	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	¥ 45.9	¥ 84.8	¥ 130.7	¥ 53,357.4	¥ 53,488.1	¥ 7.5
Manufacturing	7.0	15.3	22.3	11,733.5	11,755.8	0.0
Construction	2.1	1.9	4.0	1,051.4	1,055.4	0.0
Real estate	5.3	15.1	20.4	10,634.0	10,654.4	2.3
Services	12.2	7.5	19.7	2,846.7	2,866.4	0.1
Wholesale and retail	10.1	24.0	34.1	8,260.4	8,294.5	0.1
Banks and other financial institutions		0.1	0.1	3,620.8	3,620.9	0.0
Communication and information services	2.3	2.8	5.1	1,308.8	1,313.9	0.0
Other industries	1.6	6.8	8.4	12,177.9	12,186.3	0.0
Consumer	5.3	11.3	16.6	1,723.9	1,740.5	5.0
Foreign-excluding UNBC	19.8	17.7	37.5	23,923.5	23,961.0	0.2
<b>Residential</b>	91.2	55.1	146.3	15,037.7	15,184.0	32.9

Edgar Filing: MITSUBISHI UFJ FINANCIAL GROUP INC - Form 20-F

<b>Card</b>	23.7	39.8	63.5	594.9	658.4	
<b>UNBC</b>	30.7	18.0	48.7	5,102.9	5,151.6	0.1
<b>Total</b>	¥211.3	¥ 215.4	¥ 426.7	¥98,016.4	¥98,443.1	¥ 40.7

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 and ¥2.0 billion of FDIC covered loans at March 31, 2012 and 2013, respectively, 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, 2013 were ¥426.7 billion, an increase of ¥14.1 billion from ¥412.6 billion at March 31, 2012. This increase mainly reflected the increase in total past due loans in the domestic category of the Commercial segment especially as a result of the deterioration of the status of loans to borrowers in the wholesale and retail category. Such increase was partially offset by decreases in total past due loans in the segments other than Commercial decreased respectively.

## ***Investment Portfolio***

Our investment securities primarily comprise 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. Our investment in Japanese national government and Japanese government agency bonds is a part of our asset and liability management policy with respect to investing the amount of yen-dominated funds exceeding our net loans. Our holding of Japanese national government and Japanese government agency bonds increased slightly, while the total assets increased due to increases in loans and trading securities, as a result, the percentage to our total assets decreased to 21.6% as of March 31, 2013 compared to 23.0% as of March 31, 2012. 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. We are focused on reducing our investment in equity securities in order to reduce the price fluctuation risk in our equity portfolio from a risk management perspective and to respond to applicable regulatory requirements as well as increasing market expectation for us to reduce our equity portfolio. As of March 31, 2012 and March 31, 2013, the aggregate book value of our marketable equity securities under Japanese GAAP satisfied the requirements of the legislation prohibiting banks from holding equity securities in excess of their Tier 1 capital.

Investment securities increased ¥0.83 trillion to ¥61.87 trillion as of March 31, 2013 from ¥61.04 trillion as of March 31, 2012, primarily due to an increase of ¥0.66 trillion in marketable equity securities reflecting strong equity markets and an increase of ¥0.60 trillion in Japanese national government and Japanese government agency bonds reflecting active investments made by our trust bank subsidiaries, partially offset by a decrease of ¥0.60 trillion in corporate bonds.

Investment securities other than securities available for sale or being held to maturity, which are nonmarketable equity securities presented on our consolidated balance sheet as other investment securities, were primarily carried at cost of ¥0.89 trillion as of March 31, 2013 and ¥0.91 trillion as of March 31, 2012, respectively, because their fair values were not readily determinable.

For the fiscal year ended March 31, 2013, losses resulting from impairment of investment securities were ¥124.2 billion, compared to ¥195.7 billion for the fiscal year ended March 31, 2012.



**Table of Contents**

The following table shows information regarding the amortized cost, net unrealized gains (losses), and fair value of our investment securities available for sale and being held to maturity as of March 31, 2012 and 2013.

	2012		At March 31,		2013	
	Amortized cost	Fair value	Net unrealized gains (losses) (in billions)	Amortized cost	Fair value	Net unrealized gains (losses)
<b>Securities available for sale:</b>						
<b>Debt securities:</b>						
Japanese national government and Japanese government agency bonds	¥ 48,736.2	¥ 48,882.6	¥ 146.4	¥ 49,159.8	¥ 49,480.0	¥ 320.2
Japanese prefectural and municipal bonds	173.0	180.8	7.8	207.2	217.1	9.9
Foreign governments and official institutions bonds	953.4	971.2	17.8	701.5	716.3	14.8
Corporate bonds	2,460.3	2,526.6	66.3	1,868.6	1,922.9	54.3
Mortgage-backed securities	1,226.4	1,236.9	10.5	1,464.3	1,493.0	28.7
Asset-backed securities <sup>(1)</sup>	503.0	502.5	(0.5)	813.3	810.7	(2.6)
Other debt securities	1.0	1.0		109.4	106.7	(2.7)
Marketable equity securities	2,315.4	3,438.8	1,123.4	2,224.1	4,097.4	1,873.3
<b>Total securities available for sale</b>	<b>¥ 56,368.7</b>	<b>¥ 57,740.4</b>	<b>¥ 1,371.7</b>	<b>¥ 56,548.2</b>	<b>¥ 58,844.1</b>	<b>¥ 2,295.9</b>
Debt securities being held to maturity <sup>(2)</sup>	¥ 2,385.4	¥ 2,430.7	¥ 45.3	¥ 2,131.2	¥ 2,188.1	¥ 56.9

## Notes:

- (1) AAA and AA-rated products account for approximately two-third 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 ¥924.2 billion to ¥2,295.9 billion as of March 31, 2013 from ¥1,371.7 billion as of March 31, 2012. This increase primarily consisted of a ¥749.9 billion increase in net unrealized gains on marketable equity securities reflecting the strong equity market conditions in Japan following the implementation of measures under the Japanese government's new economic policy generally referred to "Abe-nomics" and measures under the Bank of Japan's quantitative and qualitative monetary easing policy, and a ¥173.8 billion of net unrealized gains on Japanese national government and Japanese government agency bonds reflecting the decline in short-term interest rates.

The amortized cost of securities being held to maturity decreased ¥254.2 billion between March 31, 2012 and March 31, 2013 mainly due to a ¥357.2 billion decrease in Japanese national government and Japanese government agency bonds, reflecting redemption of the bonds held by our trust bank subsidiaries without creating similar positions. This was partially offset by an increase in asset-backed securities, or ABS, invested in by our banking subsidiaries.

**Table of Contents**

The following table shows information relating to our investment securities other than investment securities available for sale or being held to maturity as of March 31, 2012 and 2013:

	At March 31, 2012      2013 (in billions)	
Other investment securities:		
Nonmarketable equity securities		
Unlisted preferred securities <sup>(1)</sup>	¥ 672	¥ 728
Others <sup>(2)</sup>	205	136
Investment securities held by investment companies and brokers and dealers <sup>(3)</sup>	33	26
Total	¥ 910	¥ 890

## Notes:

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

Other investment securities comprise nonmarketable equity securities, including unlisted preferred securities, and investment securities held by investment companies and brokers and dealers.

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 ¥33.4 billion and ¥25.9 billion as of March 31, 2012 and 2013, 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 as of March 31, 2013 was ¥3.62 trillion, an increase of ¥0.39 trillion from ¥3.23 trillion as of March 31, 2012. The increase was primarily due to an increase in cash on hand in banking subsidiaries and an increase amount of due from banks in overseas offices of our bank and trust bank subsidiaries.

***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 as of March 31, 2013 were ¥8.11 trillion, an increase of ¥2.21 trillion from ¥5.90 trillion as of March 31, 2012. The average interest-earning deposits in other banks for the fiscal year ended March 31, 2013 by domestic offices increased ¥0.99 trillion reflecting an increase of interest-earning deposits in the Bank of Japan by domestic offices, while the average interest-earning deposits in other banks by overseas offices decreased ¥1.22 trillion for the same period.

*Trading Account Assets*

Trading account assets increased ¥5.88 trillion to ¥40.83 trillion as of March 31, 2013 from ¥34.95 trillion as of March 31, 2012. Trading securities as of March 31, 2013 were ¥26.18 trillion, an increase of ¥2.78 trillion from ¥23.40 trillion as of March 31, 2012. Trading derivative assets as of March 31, 2013 were ¥14.65 trillion, an increase of ¥3.09 trillion from ¥11.56 trillion as of March 31, 2012. The increase in trading securities was

## **Table of Contents**

mainly due to an increase in our long positions in Japanese national government bonds as we perceived bond market conditions to be relatively favorable towards the end of March 2013. The depreciation of the Japanese yen against other currencies having a positive effect on the translation of foreign currency denominated bonds into Japanese yen. These market conditions were created by the implementation of measures under the Japanese government's economic policy generally referred to "Abe-nomics" and measures under the Bank of Japan's quantitative and qualitative monetary easing policy. The increase in trading derivative assets was mainly due to an increase in interest rate derivatives assets in overseas branches of our banking subsidiaries and an increase in interest rate swap trading in our securities subsidiaries outside of Japan.

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

Deferred tax assets decreased ¥0.44 trillion to ¥0.51 trillion at March 31, 2013 from ¥0.95 trillion at March 31, 2012. This decrease was primarily attributable to an increase in net unrealized gains on investment securities due to a recovery in the fair market value of these securities.

### ***Accounts Receivable***

Accounts receivable, which are included in other assets, decreased ¥0.69 trillion to ¥2.17 trillion as of March 31, 2013 from ¥2.86 trillion as of March 31, 2012, reflecting a decrease in accounts receivables related to securities transactions mainly in domestic offices of banking subsidiaries.

### ***Investment in Equity Method Investees***

Investment in equity method investees, which is included in other assets, increased ¥0.14 trillion to ¥1.27 trillion as of March 31, 2013 from ¥1.13 trillion as of March 31, 2012. The increase was mainly due to the depreciation of the Japanese yen against major foreign currencies, which increased the Japanese yen equivalent amount of foreign assets including our investment in Morgan Stanley, as well as the impact of the higher earnings of Morgan Stanley for the fiscal year ended March 31, 2013. The increases were partially offset by the divestiture of our investment in Ikeda-Senshu Holdings.

For more information, see Note 14 to our consolidated financial statements included elsewhere in this Annual Report.

### ***Total Liabilities***

As of March 31, 2013, total liabilities were ¥219.62 trillion, an increase of ¥13.28 trillion from ¥206.34 trillion as of March 31, 2012. The total balance of deposits was ¥148.21 trillion as of March 31, 2013, an increase of ¥8.72 trillion from ¥139.49 trillion as of March 31, 2012. Trading account liabilities were ¥14.97 trillion as of March 31, 2013, an increase of ¥3.00 trillion from ¥11.97 trillion as of March 31, 2012. Payables under securities lending transaction were ¥3.99 trillion as of March 31, 2013, a decrease of ¥0.99 trillion from ¥4.98 trillion as of March 31, 2012. Long term debt as of March 31, 2013 was ¥12.18 trillion, a decrease of ¥0.41 trillion from ¥12.59 trillion as of March 31, 2012.

The depreciation of Japanese yen against the U.S. dollar and other foreign currencies between March 31, 2012 and March 31, 2013 resulted in an increase of ¥6.79 trillion in the Japanese yen equivalent amount of foreign currency-denominated liabilities as of March 31, 2013.

*Deposits*

Deposits are our primary source of funds. The total average balance of deposits increased ¥6.38 trillion to ¥140.30 trillion for the fiscal year ended March 31, 2013 from ¥133.92 trillion for the fiscal year ended March 31, 2012.

---

**Table of Contents**

The balance of domestic deposits increased ¥3.74 trillion to ¥118.33 trillion as of March 31, 2013 from ¥114.59 trillion as of March 31, 2012, and the balance of foreign deposits increased ¥4.98 trillion to ¥29.88 trillion as of March 31, 2013 from ¥24.90 trillion as of March 31, 2012. The increases in domestic deposits were mainly due to an increase in ordinary deposits in the domestic offices of our banking subsidiaries and an increase in certificates of deposit in our trust banking subsidiaries. The increases in foreign deposits were mainly due to an increase in interest-bearing deposits in overseas offices of our banking and trust banking subsidiaries. About 65% of the increase in the balance of foreign deposits was due to the depreciation of the Japanese yen, and another 10% of the increase was attributable to Union Bank's acquisition of other financial institutions.

***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 ¥3.09 trillion to ¥35.95 trillion as of March 31, 2013 from ¥32.86 trillion as of March 31, 2012. This increase was primarily attributable to an increase of ¥2.13 trillion in payables under repurchased agreements, an increase of ¥1.21 trillion in call money and funds purchased, and an increase of ¥0.73 trillion in other short-term borrowings. The increase in payables under repurchase agreements was primarily due to an increase in the volume of transactions by our banking subsidiaries as well as the depreciation of the Japanese yen. The increase in call money and funds purchased was mainly due to a ¥1.12 trillion increase in call money in our banking subsidiary in Japan. The increase in other-short term borrowings was primarily due to an increase in borrowings from the Bank of Japan and issuances of commercial paper outside of Japan by our banking and trust banking subsidiaries.

***Trading Account Liabilities***

Trading account liabilities as of March 31, 2013 were ¥14.97 trillion, an increase of ¥3.00 trillion from ¥11.97 trillion as of March 31, 2012. This is mainly due to increases in liabilities related to interest rate swaps and currency swaps traded in the U.S. and Asian branches of our banking and securities subsidiaries.

***Long-term Debt***

Long-term debt as of March 31, 2013 was ¥12.18 trillion, a decrease of ¥0.41 trillion from ¥12.59 trillion as of March 31, 2012. This decrease was mainly due to decreases in subordinated borrowings and obligations under loan securitization transactions, and the redemption of subordinated bonds issued by our banking subsidiaries, partially offset by an increase in long-term borrowings by our banking and securities subsidiaries.

***Other Liabilities***

## Edgar Filing: MITSUBISHI UFJ FINANCIAL GROUP INC - Form 20-F

Other liabilities decrease ¥0.50 trillion to ¥5.05 trillion as of March 31, 2013 from ¥5.55 trillion as of March 31, 2012. This decrease was mainly due to a decrease in accounts payables reflecting a smaller amount of accounts payable related to securities transactions, which was partially offset by increase in accrued and other liabilities reflecting an increase in collateral received in connection with derivative transactions.

**Table of Contents****Shareholders' Equity**

The following table presents some key figures relating to MUFG shareholders' equity:

	At March 31, 2012                      2013 (in trillions)	
Shareholders' equity	¥ 8.58	¥ 10.61
Retained earnings	0.72	1.60
Unrealized gains on investment securities available for sale, net of tax	0.48	1.11
Foreign currency translation adjustment, net of tax	(0.68)	(0.21)

Shareholders' equity as of March 31, 2013 was ¥10.61 trillion, an increase of ¥2.03 trillion from ¥8.58 trillion as of March 31, 2012.

Retained earnings as of March 31, 2013 were ¥1.60 trillion, an increase of ¥0.88 trillion from ¥0.72 trillion as of March 31, 2012, reflecting higher net income of our banking and trust banking subsidiaries for the fiscal year ended March 31, 2013 compared to the previous fiscal year. We raised our annual dividend to ¥13 per share for the fiscal year ended March 31, 2013 from ¥12 per share for the previous fiscal year.

Unrealized gains on investment securities available for sale, net of tax, as of March 31, 2013 were ¥1.11 trillion, an increase of ¥0.63 trillion from ¥0.48 trillion as of March 31, 2012. These increases were mainly due to the general decline in short-term interest rates in the bond market and favorable price movements in the equity market after the implementation of measures under the Japanese government's new economic policy generally referred to as "Abe-nomics" and measures under the Bank of Japan's quantitative and qualitative monetary easing policy.

Foreign currency translation adjustment as of March 31, 2013 was a negative adjustment of ¥0.21 trillion, an improvement of ¥0.47 trillion from a negative adjustment of ¥0.68 trillion as of March 31, 2012. This improvement was mainly due to the positive impact of the depreciation of the Japanese yen against other currencies on foreign currency translation adjustments related to our investment in Morgan Stanley, UNBC, and banking subsidiaries in China as well as redemption of mutual fund investments focused on foreign bonds.

**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 ¥139.49 trillion at March 31, 2012 to ¥148.21 trillion at March 31, 2013. As of March 31, 2013, our deposits exceeded our loans, net of allowance for credit losses of ¥97.25 trillion, by ¥50.96 trillion. These deposits provide us with a sizable source of stable and low-cost funds. Our average deposits, combined with average total equity of ¥9.24 trillion, funded 66.3% of our average total assets of ¥225.68 trillion during the fiscal year ended March 31, 2013.



## Edgar Filing: MITSUBISHI UFJ FINANCIAL GROUP INC - Form 20-F

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, 2013 was ¥35.95 trillion, and the average balance of our short-term borrowings for the fiscal year ended March 31, 2013 was ¥38.22 trillion. The balance

---

## **Table of Contents**

of our long-term debt as of March 31, 2013 was ¥12.18 trillion, and the average balance of our long-term debt for the fiscal year ended March 31, 2013 was ¥11.86 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 U.S. 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 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 our 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, 2013, we held ¥49.48 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.

Edgar Filing: MITSUBISHI UFJ FINANCIAL GROUP INC - Form 20-F

Following the downgrade by Moody's of the credit ratings of BTMU, MUTB and MUSHD in August 2011 and the downgrades by Fitch in July 2012, a small number of Credit Support Annexes, or CSAs, were modified

**Table of Contents**

to require, and some of the new CSAs required, additional collateral at lower thresholds. However, the downgrade of the credit ratings of BTMU and MUTB by Moody's and Fitch did not trigger the requirement for additional collateral. MUSHD had some contracts which had collateral requirements affected by the Moody's and Fitch downgrades, but as their derivative values were positive against the counterparties, no additional collateral was required at the time of downgrades. Following the downgrades by Moody's and Fitch, none of BTMU, MUTB and MUSHD recognized material changes in their yen-denominated or U.S. 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.

**Total Equity**

The following table presents a summary of our total equity as of March 31, 2012 and 2013:

	At March 31,	
	2012	2013
	(in billions, except percentages)	
Preferred stock	¥ 442.1	¥ 442.1
Common stock	1,645.1	1,646.0
Capital surplus	6,378.6	6,348.1
Retained earnings appropriated for legal reserve	239.6	239.6
Unappropriated retained earnings	482.5	1,361.7
Accumulated other comprehensive income (loss), net of taxes	(596.4)	574.3
Treasury stock, at cost	(8.3)	(3.0)
Total Mitsubishi UFJ Financial Group shareholders' equity	¥ 8,583.2	¥ 10,608.8
Noncontrolling interests	275.2	333.2
Total equity	¥ 8,858.4	¥ 10,942.0
Ratio of total equity to total assets	4.12%	4.75%

Total equity increased ¥2,083.6 billion to ¥10,942.0 billion as of March 31, 2013 from ¥8,858.4 billion as of March 31, 2012. The ratio of total equity to total assets improved 0.63 percentage points to 4.75% as of March 31, 2013 from 4.12% as of March 31, 2012. Although total assets increased between March 31, 2012 and March 31, 2013, the ratio of total equity to total assets also increased between those dates mainly due to an increase in unappropriated retained earnings which can be roughly calculated by subtracting the amount of dividends from net profits, and an increase in accumulated other comprehensive income, net of tax, reflecting larger net unrealized holding gains on investment securities and positive foreign currency translation adjustments.

Due to our holdings of a large amount of marketable Japanese equity securities and the volatility of the equity markets in Japan, changes in the fair value of marketable equity securities have significantly affected our total equity in recent years. The following table presents information relating to the accumulated net unrealized gains, net of taxes, in respect of investment securities classified as available-for-sale as of March 31, 2013:

	At March 31,	
	2012	2013

Edgar Filing: MITSUBISHI UFJ FINANCIAL GROUP INC - Form 20-F

	(in billions, except percentages)	
Accumulated net unrealized gains on investment securities	¥ 482.4	¥ 1,106.3
Accumulated net unrealized gains to total equity	5.45%	10.11%

## **Table of Contents**

### **Capital Adequacy**

We are subject to various regulatory capital requirements promulgated by the regulatory authorities of the countries in which we operate. Failure to meet minimum capital requirements can result in mandatory actions being taken by regulators that could have a direct material effect on our consolidated financial statements. Moreover, if our capital ratios are perceived to be low, our counterparties may avoid entering into transactions with us, which in turn could negatively affect our business and operations. For further information, see Item 3.D. Key Information Risk Factors Risks Related to Our 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 U.S. dollar and other foreign currencies and by general price levels of Japanese equity securities.

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

Certain provisions of Basel III were adopted by the FSA effective March 31, 2013 for Japanese banking institutions with international operations conducted by their foreign offices. Under Basel III, Common Equity Tier 1, Tier 1 and total capital ratios are used to assess capital adequacy, which ratios are determined by dividing applicable capital components by risk-weighted assets. Total capital is defined as the sum of Tier 1 and Tier 2 capital.

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

common stock,

capital surplus,

retained earnings, and

other comprehensive income (progressively phased into the capital ratio calculation over several years).

Regulatory adjustments including certain intangible fixed assets, such as goodwill, and defined benefit pension fund net assets (prepaid pension costs) will be deducted from Common Equity Tier 1 capital. The amount of adjustments to be deducted will increase progressively over time.

## Edgar Filing: MITSUBISHI UFJ FINANCIAL GROUP INC - Form 20-F

Additional Tier 1 capital generally consists of Basel III compliant preferred securities and other capital that meet Tier I requirements under the former Basel II standards, net of regulatory adjustments. Subject to transitional measures, items including intangible fixed assets, such as goodwill, and foreign currency translation adjustments are deducted from Additional Tier 1 capital with the deduction amounts progressively decreasing over time.

Tier 2 capital generally consists of:

Basel III compliant deferred obligations,

capital that meet Tier II requirements under the former Basel II standards,

allowances for credit losses, and

non-controlling interests in subsidiaries Tier 2 capital instruments.

---

**Table of Contents**

Subject to transitional measures, certain items including 45% of unrealized profit on securities available for sale and revaluation of land are deducted from Tier 2 capital with the deduction amounts progressively decreasing over time.

In determining capital ratios under the FSA guidelines reflecting Basel III, 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, 2013. 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 Measurement Method to calculate specific risk. Under the Internal Models Approach, we principally use a historical simulation model to calculate value-at-risk, or VaR, amounts by estimating the profit and loss on our portfolio by applying actual fluctuations in historical market rates and prices over a fixed period. Under the FSA guidelines reflecting Basel III, we reflect operational risk in the risk-weighted assets by applying the Standardized Approach as of March 31, 2011 and the Advanced Measurement Approach from March 31, 2012. For more information, see Item 11. Quantitative and Qualitative Disclosures about Credit, Market and Other Risk Operational Risk Management.

We have been granted approval by the FSA to exclude the majority of our investment in Morgan Stanley from being subject to double gearing adjustments. The approval was granted for a 10-year period, but the approval amount will be phased out by 20% each year starting from March 31, 2019. As of March 31, 2013, a full application of double gearing adjustments with respect to our investment in Morgan Stanley would have reduced our Common Equity Tier 1 capital ratio by approximately 0.5%.

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

Certain Basel III provisions were adopted by the FSA with transitional measures and became effective March 31, 2013. Accordingly, Basel II provisions are applied to calculations prior to the effective date, including our capital ratio as of March 31, 2012, whereas Basel III provisions are applied to our capital ratio calculations as of March 31, 2013. Various Basel III measures are being phased in from the calendar year 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, the Basel Committee on Banking Supervision has proposed additional loss absorbency requirements to supplement the Common Equity Tier 1 capital requirement ranging from 1% to 3.5% for global systemically important banks, or G-SIBs, depending on the bank's systemic importance. The Financial Stability Board identified us as a G-SIB in its most recent annual report published in November 2012, and indicated that, as a G-SIB, we would be required to hold an additional 1.5% of Tier 1 common equity. The group of banks identified as G-SIBs is expected to be updated annually, and the first group of G-SIBs 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 between January 1, 2016 and December 31, 2018 and will become fully effective on January 1, 2019.

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 more information, see Item 4.B. Information on the Company Business Overview Supervision and Regulation Japan Capital adequacy.



**Table of Contents****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, 2012 and 2013. 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.

(in accordance with Basel II)	At March 31, 2012 (in billions, except percentages)		Minimum capital ratios required
Capital components:			
Tier I capital	¥	10,522.3	
Tier II capital includable as qualifying capital		4,038.7	
Tier III capital includable as qualifying capital			
Deductions from total qualifying capital		(1,818.5)	
Total risk-based capital	¥	12,742.5	
Risk-weighted assets	¥	85,456.6	
Capital ratios:			
Tier I capital		12.31%	4.00%
Total risk-adjusted capital		14.91	8.00

(in accordance with Basel III)	At March 31, 2013 (in billions, except percentages)		Minimum capital ratios required
Capital components:			
Common Equity Tier 1	¥	10,300.6	
Additional Tier 1		914.2	
Tier 1 capital		11,214.8	
Tier 2 capital		3,459.1	
Total capital	¥	14,674.0	
Risk-weighted assets	¥	87,968.6	
Capital ratios:			
Common Equity Tier 1		11.70%	3.50%
Tier 1 capital		12.74	4.50%
Total capital		16.68	8.00%

At March 31, 2013, 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, 2012 and 2013. Underlying figures are calculated in accordance with Japanese banking regulations based on information derived from each bank's consolidated and non-consolidated financial statements prepared in accordance with Japanese GAAP, as required by the FSA. The 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, 2012	Minimum capital ratios required
(in accordance with Basel II)		
Consolidated capital ratios:		
BTMU		
Tier I capital	11.76%	4.00%
Total risk-adjusted capital	16.27	8.00
MUTB		
Tier I capital	12.38	4.00
Total risk-adjusted capital	15.74	8.00
Stand-alone capital ratios:		
BTMU		
Tier I capital	12.60	4.00
Total risk-adjusted capital	17.41	8.00
MUTB		
Tier I capital	11.71	4.00
Total risk-adjusted capital	15.76	8.00

	At March 31, 2013	Minimum capital ratios required
(in accordance with Basel III)		
Consolidated capital ratios:		
BTMU		
Common Equity Tier 1 capital	11.71%	3.50%
Tier 1 capital	13.11	4.50
Total capital	17.51	8.00
MUTB		
Common Equity Tier 1 capital	13.12	3.50
Tier 1 capital	13.77	4.50
Total capital	17.79	8.00
Stand-alone capital ratios:		
BTMU		
Common Equity Tier 1 capital	11.76	3.50
Tier 1 capital	13.99	4.50
Total capital	18.52	8.00
MUTB		
Common Equity Tier 1 capital	12.49	3.50
Tier 1 capital	13.22	4.50
Total capital	17.94	8.00

At March 31, 2013, management believes that our banking subsidiaries were in compliance with all capital adequacy requirements to which they were subject.



**Table of Contents*****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 U.S. 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 U.S. 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, as foreign banking organizations that have U.S. branches and agencies and also as entities that are controlled by MUFG, which is a financial holding company, BTMU and MUTB are subject to the FRB's requirements.

For a detailed discussion of the capital adequacy guidelines applicable to us in the United States, see Item 4.B. Information on the Company Business Overview Supervision and Regulation United States Bank capital requirements and capital distributions.

***Capital 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, 2011 and 2012:

	At December 31,		Minimum capital ratios required	Ratios OCC requires to be well capitalized
	2011	2012		
<b>UNBC:</b>				
Tier I capital (to risk-weighted assets)	13.82%	12.44%	4.00%	
Tier I capital (to quarterly average assets) <sup>(1)</sup>	11.44	11.18	4.00	
Total capital (to risk-weighted assets)	15.98	13.93	8.00	
<b>Union Bank:</b>				
Tier I capital (to risk-weighted assets)	12.39%	11.68%	4.00%	6.00%
Tier I capital (to quarterly average assets) <sup>(1)</sup>	10.25	10.51	4.00	5.00
Total capital (to risk-weighted assets)	14.43	13.17	8.00	10.00

Note:

(1) Excludes certain intangible assets.

Management believes that, at December 31, 2012, UNBC and Union Bank met all capital adequacy requirements to which they were subject.

At December 31, 2011 and 2012, 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, 2012 that would cause management to believe that 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.

**Table of Contents**

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**

At March 31, 2012 and 2013, MUMSS capital accounts less certain fixed assets of ¥387.7 billion and ¥388.2 billion represented 328.6% and 315.8% 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. In April and November 2011, we injected additional capital into MUMSS to strengthen its capital base. For further information, see Note 19 to our consolidated financial statements included elsewhere in this Annual Report.

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

The use of non-exchange traded or over-the-counter contracts provides us with the ability to adapt to the varied requirements of a wide customer base while mitigating market risks. Non-exchange traded contracts are accounted for at fair value, which is generally based on pricing models or quoted 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, 2012 and 2013:

	Fiscal years ended March 31,	
	2012	2013
	(in millions)	
Net fair value of contracts outstanding at beginning of fiscal year	¥ 23,503	¥ 19,776
Changes attributable to contracts realized or otherwise settled during the fiscal year	(10,044)	(3,280)
Fair value of new contracts when entered into during the fiscal year	9,114	3,375
Other changes in fair value, principally revaluation at end of fiscal year	(2,797)	(6,903)
Net fair value of contracts outstanding at end of fiscal year	¥ 19,776	¥ 12,968

During the fiscal year ended March 31, 2013, 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 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, 2013:

	Net fair value of contracts	unrealized gains
	Prices provided by other external sources	Prices based on models and other valuation methods

Edgar Filing: MITSUBISHI UFJ FINANCIAL GROUP INC - Form 20-F

	(in millions)		
Maturity less than 1 year	¥ 1,184	¥	4,142
Maturity less than 3 years	1,371		3,471
Maturity less than 5 years	175		2,815
Maturity 5 years or more			(190)
<b>Total fair value</b>	<b>¥ 2,730</b>	<b>¥</b>	<b>10,238</b>

**Table of Contents****C. Research and Development, Patents and Licenses, etc.**

Not applicable.

**D. Trend Information**

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

**E. Off-Balance Sheet Arrangements**

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, credit commitments and commercial letters of credit. The following table summarizes these commitments at March 31, 2013:

	Amount of commitment by expiration period			Total
	1 year or less	1-5 years	Over 5 years	
	(in billions)			
<b>Guarantees:</b>				
Standby letters of credit and financial guarantees	¥ 2,101	¥ 1,094	¥ 654	¥ 3,849
Performance guarantees	1,509	627	78	2,214
Derivative instruments	99,846	35,784	8,841	144,471
Liabilities of trust account	3,969	300	570	4,839
<b>Total guarantees</b>	<b>107,425</b>	<b>37,805</b>	<b>10,143</b>	<b>155,373</b>
<b>Other off-balance sheet instruments:</b>				
Commitments to extend credit	47,719	17,344	1,639	66,702
Commercial letters of credit	608	98		706
Commitments to make investments	49	26	19	94
<b>Total other off-balance sheet instruments</b>	<b>48,376</b>	<b>17,468</b>	<b>1,658</b>	<b>67,502</b>
<b>Total</b>	<b>¥ 155,801</b>	<b>¥ 55,273</b>	<b>¥ 11,801</b>	<b>¥ 222,875</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, 2013, approximately 70% of these commitments have an expiration date within one year, 25% have an expiration date from one year to five years, and 5% have an expiration date 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, 2013:

	Less than 1 year	Payments due by period			Total
		1-3 years	3-5 years (in billions)	Over 5 years	
<b>Contractual cash obligations:</b>					
Time deposit obligations	¥ 56,135	¥ 9,714	¥ 1,525	¥ 261	¥ 67,635
Long-term debt obligations	1,629	2,628	1,881	6,019	12,157
Capital lease obligations	9	9	3	5	26
Operating lease obligations	77	122	102	370	671
Purchase obligations	35	18	9	14	76
<b>Total<sup>(1)(2)</sup></b>	<b>¥ 57,885</b>	<b>¥ 12,491</b>	<b>¥ 3,520</b>	<b>¥ 6,669</b>	<b>¥ 80,565</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, 2013 as such amount is not currently determinable. We expect to contribute approximately ¥80.3 billion for pension and other benefits for our employees for the fiscal year ending March 31, 2014. 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 ¥31.0 billion at March 31, 2013. Among the liabilities for unrecognized tax benefits, it is reasonably possible that approximately ¥12.8 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, 2013, together with their respective dates of birth, positions and experience:

<b>Name</b>	<b>Position in MUFG</b>	<b>Business Experience</b>
<b>(Date of Birth)</b> Takamune Okihara (July 11, 1951)	<b>Chairman</b>	April 1974 March 2001 January 2002 May 2003 May 2004 June 2004 October 2005 January 2006 April 2008  June 2010
		Joined Sanwa Bank Executive Officer of Sanwa Bank Executive Officer of UFJ Bank Senior Executive Officer of UFJ Bank President and CEO of UFJ Bank Director of UFJ Holdings Managing Officer of MUFG Deputy President of BTMU Deputy Chairman of BTMU (incumbent)  Retired from Managing Officer of MUFG Chairman of MUFG (incumbent)  Director of Mitsubishi UFJ NICOS Co., Ltd. (incumbent)
Tatsuo Wakabayashi (September 29, 1952)	Deputy Chairman and Chief Audit Officer	April 1977 June 2004  October 2005 June 2006 June 2008 June 2009 June 2010 June 2011 April 2012 April 2013
		Joined Mitsubishi Trust Bank Director (Non-Board Member Director) of Mitsubishi Trust Bank Executive Officer of MUTB Managing Executive Officer of MUTB Managing Director of MUTB Senior Managing Director of MUTB Managing Officer of MUFG Director of MUFG President of MUTB (incumbent) Deputy Chairman of MUFG (incumbent)
Nobuyuki Hirano (October 23, 1951)	President & CEO	April 1974  June 2001 July 2004 May 2005  June 2005  October 2005 January 2006 October 2008 June 2009  June 2010 October 2010 April 2012
		Joined Mitsubishi Bank  Non-Board Member Director of Bank of Tokyo-Mitsubishi Executive Officer of MTFG Non-Board Member Managing Director of Bank of Tokyo-Mitsubishi Managing Director of Bank of Tokyo-Mitsubishi Director of MTFG Director of MUFG Managing Director of BTMU Senior Managing Director of BTMU Deputy President of BTMU Managing Officer of MUFG Director of MUFG Deputy President of MUFG President of BTMU (incumbent) Director of MUFG



**Table of Contents**

Name			
(Date of Birth)	Position in MUFG		Business Experience
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
		January 2006	Retired from Executive Officer of MTFG
			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
		May 2011	Managing Officer of MUFG
	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)	
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
		May 2012	Director of MUTB (incumbent)
		Managing Director of MUFG	
		Senior Managing Director of MUFG (incumbent)	



**Table of Contents**

Name			
(Date of Birth)	Position in MUFG		Business Experience
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
			Managing Officer of MUFG
		June 2012	Director of kabu.com Securities Co., Ltd. (incumbent)
			Director of MUSHD (incumbent)
			Managing Director of MUFG (incumbent)
Toshiro Toyozumi (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
			Retired from Managing Officer of MUFG
			President & CEO of MUSHD (incumbent)
			President & CEO of MUMSS (incumbent)
		June 2011	Director of MUFG (incumbent)
Junichi Okamoto (November 9, 1957)	Director and Group Head, Integrated Trust Assets Business Group	April 1980	Joined Toyo Trust Bank
		June 2008	Executive Officer of MUTB
		June 2010	Managing Executive Officer of MUTB
		June 2012	Executive Officer of MUFG
		June 2013	Senior Managing Executive Officer of MUTB
			Deputy President of MUTB (incumbent)
			Director of MUFG (incumbent)
Saburo Araki (August 6, 1957)	Director	April 1981	Joined Mitsubishi Bank
		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)

**Table of Contents**

Name							
(Date of Birth)	Position in MUFG			Business Experience			
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	April 1982		Joined Mitsubishi Trust Bank			
		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			
		June 2011		Executive Officer of MUFG			
		April 2012		Managing Executive Officer of MUTB			
		June 2012		Managing Director of MUTB			
		June 2013		Director of MUFG (incumbent)			
				Senior Managing Director of MUTB (incumbent)			
Ryuji Araki (January 29, 1940)	Director (Outside Officer)	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)			
				Senior Advisor of Aioi Insurance			
		June 2009		Retired from Advisor of TFS			
				Director of MUFG (incumbent)			
		October 2010		Senior Advisor of Aioi Nissay Dowa Insurance Co., Ltd. (Aioi Nissay Dowa Insurance)			
		June 2012		Advisor of Aioi Nissay Dowa Insurance (incumbent)			



**Table of Contents**

Name					
(Date of Birth)	Position in MUFG			Business Experience	
Kazuhiro Watanabe (May 19, 1947)	Director (Outside Officer)	April 1974		Public Prosecutor, Tokyo District Public Prosecutors Office	
		July 1998		Assistant Vice-minister of Justice (Deputy Director-General for Criminal Affairs Bureau)	
		April 2001		Public Prosecutor, Supreme Public Prosecutors Office	
		January 2002		Chief Public Prosecutor, Nara District Public Prosecutors Office	
		September 2004		Chief Public Prosecutor, Maebashi District Public Prosecutors Office	
		September 2005		Chief Public Prosecutor, Nagoya District Public Prosecutors Office	
		June 2007		Chief Public Prosecutor, Yokohama District Public Prosecutors Office	
		July 2008		Superintending Prosecutor, Sapporo High Public Prosecutors Office	
		July 2009		Retired from Superintending Prosecutor, Sapporo High Public Prosecutors Office	
		September 2009		Attorney at Law	
					Joined Dai-ichi Tokyo Bar Association
					Professor of Law, Tokai University Law School (incumbent)
				June 2010	Director of MUFG (incumbent)
			Auditor of Mitsubishi Plastics, Inc. (incumbent)		
		January 2011	Attorney at Law of Higashimachi LPC (incumbent)		
Yuko Kawamoto (May 31, 1958)	Director	April 1982		Joined Bank of Tokyo	
		April 1986		Left Bank of Tokyo	
		September 1988		Joined McKinsey & Company, Inc.	
		July 2001		Senior Expert of McKinsey & Company, Inc., Tokyo office	
		March 2004		Left McKinsey & Company, Inc.	
		April 2004		Professor at Waseda Graduate School of Finance, Accounting and Law (incumbent)	
		June 2006		Audit & Supervisory Board Member of Tokio Marine Holdings, Inc. (incumbent)	
		January 2013		Director of Japan Exchange Group, Inc. (incumbent)	
		June 2013	Director of MUFG (incumbent)		

**Table of Contents**

The following table sets forth our corporate auditors as of July 1, 2013, together with their respective dates of birth, positions and experience:

<b>Name</b>	<b>Position in MUFG</b>	<b>Business experience</b>
<b>(date of birth)</b> Takehiko Nemoto (August 20, 1953)	Corporate Auditor (Full-Time)	<p>April 1976 June 2004 October 2005 January 2006 October 2008 May 2009 June 2009 October 2010 May 2011 June 2011  June 2013</p> <p>Joined Mitsubishi Bank Non-Board Member Director of Bank of Tokyo-Mitsubishi Executive Officer of MUFG Executive Officer of BTMU Managing Executive Officer of BTMU Managing Officer of MUFG Managing Director of BTMU Senior Managing Director of BTMU Retired from Managing Officer of MUFG Retired from Senior Managing Director of BTMU Corporate Auditor (Full-Time) of MUFG (incumbent) Corporate Auditor of MUMSS (incumbent)</p>
		Corporate Auditor of MUSHHD (incumbent)
Takashi Mikumo (September 8, 1957)	Corporate Auditor (Full-Time)	<p>April 1980 June 2007  June 2009  June 2012 June 2013</p> <p>Joined Toyo Trust Bank Executive Officer of MUTB Executive Officer of MUFG Managing Director of MUTB Retired from Executive Officer of MUFG Senior Managing Director of MUTB Retired from Senior Managing Director of MUTB Corporate Auditor (Full-Time) of MUFG (incumbent)</p>
Kunie Okamoto (September 11, 1944)	Corporate Auditor (Outside Officer)	<p>June 1969  July 1995 March 1999 March 2002 April 2005 June 2005</p> <p>Joined Nippon Life Insurance Company (Nippon Life)  Director of Nippon Life Managing Director of Nippon Life Senior Managing Director of Nippon Life President of Nippon Life Corporate Auditor of UFJ Holdings</p>
		Corporate Auditor of TOKYU CORPORATION (incumbent) Corporate Auditor of MUFG (incumbent)
		June 2010 Director of Kintetsu Corporation (incumbent)
		Corporate Auditor of Daicel Corporation (formerly Daicel Chemical Industries, Ltd.) (incumbent) Chairman of Nippon Life (incumbent)
		April 2011

**Table of Contents**

Name			
(date of birth)	Position in MUFG		Business experience
Yasushi Ikeda (April 18, 1946)	Corporate Auditor (Outside Officer)	April 1972	Admitted to the Bar
		April 1977	Joined the Tokyo Bar Association
		June 2001	Partner of the law firm Miyake Imai & Ikeda (incumbent)
			Corporate Auditor of KADOKAWA GROUP HOLDINGS, INC.
		June 2007	Director of Nippon Metal Industry Co. Ltd.
		June 2009	Director of Sony Financial Holdings Inc.
Hideo Kojima (November 30, 1948)	Corporate Auditor (Outside Officer)		Corporate Auditor of MUFG (incumbent)
		March 1980	Became a member of the Japanese Institute of Certified Public Accountants
		May 1995	Representative Partner of Showa Ota & Co.
		May 2000	Executive Director of Century Ota Showa & Co.
		July 2001	Executive Director of Shin Nihon & Co.
		May 2006	Deputy Chief Executive Officer of Shin Nihon & Co.
		July 2008	Deputy Chief Executive Officer of Ernst & Young ShinNihon LLC.
		September 2010	Senior Advisor of Ernst & Young ShinNihon LLC.
		June 2011	Retired from Ernst & Young ShinNihon LLC. Certified Public Accountant of Hideo Kojima CPA Office (incumbent)
			Corporate Auditor of Sumitomo Heavy Industries, Ltd. (incumbent)
	Auditor of Alpine Electronics, Inc. (incumbent)		
	Corporate Auditor of MUFG (incumbent)		
	June 2013		

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.

Ms. Yuko Kawamoto has, in the past, worked at The Bank of Tokyo, Ltd. (currently The Bank of Tokyo-Mitsubishi UFJ, Ltd.) and thus does not satisfy the requirements for Outside Director provided in Article 2, Item 15 of the Company Law. However, she has experience and knowledge derived from having served as a management consultant and graduate school professor for more than 25 years after her career at The Bank of Tokyo. Therefore, her conditions are believed to be the same as those of Outside Director, in terms of independence from the Company. The Company expects her to reflect such experience and knowledge in duties as a Director, including supervising business operations, from the perspective from outside the Company.



**Table of Contents****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, 2013 to our directors (excluding outside directors), to corporate auditors (excluding outside auditors) and to outside directors and auditors, was ¥1,278 million, ¥87 million and ¥96 million, respectively.

The compensation paid by MUFG and its subsidiaries during the fiscal year ended March 31, 2013 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.

Based on a recent shareholder resolution to modify the previous shareholder authorization for granting stock acquisition rights to our directors, corporate auditors and certain of our officers, no outside directors or corporate auditors (including outside corporate auditors) are eligible for stock acquisition rights under any stock-based compensation plan adopted by the board of directors on or after June 27, 2013. Based on the same shareholder resolution, to compensate for the loss of their eligibility, the maximum aggregate annual base salaries for our directors (including outside directors) and our corporate auditors (including outside corporate auditors) have been raised.

The following table sets forth details of the aggregate compensation paid by MUFG and its subsidiaries during the fiscal year ended March 31, 2013 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					
	Aggregate Compensation	Base Salary	Stock Acquisition Rights (in millions)	Adjustable Compensation (Cash Bonuses)	Retirement Allowances <sup>(2)</sup>	Other
19	¥ 1,365	¥ 662	¥ 410	¥ 267	¥ 26	¥ 0

Notes:

- (1) Includes current directors and corporate auditors as well as those who retired during the fiscal year ended March 31, 2013 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, 2013, 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, 2013:

Directors	Aggregate amount	Paid by	Compensation paid		
			Annual salary (in millions)	Stock options	Bonus
Takamune Okihara	¥ 121	MUFG	¥ 12	¥ 6	¥ 6
		BTMU	47	26	24
Tatsuo Wakabayashi	¥ 113	MUFG	¥ 6	¥ 3	¥ 1
		MUTB	47	40	16
Nobuyuki Hirano	¥ 143	MUFG	¥ 7	¥ 3	¥ 1
		BTMU	55	53	24
Katsunori Nagayasu	¥ 128	MUFG	¥ 31	¥ 17	¥ 15
		BTMU	31	17	17

*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, 2013 was ¥662 million. The aggregate annual base salary paid to our outside directors and outside corporate auditors for the same period was ¥72 million.

*Stock-based Compensation Plans*

We issue stock acquisition rights to further motivate our directors (excluding outside directors) to contribute to the improvement of our stock prices and profits. The number of options granted to each director 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. Prior to June 27, 2013, we issued stock acquisition rights to our directors (including outside directors) and corporate auditors (including outside corporate auditors).

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 and an officer or as a corporate auditor of each of MUFG and the relevant subsidiaries 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

## **Table of Contents**

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 and an officer or as a corporate auditor of each of MUFG and the relevant subsidiaries terminates. The fair value of each stock acquisition right was ¥92,300.

As part of our compensation structure, on June 26, 2009, the board of directors adopted another stock-based compensation plan entitled "Third Series of Stock Acquisition Rights of Mitsubishi UFJ Financial Group, Inc." for our directors, corporate auditors and certain of our officers. Under the stock-based compensation plan, on July 14, 2009, we allotted an aggregate of 6,466 stock acquisition rights to our directors and an aggregate of 872 stock acquisition rights to our corporate auditors for their respective services to MUFG and its subsidiaries. Each stock acquisition right represents a right to purchase 100 shares of MUFG common stock at ¥1 per share of common stock. The stock acquisition rights were subject to a one-year vesting period. The rights are exercisable until July 13, 2039, but only after the date on which a grantee's service as a director and an officer or as a corporate auditor of each of MUFG and the relevant subsidiaries 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 and an officer or as a corporate auditor of each of MUFG and the relevant subsidiaries 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 and an officer or as a corporate auditor of each of MUFG and the relevant subsidiaries 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 and an officer or as a corporate auditor of each of MUFG and the relevant subsidiaries terminates. The fair value of each stock acquisition right was ¥33,100.

On June 27, 2013, our shareholders approved modifications to the previous shareholder authorization for granting stock acquisition rights to our directors, corporate auditors and certain of our officers so that no outside





## **Table of Contents**

directors or corporate auditors (including outside corporate auditors) are eligible for any stock-based compensation plan adopted by the board of directors on or after that date. As part of our compensation structure, on June 27, 2013, the board of directors adopted a stock-based compensation plan entitled Seventh Series of Stock Acquisition Rights of Mitsubishi UFJ Financial Group, Inc. for our directors (excluding outside directors) and certain of our officers. Under the stock-based compensation plan, on July 17, 2013, we allotted an aggregate of 4,103 stock acquisition rights to our directors (excluding outside directors) 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 16, 2043, but only after the date on which a grantee's service as a director and an officer of each of MUFG and the relevant subsidiaries terminates. The fair value of each stock acquisition right was ¥61,100.

### *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, 2013 was ¥266 million.

### *Retirement Allowances*

Prior to June 28, 2007, in accordance with customary Japanese practice, when a director or corporate auditor retired, a proposal to pay a retirement allowance was submitted at the annual ordinary general meeting of shareholders for approval. The retirement allowance consisted of a one-time payment of a portion of the allowance paid at the time of retirement and periodic payments of the remaining amount for a prescribed number of years. After the shareholders' approval was obtained, the retirement allowance for a director or corporate auditor was fixed by the board of directors or by consultation among the corporate auditors in accordance with our internal regulations and practice and generally reflected the position of the director or corporate auditor at the time of retirement, the length of his service as a director or corporate auditor and his contribution to our performance. Historically, MUFG did not set aside reserves for any retirement payments for directors and corporate auditors made under this practice.

Pursuant to a one-time shareholders' approval in June 2007, retirement allowances are paid in cash to the directors and corporate auditors who were elected prior to that date at the time of their retirement. A reserve in the total amount of such retirement allowances was set aside as of September 30, 2007. The aggregate amount of retirement allowances paid in cash by MUFG and its subsidiaries pursuant to the one-time shareholder approval during the fiscal year ended March 31, 2013 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 ¥26 million, ¥0 million and nil, respectively.

### **UNBC Stock Bonus Plan**

UNBC has a discretionary stock bonus plan under which selected employees of UNBC and its subsidiaries are paid some or a portion of annual bonuses in the form of Restricted Share Units representing a right to receive American Depositary Receipts, or ADRs, evidencing American

Edgar Filing: MITSUBISHI UFJ FINANCIAL GROUP INC - Form 20-F

Depository Shares, or ADSs, each exchangeable for one share of MUFG common stock, from an independent trust established to administer the plan grants upon

**Table of Contents**

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 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.

**BTMU Headquarters for the Americas Stock Bonus Plan**

Effective August 27, 2012, BTMU Headquarters for the Americas, or BTMU HQA, which oversees the branches and certain subsidiaries of BTMU in the Americas, adopted a stock bonus plan. Under the plan, qualified key employees of BTMU HQA are granted Restricted Stock Units, or RSUs, 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. The RSUs vest pro-rata on each anniversary of the grant date and become fully vested three years from the grant date so long as the grantee satisfies the specified continuous service requirement and any other conditions under the plan documents.

The ADSs to be delivered to grantees will be purchased on the open market by the trustee of the independent trust. As of March 31, 2013, 1,582,822 RSUs have been granted under the plan.

**Share Ownership**

As of June 30, 2013, our directors and corporate auditors held the following numbers of shares of our common stock:

	<b>Number of Shares Registered</b>
<b>Directors</b>	
Takamune Okihara	20,420
Tatsuo Wakabayashi	19,600
Nobuyuki Hirano	31,800
Masaaki Tanaka	12,800
Taihei Yuki	138,630
Ichiro Hamakawa	148,700
Akihiko Kagawa	151,600
Toshiro Toyozumi	203,500
Junichi Okamoto	7,720
Saburo Araki	32,680
Hiroyuki Noguchi	95,800

Muneaki Tokunari	55,600
Ryuji Araki	54,000
Kazuhiro Watanabe	0
Yuko Kawamoto	0

**Table of Contents**

	<b>Number of Shares Registered</b>
<b>Corporate Auditors</b>	
Takehiko Nemoto	145,800
Takashi Mikumo	17,600
Kunie Okamoto	536
Yasushi Ikeda	0
Hideo Kojima	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 fifteen 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 two outside directors as members of our board of directors. Under the Company Law, an outside director is defined as a person who has never been an executive director (*gyomu shikko torishimariyaku*), executive officer (*shikkoyaku*), manager (*shihainin*) or any other type of employee of the company or any of its subsidiaries prior to his or her appointment.

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

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

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

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

## Edgar Filing: MITSUBISHI UFJ FINANCIAL GROUP INC - Form 20-F

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.

## **Table of Contents**

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

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

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

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

*Internal Audit and Compliance Committee.* The internal audit and compliance committee, a majority of which is comprised of outside directors and specialists, deliberates important matters relating to internal audits, internal control of financial information, financial audits, compliance, corporate risk management, and other internal control systems. This committee makes reports and proposals to the board of directors about important matters for deliberation and necessary improvement measures. We aim to enhance the effectiveness of internal audit functions by utilizing the external view points provided by the internal audit and compliance committee members. The chairman of the internal audit and compliance committee is Ryuji Araki, who is an outside director. The other members of this committee are Kazuhiro Watanabe, an outside director, Shin Kikuchi, an attorney-at-law, Hideo Kojima, a certified public accountant and outside corporate auditor, and Tatsuo Wakabayashi, Deputy Chairman and Chief Audit Officer. The internal audit and compliance committee met twelve times between April 2012 and March 2013.

*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 Kazuhiro Watanabe, an outside director. The other members of this committee are Ryuji Araki, who is also an outside director, and Nobuyuki Hirano, President & CEO. The nomination and compensation committee met five times between April 2012 and March 2013.



**Table of Contents**

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

*Risk Committee.* We aim to maintain a transparent and impartial corporate governance framework that takes into account external perspectives. On July 1, 2013, we formed a Risk Committee to support our board of directors in an additional effort to further strengthen and enhance our risk control framework. The chairman of the Risk Committee is Yuko Kawamoto, who is a director. Currently, the other members of this committee are Akihiko Kagawa, a managing director, Ryuji Araki, an outside director, and Akira Ariyoshi, who has no prior employment relationship with any MUFG Group company. Mr. Ariyoshi has expertise in international finance, financial regulation, and international monetary system and has experience working for the International Monetary Fund and the Ministry of Finance of Japan. The Risk Committee deliberates on the status, control and management of various risks that we face, reports the results of its deliberation and makes recommendations to the Board of Directors on a quarterly basis.

**D. Employees**

As of March 31, 2013, we had approximately 80,900 employees, an increase of approximately 2,100 employees compared with the number of employees as of March 31, 2012. In addition, as of March 31, 2013, we had approximately 31,200 part-time and temporary employees. The following tables show the percentages of our employees across our different business units and in different locations as of March 31, 2013:

**Business unit**

<b>Bank of Tokyo-Mitsubishi UFJ:</b>	
Retail Banking Business Unit	18%
Corporate Banking Business Unit	12
Global Business Unit	29
Global Markets Unit	2
Operations and Systems Unit	9
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	3
Global Investment Banking Business Unit	1
Global Markets Business Unit	0
International Business Unit	2
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>	2
	100%



**Table of Contents****Location****Bank of Tokyo-Mitsubishi UFJ:**

Japan	43%
United States	17
Europe	2
Asia/Oceania excluding Japan	10
Other areas	1

**Mitsubishi UFJ Trust and Banking Corporation:**

Japan	12
United States	0
Europe	1
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, 2013, we had 760,871 registered shareholders of our common stock. The ten largest holders of our common stock appearing on the register of shareholders as of March 31, 2013, 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>	798,790,300	5.64%
The Master Trust Bank of Japan, Ltd. (Trust account) <sup>(1)</sup>	616,039,200	4.35
SSBT OD05 Omnibus Account Treaty Clients	365,558,591	2.58
Japan Trustee Services Bank, Ltd. (Trust account 9) <sup>(1)</sup>	279,460,500	1.97
State Street Bank and Trust Company	241,263,142	1.70
The Chase Manhattan Bank, N.A. London Secs Lending Omnibus Account	231,783,920	1.63
Nippon Life Insurance Company	214,203,153	1.51
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>	162,891,870	1.15
Toyota Motor Corporation	149,263,153	1.05
<b>Total</b>	<b>3,234,253,829</b>	<b>22.84%</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, 2013, 1,211,976 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, 2013, 1,902,312,946 shares, representing 13.43% of our outstanding common stock, were owned by 343 U.S. shareholders of record who are resident in the United States, one of whom is the ADR depository's nominee holding 162,891,870 shares, or 1.15%, 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.

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

**Table of Contents**

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, 2013, 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, 2013, we held approximately 22.0% 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.

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, 2013, 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.

## **Table of Contents**

For a detailed discussion of the foregoing transactions relating to our global alliance and securities joint venture with Morgan Stanley, see Item 4.B. Information on the Company Business Overview Global Strategic Alliance with Morgan Stanley.

We and our banking subsidiaries had, and expect to have in the future, banking transactions and other transactions in the ordinary course of business with our related parties. Although for the fiscal year ended March 31, 2013, 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, nor any of the close members of their respective families, has had any transactions or has any presently proposed transactions that are material or any transactions that are unusual in their nature or conditions, involving goods, services or tangible or intangible assets, to which we were, are or will be a party.

No loans have been made to our directors or corporate 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 U.S. Securities Exchange Act and Rule 13k-1 promulgated thereunder.

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

As part of our compensation structure, we have granted stock acquisition rights to our directors and corporate auditors. For a detailed discussion of the stock acquisition rights, see Item 6.B. Directors, Senior Management and Employees Compensation.

### **C. Interests of Experts and Counsel**

Not applicable.

## **Item 8. Financial Information.**

### **A. Consolidated Statements and Other Financial Information**

The information required by this item is set forth in our consolidated financial statements starting on page F-1 of this Annual Report and in Selected Statistical Data starting on page A-1 of this Annual Report.

### **Legal Proceedings**



From time to time, we are involved in various litigation matters and other legal proceedings, including regulatory actions. Although the final resolution of any such matters and proceedings could have a material effect on our consolidated operating results for a particular reporting period, based on our current knowledge and consultation with legal counsel, we believe the current litigation matters and other legal proceedings, when ultimately determined, will not materially affect our results of operations or financial position. For more information, see Item 3.D. Key Information Risk Factors Risks Related to Our Business We may become subject to regulatory actions or other legal proceedings relating to our transactions or other aspects of our operations, which could result in significant financial losses, restrictions on our operations and damage to our reputation.

## **Table of Contents**

### **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 27, 2013, we paid year-end dividends in the amount of ¥7 per share of common stock for the fiscal year ended March 31, 2013.

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 depository is required, to the extent that in its judgment it can convert Japanese yen on a reasonable basis into U.S. dollars and transfer the resulting U.S. dollars to the United States, to convert all cash dividends that it receives in respect of deposited shares into U.S. dollars and to distribute the amount received, after deduction of any applicable withholding taxes, to the holders of ADSs. See Item 10.D. Additional Information Exchange Controls and 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)		(U.S.\$)	
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	520	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
Fiscal year ended March 31, 2013				
First quarter	427	328	5.16	4.16
Second quarter	398	349	4.97	4.44
Third quarter	462	345	5.42	4.24
Fourth quarter	592	449	6.10	5.19
February	548	499	5.83	5.45
March	592	509	6.10	5.58
Fiscal year ending March 31, 2014				
April	679	515	6.88	5.59
May	750	585	7.31	5.85
June	625	552	6.29	5.52
July (through July 8)	658	614	6.46	6.23

**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 27, 2013, our authorized common share capital was comprised of 33,000,000,000 shares of common stock with no par value.

As of March 31, 2013, a total of 14,158,585,720 shares of common stock (including 4,374,857 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 27, 2013, we were authorized to issue 800,001,000 shares of preferred stock, including 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, 2013, 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 distributions of surplus to the extent that the aggregate book value of the assets to be distributed to shareholders does not exceed the distributable amount (as defined below) as of the effective date of such distributions of surplus. The amount of surplus (the surplus ) at any given time shall be the amount of our assets and the book value of our treasury stock after subtracting the amounts of items (1) through (5) below as they appear on our non-consolidated balance sheet as of the end of our last fiscal year, and after reflecting the changes in our surplus after the end of our last fiscal year, by adding the amounts of items (6), (7) and (8) below and/or subtracting the amounts of items (9), (10) and (11) below:

- (1) our liabilities;
- (2) our stated capital;
- (3) our additional paid-in capital;
- (4) our accumulated legal reserve;
- (5) other amounts as are set out in an ordinance of the Ministry of Justice;
- (6) (if we transferred our treasury stock after the end of the last fiscal year) the transfer price of our treasury stock after subtracting the book value thereof;
- (7) (if we decreased our stated capital after the end of the last fiscal year) the amount of decrease in our stated capital (excluding the amount transferred to additional paid-in capital or legal reserve);
- (8) (if we decreased our additional paid-in capital or legal reserve after the end of the last fiscal year) the amount of decrease in our additional paid-in capital or legal reserve (excluding the amount transferred to stated capital);
- (9) (if we cancelled our treasury stock after the end of the last fiscal year) the book value of the cancelled treasury stock;
- (10) (if we distributed surplus to shareholders after the end of the last fiscal year) the amount of the assets distributed to shareholders by way of such distribution of surplus; and
- (11) other amounts as are set out in an ordinance of the Ministry of Justice.

A distributable amount (the distributable amount ) at any given time shall be the aggregate amount of (a) the surplus, (b) the amount of profit as recorded for the period after the end of our last fiscal year until the date of an extraordinary settlement of account (if any) as is set out in an ordinance of the Ministry of Justice and (c) the transfer price of our treasury stock in the same period, after subtracting the amounts of the following items:

- (1) the book value of our treasury stock;

- (2) (if we transferred our treasury stock after the end of the last fiscal year) the transfer price of our treasury stock;
- (3) the losses recorded for the period after the end of our last fiscal year until the date of an extraordinary settlement of account (if any) as set out in an ordinance of the Ministry of Justice; and
- (4) other amounts as set out in an ordinance of the Ministry of Justice.

In Japan, the ex-dividend date and the record date for any dividends precede the date of determination of the amount of the dividend to be paid. The market price of shares generally becomes ex-dividend on the 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 and/or our subsidiaries own 25% or more of the total voting rights; and

shares issued after the record date as a result of conversion of convertible stock, exercise of stock acquisition rights, and fractional shareholders becoming a shareholder of a whole unit share.

On the other hand, holders of certain class of preferred stock shall be entitled to a voting right for each unit of preferred stock held under certain conditions provided for by relevant laws or regulations and our Articles of Incorporation, for example, when a proposal to pay the full amount of preferential dividends on any class of preferred stock in compliance with the terms of such preferred stock is not included in the agenda of the relevant shareholders meeting. See Preferred Stock.

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;

Edgar Filing: MITSUBISHI UFJ FINANCIAL GROUP INC - Form 20-F

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 will be transferable.

### ***Stock Acquisition Rights***

We may issue stock acquisition rights (*shinkabu yoyakuken*), which in the United States are often in the form of warrants, or bonds with stock acquisition rights that cannot be detached (*shinkabu yoyakuken-tsuki shasai*), which in the United States are often in the form of convertible bonds or bonds with non-detachable warrants. Except where the issuance would be on specially favorable conditions, the issuance of stock acquisition rights or bonds with stock acquisition rights may be authorized by a resolution of our board of directors. Upon exercise of the stock acquisition rights, the holder of such rights may acquire shares by paying the applicable exercise price or, if so determined by a resolution of our board of directors, by making a substitute payment, such as having the convertible bonds redeemed for no cash in lieu of the exercise price.

### ***Liquidation Rights***

Upon our liquidation, the assets remaining after payment of all debts, liquidation expenses, taxes and preferred distributions to holders of shares of our preferred stock will be distributed among the holders of shares of our common stock in proportion to the number of shares they own.

### ***Transfer Agent***

MUTB is the transfer agent for our common stock. The office of MUTB for this purpose is located at 4-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-8212, Japan. MUTB maintains our register of shareholders.

***Reports to Shareholders***

We furnish to our shareholders notices, in Japanese, of shareholders meetings, annual business reports, including our financial statements, and notices of resolutions adopted at our shareholders meetings.

***Record Dates***

As stated above, March 31 is the record date for the payment of annual dividends (if any), the determination of shareholders entitled to vote at ordinary general meetings of our shareholders, and the determination of class



## **Table of Contents**

shareholders entitled to vote at meetings of our class shareholders if any matter to be resolved at an ordinary general meeting of our shareholders requires a resolution by our class shareholders in addition to a resolution by our shareholders. September 30 is the record date for the payment of interim dividends, if any. In addition, by a resolution of our board of directors and after giving at least two weeks' prior public notice, we may at any time set a record date in order to determine the shareholders who are entitled to the rights pertaining to our shares.

### ***Repurchase of Our Shares***

We may repurchase our own shares:

through the Tokyo Stock Exchange or other stock exchanges on which our shares are listed, if authorized by a resolution of a general meeting of shareholders or our board of directors;

by way of a tender offer, if authorized by a resolution of a general meeting of shareholders or our board of directors;

from a specific party, if authorized by a special resolution of a general meeting of shareholders and we give notice thereof to shareholders prior to such general meeting, in general;

from all shareholders of a specific class of shares offering to sell their shares, if authorized by a resolution of a general meeting of shareholders or our board of directors and we give a public notice or notice thereof to all of the shareholders (if we repurchase any class of preferred stock, notices to all shareholders of the relevant class of preferred stock); or

from our subsidiaries, if authorized by a resolution of the board of directors.

When the repurchase is made by us from a specific party, as authorized by a special resolution of a general meeting of shareholders, any shareholder may make a demand to a director, five days or more prior to the relevant shareholders' meeting, that we also repurchase the shares held by that shareholder. However, no such right will be available if the shares have a market price, and if the purchase price does not exceed the then market price calculated in a manner set forth in an ordinance of the Ministry of Justice.

Repurchase of our own shares described above must satisfy various specified requirements. In general, the same restrictions on the distributable amount as described in the seventh paragraph under "Common Stock Dividends" are applicable to the repurchase of our own shares, so the total amount of the repurchase price may not exceed the distributable amount.

We may hold our own shares so repurchased without restrictions. In addition, we may cancel or dispose of our repurchased shares by a resolution of our board of directors. As of March 31, 2013, we (excluding our subsidiaries) owned 142,770 shares of treasury stock.

### **Preferred Stock**

## Edgar Filing: MITSUBISHI UFJ FINANCIAL GROUP INC - Form 20-F

The following is a summary of information concerning the shares of our preferred stock, including brief summaries of the relevant provisions of our Articles of Incorporation, the share handling regulations and the Company Law as currently in effect. The detailed rights of our preferred stock are set out in our Articles of Incorporation and the resolutions of our board of directors relating to the issuance of the relevant stock.

### *General*

As of March 31, 2013, we were authorized under our Articles of Incorporation to issue five classes of preferred stock totaling 920,001,000 shares of preferred stock. On June 27, 2013, our Articles of Incorporation were amended to eliminate 120,000,000 shares of class 3 preferred stock. As of June 27, 2013, we were authorized under our Articles of Incorporation to issue four classes of preferred stock totaling 800,001,000 shares

**Table of Contents**

of preferred stock, including 400,000,000 shares of each of the first to fourth series of class 5 preferred stock (provided the aggregate number of shares authorized to be issued with respect to the four series of class 5 preferred stock does not exceed 400,000,000 shares), 200,000,000 shares of each of the first to fourth series of class 6 preferred stock (provided the aggregate number of shares authorized to be issued with respect to the four series of class 6 preferred stock does not exceed 200,000,000 shares), 200,000,000 shares of each of the first to fourth series of class 7 preferred stock (provided the aggregate number of shares authorized to be issued with respect to the four series of class 7 preferred stock does not exceed 200,000,000 shares) and 1,000 shares of class 11 preferred stock. Our preferred stock has equal preference over our shares of common stock with respect to dividend entitlements and distribution of assets upon our liquidation. However, holders of shares of our preferred stock are not entitled to vote at general meetings of shareholders, subject to the exceptions provided under our Articles of Incorporation. As of March 31, 2013, 156,000,000 shares of first series class 5 preferred stock and 1,000 shares of class 11 preferred stock had been outstanding, but there were no shares of class 6 or 7 preferred stock outstanding. We may, at any time, following necessary authorization as described in the first paragraph under Repurchase of Our Shares, purchase and cancel, at fair value, any shares of preferred stock outstanding out of the distributable amount.

We may acquire shares of first to fourth series of class 5 and first to fourth series of class 6 preferred stock at our discretion pursuant to the terms and conditions provided by our Articles of Incorporation and the resolution of our board of directors. The provisions for acquisition of shares of first to fourth series of class 5 and first to fourth series of class 6 preferred stock will be determined by the board of directors at the time of issuance of such preferred stock. When issued, any holder of shares of first to fourth series of class 6 preferred stock or first to fourth series of class 7 preferred stock may request acquisition of shares of such preferred stock in exchange for shares of our common stock during the period determined by resolution of the board of directors adopted at the time of issuance of such shares of preferred stock. Any shares of first to fourth series of class 6 preferred stock or first to fourth series of class 7 preferred stock for which no request for acquisition in exchange for shares of our common stock is made during such period will be mandatorily acquired on the day immediately following the last day of such period (the Mandatory Acquisition Date) in the number obtained by dividing an amount equivalent to the subscription price per each relevant share of preferred stock by the average daily closing price of our common stock as reported by the Tokyo Stock Exchange for the 30 trading days commencing on the 45th trading day prior to the Mandatory Acquisition Date. Any holder of shares of class 11 preferred stock may request acquisition of shares of the relevant preferred stock in exchange for shares of our common stock during the period as provided for in the attachment to our Articles of Incorporation. Any shares of class 11 preferred stock for which no request for acquisition in exchange for shares of our common stock is made during such period will be mandatorily acquired on the Mandatory Acquisition Date in the number obtained by dividing an amount equivalent to the subscription price per each relevant share of preferred stock by the average daily closing price of our common stock as reported by the Tokyo Stock Exchange for the 30 trading days commencing on the 45th trading day prior to the Mandatory Acquisition Date.

Additionally, in order to enable the relevant preferred stock to meet the criteria for Additional Tier 1 capital under Basel III requirements as adopted by the FSA and became effective on March 31, 2013, the terms of the second to fourth series of class 5 as well as all the series of class 6 and class 7 preferred stock were amended in June 2013 to have mandatory acquisition provisions. When newly issuing these preferred stock, the board of directors will determine events that will require us to acquire the relevant preferred stock pursuant to the capital adequacy requirements applicable to us. Upon the occurrence of such events, we will acquire all the relevant preferred stock on an acquisition date, which is a date determined by the board of directors either at the time of the issuance or after the occurrence of such event. We shall acquire the relevant preferred stock in exchange for common stock or for no consideration as determined by the board of directors at the time of the issuance, considering certain factors including the market conditions. The formula to be used in exchanging the preferred stock for common stock will also be determined by the board of directors at the time of the issuance. For more information, see Item 4.B. Information on the Company Business Overview Supervision and Regulation Japan Capital adequacy.

## **Table of Contents**

### ***Preferred Dividends***

In priority to the payment of dividends to holders of our common stock, the amount of preferred dividends payable each fiscal year for each class of our preferred stock is set forth below:

first series of class 5 preferred stock: ¥115.00 per share;

second to fourth series of class 5 preferred stock: to be set by resolution of our board of directors at the time of issuance, up to a maximum of ¥250.00 per share;

first to fourth series of class 6 preferred stock: to be set by resolution of our board of directors at the time of issuance, up to a maximum of ¥125.00 per share;

first to fourth series of class 7 preferred stock: to be set by resolution of our board of directors at the time of issuance, up to a maximum of ¥125.00 per share; and

class 11 preferred stock: ¥5.30 per share.

In the event that our board of directors decides to pay an interim dividend to holders of record of our common stock as of September 30 of any year, we will, in priority to the payment of that interim dividend, pay a preferred interim dividend in the amount specified in our Articles of Incorporation to holders of record of our preferred stock as of September 30 of the same year. The amount of any preferred interim dividend will be deducted from the preferred dividend payable on the relevant class of our preferred stock for the same fiscal year.

No preferred dividend will be paid on any of our preferred stock converted into our common stock for the period from the date following the record date for the preferred dividend or preferred interim dividend last preceding the relevant conversion date to the relevant conversion date, but the common stock issued upon conversion will be entitled to receive any dividend payable to holders of record of common stock upon the next succeeding record date for common stock dividends.

No payment of dividends on our preferred stock or any other shares can be made unless we have a sufficient distributable amount and a resolution to distribute such distributable amount is obtained at the relevant ordinary general meeting of shareholders, in the case of annual preferred dividends, or at the board of directors, in the case of preferred interim dividends.

Dividends on our preferred stock are non-cumulative. If the full amount of any dividend is not declared on our preferred stock in respect of any fiscal year, holders of our preferred stock do not have any right to receive dividends in respect of the deficiency in any subsequent fiscal year, and we will have no obligation to pay the deficiency or to pay any interest regardless of whether or not dividends are paid in respect of any subsequent fiscal year. The holders of our preferred stock are not entitled to any further dividends or other participation in or distribution of our profits.

*Liquidation Rights*

In the event of our voluntary or involuntary liquidation, record holders of our preferred stock are entitled, equally in rank as among themselves, to receive before any distribution out of our residual assets is made to holders of our common stock, a distribution out of our residual assets of:

¥2,500 per share of first to fourth series of class 5 preferred stock;

¥2,500 per share of first to fourth series of class 6 preferred stock;

¥2,500 per share of first to fourth series of class 7 preferred stock; and

¥1,000 per share of class 11 preferred stock.

The holders of our preferred stock are not entitled to any further dividends or other participation in or distribution of our residual assets upon our liquidation.

## **Table of Contents**

### ***Voting Rights***

No holder of our preferred stock has the right to receive notice of, or to vote at, a general meeting of shareholders, except as otherwise specifically provided under our Articles of Incorporation or other applicable law. Under our Articles of Incorporation, holders of our preferred stock will be entitled to receive notice of, and have one voting right per unit of preferred stock at, our general meetings of shareholders:

from the commencement of our ordinary general meeting of shareholders if an agenda for approval to declare a preferred dividend is not submitted to such meeting; or

from the close of any ordinary general meeting of shareholders if a proposed resolution to declare a preferred dividend is not approved at such meeting.

In each case, holders of our preferred stock will be entitled to receive notice of and vote at the relevant general meetings of shareholders unless and until such time as a resolution of an ordinary general meeting of shareholders declaring a preferred dividend is passed.

For more information, see [Item 7.A. Major Shareholders and Related Party Transactions](#) [Major Shareholders](#) [Preferred Stock](#).

### **American Depositary Shares**

The Bank of New York Mellon will issue American depositary receipts, or ADRs. Each ADR will represent ownership interests in American depositary shares, or ADSs. As a result of the 1,000-for-one stock split that became effective on September 30, 2007, each ADS represents one share of our common stock. Each ADS is held by BTMU, acting as custodian, at its principal office in Tokyo, on behalf of The Bank of New York Mellon, acting as depository. Each ADS will also represent securities, cash or other property deposited with The Bank of New York Mellon but not distributed to ADS holders. The Bank of New York Mellon's corporate trust office is located at 101 Barclay Street, New York, New York 10286 and its principal executive office is located at One Wall Street, New York, New York 10286.

You may hold ADSs either directly or indirectly through your broker or other financial institution. If you hold ADSs directly, you are an ADS holder. This description assumes you hold your ADSs directly. If you hold the ADSs indirectly, you must rely on the procedures of your broker or other financial institution to assert the rights of ADS holders described in this section. You should consult with your broker or financial institution to find out what those procedures are.

The Bank of New York Mellon will actually be the registered holder of the common stock, so you will have to rely on it to exercise your rights as a shareholder. Our obligations and the obligations of The Bank of New York Mellon are set out in a deposit agreement among us, The Bank of New York Mellon and you, as an ADS holder. The deposit agreement and the ADSs are governed by New York law.

The following is a summary of the material terms of the deposit agreement. Because it is a summary, it does not contain all the information that may be important to you. For more complete information, you should read the entire deposit agreement and the form of ADR.

*Share Dividends and Other Distributions*

The Bank of New York Mellon has agreed to pay to you the cash dividends or other distributions it or the custodian receives on shares of common stock or other deposited securities, after deducting its fees and expenses. You will receive these distributions in proportion to the number of shares your ADSs represent.

*Cash.* The Bank of New York Mellon will convert any cash dividend or other cash distribution we pay on our common stock into U.S. dollars, if it can do so on a reasonable basis and can transfer the U.S. dollars to the

## **Table of Contents**

United States. If that is not possible or if any approval from the Japanese government is needed and cannot be obtained, the deposit agreement allows The Bank of New York Mellon to distribute the Japanese yen only to those ADS holders to whom it is possible to do so. The Bank of New York Mellon will hold the Japanese yen it cannot convert for the account of the ADS holders who have not been paid. It will not invest the Japanese yen and it will not be liable for any interest.

Before making a distribution, any withholding taxes that must be paid under Japanese law will be deducted. See E. Taxation Japanese Taxation. The Bank of New York Mellon will distribute only whole U.S. dollars and cents and will round fractional cents to the nearest whole cent. If the relevant exchange rates fluctuate during a time when The Bank of New York Mellon cannot convert the Japanese currency, you may lose some or all of the value of the distribution.

*Shares.* The Bank of New York Mellon may distribute new ADSs representing any shares we may distribute as a dividend or free distribution, if we furnish The Bank of New York Mellon promptly with satisfactory evidence that it is legal to do so. The Bank of New York Mellon will only distribute whole ADSs. It will sell shares which would require it to issue a fractional ADS and distribute the net proceeds in the same way as it distributes cash dividends. If The Bank of New York Mellon does not distribute additional ADSs, each ADS will also represent the new shares.

*Rights to receive additional shares.* If we offer holders of our common stock any rights to subscribe for additional shares of common stock or any other rights, The Bank of New York Mellon may, after consultation with us, make those rights available to you. We must first instruct The Bank of New York Mellon to do so and furnish it with satisfactory evidence that it is legal to do so. If we do not furnish this evidence and/or do not give these instructions, and The Bank of New York Mellon decides that it is practical to sell the rights, The Bank of New York Mellon will sell the rights and distribute the proceeds in the same way as it distributes cash dividends. The Bank of New York Mellon may allow rights that are not distributed or sold to lapse. In that case, you will receive no value for them.

If The Bank of New York Mellon makes rights available to you, upon instruction from you it will exercise the rights and purchase the shares on your behalf. The Bank of New York Mellon will then deposit the shares and issue ADSs to you. It will only exercise the rights if you pay it the exercise price and any other charges the rights require you to pay.

U.S. securities laws may restrict the sale, deposit, cancellation and transfer of the ADSs issued after the exercise of the rights. For example, you may not be able to trade the ADSs freely in the United States. In this case, The Bank of New York Mellon may issue the ADSs under a separate restricted deposit agreement which will contain the same provisions as the deposit agreement, except for changes needed to put the restrictions in place. The Bank of New York Mellon will not offer you rights unless those rights and the securities to which the rights relate are either exempt from registration or have been registered under the U.S. Securities Act with respect to a distribution to you. We will have no obligation to register under the Securities Act those rights or the securities to which they relate.

*Other distributions.* The Bank of New York Mellon will send to you anything else we distribute on deposited securities by any means it thinks is legal, fair and practical. If it cannot make the distribution in that way, The Bank of New York Mellon has a choice. It may decide to sell what we distributed and distribute the net proceeds, in the same way as it does with cash. Or, it may decide to hold what we distributed, in which case ADSs will also represent the newly distributed property.

The Bank of New York Mellon is not responsible if it decides that it is unlawful or impractical to make a distribution available to any ADS holders. We have no obligation to register ADSs, shares, rights or other securities under the Securities Act. We also have no obligation to take any other action to permit the distribution of ADSs, shares, rights or anything else to ADS holders. This means that you may not receive the



distributions we make on our shares or any value for them if it is illegal or impractical for us or The Bank of New York Mellon to make them available to you.

## **Table of Contents**

### ***Deposit, Withdrawal and Cancellation***

The Bank of New York Mellon will issue ADSs if you or your broker deposits shares or evidence of rights to receive shares with the custodian. Upon payment of its fees and expenses and of any taxes or charges, such as stamp taxes or stock transfer taxes or fees, The Bank of New York Mellon will register the appropriate number of ADSs in the names you request and will deliver the ADSs at its corporate trust office to the persons you request.

In certain circumstances, subject to the provisions of the deposit agreement, The Bank of New York Mellon may issue ADSs before the deposit of the underlying shares. This is called a pre-release of ADSs. A pre-release is closed out as soon as the underlying shares are delivered to the depository. The depository may receive ADSs instead of the shares to close out a pre-release. The depository may pre-release ADSs only under the following conditions:

Before or at the time of the pre-release, the person to whom the pre-release is made must represent to the depository in writing that it or its customer, as the case may be, owns the shares to be deposited;

The pre-release must be fully collateralized with cash or collateral that the depository considers appropriate; and

The depository must be able to close out the pre-release on not more than five business days' notice.

The pre-release will be subject to whatever indemnities and credit regulations that the depository considers appropriate. In addition, the depository will limit the number of ADSs that may be outstanding at any time as a result of a pre-release.

You may turn in your ADSs at the Corporate Trust Office of The Bank of New York Mellon's office. Upon payment of its fees and expenses and of any taxes or charges, such as stamp taxes or stock transfer taxes or fees, The Bank of New York Mellon will deliver (1) the underlying shares to an account designated by you and (2) any other deposited securities underlying the ADS at the office of the custodian. Or, at your request, risk and expense, The Bank of New York Mellon will deliver the deposited securities at its Corporate Trust Office.

As a result of the stock split and the adoption of the unit share system on September 30, 2007, the ADSs may only be presented for cancellation and release of the underlying shares of common stock or other deposited securities in multiples of 100 ADSs. Holders of ADRs evidencing less than 100 ADSs are not entitled to delivery of any underlying shares or other deposited securities unless ADRs, together with other ADRs presented by the same holder at the same time, represent in the aggregate at least 100 ADSs. If any ADSs are surrendered but not cancelled pursuant to the preceding sentence, The Bank of New York Mellon will execute and deliver an ADR or ADRs evidencing the balance of ADSs not so cancelled to the person or persons surrendering the same.

### ***Voting Rights***

If you are an ADS holder on a record date fixed by The Bank of New York Mellon, you may instruct The Bank of New York Mellon to vote the shares underlying your ADSs at a meeting of our shareholders in accordance with the procedures set forth in the deposit agreement.

The Bank of New York Mellon will notify you of the upcoming meeting and arrange to deliver our voting materials to you. The notice shall contain (a) such information as is contained in such notice of meeting, (b) a statement that as of the close of business on a specified record date you will be entitled, subject to any applicable provision of Japanese law and our Articles of Incorporation, to instruct The Bank of New York Mellon as to the exercise of the voting rights, if any, pertaining to the amount of shares or other deposited securities represented by your ADSs, and (c) a brief statement as to the manner in which such instructions may be given, including an express indication that instructions may be given to The Bank of New York Mellon to give a discretionary proxy to a person designated by us. Upon your written request, received on or before the date established by The Bank of New York Mellon for such purpose, The Bank of New York Mellon shall endeavor in so far as practicable to vote or cause to

## **Table of Contents**

be voted the amount of shares or other deposited securities represented by your ADSs in accordance with the instructions set forth in your request. So long as Japanese law provides that votes may only be cast with respect to one or more whole shares or other deposited securities, The Bank of New York Mellon will aggregate voting instructions to the extent such instructions are the same and vote such whole shares or other deposited securities in accordance with your instructions. If, after aggregation of all instructions to vote received by The Bank of New York Mellon, any portion of the aggregated instructions constitutes instructions with respect to less than a whole share or other deposited securities, The Bank of New York Mellon will not vote or cause to be voted the shares or other deposited securities to which such portion of the instructions apply. The Bank of New York Mellon will not vote or attempt to exercise the right to vote that attaches to the shares or other deposited securities, other than in accordance with the instructions of the ADS holders. If no instructions are received by The Bank of New York Mellon from you with respect to any of the deposited securities represented by your ADSs on or before the date established by The Bank of New York Mellon for such purpose, The Bank of New York Mellon shall deem you to have instructed The Bank of New York Mellon to give a discretionary proxy to a person designated by us with respect to such deposited securities and The Bank of New York Mellon shall give a discretionary proxy to a person designated by us to vote such deposited securities, provided that no such instruction shall be given with respect to any matter as to which we inform The Bank of New York Mellon (and we have agreed to provide such information as promptly as practicable in writing) that (1) we do not wish such proxy given, (2) substantial opposition exists or (3) such matter materially and adversely affects the rights of holders of shares.

We cannot assure you that you will receive the voting materials in time to ensure that you can instruct The Bank of New York Mellon to vote your shares. In addition, The Bank of New York Mellon is not responsible for failing to carry out voting instructions or for the manner of carrying out voting instructions as long as it has acted in good faith. This means that you may not be able to exercise your right to vote and there may be nothing you can do if your shares are not voted as you requested.

## ***Fees and Expenses***

See Item 12.D. Description of Securities Other than Equity Securities American Depositary Shares.

## ***Payment of Taxes***

You will be responsible for any taxes or other governmental charges payable on your ADSs or on the deposited securities underlying your ADSs. The Bank of New York Mellon may refuse to transfer your ADSs or allow you to withdraw the deposited securities underlying your ADSs until those taxes or other charges are paid. It may apply payments owed to you or sell deposited securities underlying your ADSs to pay any taxes owed and you will remain liable for any deficiency. If it sells deposited securities, it will, if appropriate, reduce the number of ADSs to reflect the sale and pay to you any property remaining after it has paid the taxes.

## ***Reclassifications, Recapitalizations and Mergers***

If we:

reclassify, split up or consolidate any of our shares or the deposited securities;

recapitalize, reorganize, merge, liquidate, consolidate or sell all or substantially all of our assets or take any similar action; or

distribute securities on the shares that are not distributed to you, then,

- (1) the cash, shares or other securities received by The Bank of New York Mellon will become deposited securities and each ADS will automatically represent its equal share of the new deposited securities unless additional ADSs are issued; and
- (2) The Bank of New York Mellon may, and will if we request, issue new ADSs or ask you to surrender your outstanding ADSs in exchange for new ADSs, identifying the new deposited securities.

## **Table of Contents**

### ***Amendment and Termination***

We may agree with The Bank of New York Mellon to amend the deposit agreement and the ADSs without your consent for any reason. If the amendment adds or increases fees or charges, except for taxes and other governmental charges, registration fees, cable, telex or facsimile transmission costs, delivery costs or other such expenses, or prejudices an important right of ADS holders, it will only become effective three months after The Bank of New York Mellon notifies you of the amendment. At the time an amendment becomes effective, you are considered, by continuing to hold your ADS, to agree to the amendment and to be bound by the ADSs and the deposit agreement as amended. However, no amendment will impair your right to receive the deposited securities in exchange for your ADSs.

The Bank of New York Mellon will terminate the deposit agreement if we ask it to do so, in which case it must notify you at least 30 days before termination. The Bank of New York Mellon may also terminate the deposit agreement if The Bank of New York Mellon has told us that it would like to resign and we have not appointed a new depository bank within 60 days.

If any ADSs remain outstanding after termination, The Bank of New York Mellon will stop registering the transfers of ADSs, will stop distributing dividends to ADS holders and will not give any further notices or do anything else under the deposit agreement other than:

- (1) collect dividends and distributions on the deposited securities;
- (2) sell rights and other property offered to holders of deposited securities; and
- (3) deliver shares and other deposited securities in exchange for ADSs surrendered to The Bank of New York Mellon.

At any time after one year following termination, The Bank of New York Mellon may sell any remaining deposited securities. After that, The Bank of New York Mellon will hold the money it received on the sale, as well as any other cash it is holding under the deposit agreement for the pro rata benefit of the ADS holders that have not surrendered their ADSs. It will not invest the money and has no liability for interest. The Bank of New York Mellon's only obligations will be to account for the money and other cash and with respect to indemnification and to retain depository documents. After termination, our only obligations will be with respect to indemnification and to pay certain amounts to The Bank of New York Mellon.

### ***Limitations on Obligations and Liability to ADS Holders***

The deposit agreement expressly limits our obligations and the obligations of The Bank of New York Mellon. It also limits our liability and the liability of The Bank of New York Mellon. We and The Bank of New York Mellon:

are only obligated to take the actions specifically set forth in the deposit agreement without negligence or bad faith;

## Edgar Filing: MITSUBISHI UFJ FINANCIAL GROUP INC - Form 20-F

are not liable if either is prevented or delayed by law, any provision of our Articles of Incorporation or circumstances beyond their control from performing their obligations under the deposit agreement;

are not liable if either exercises or fails to exercise discretion permitted under the deposit agreement;

have no obligation to become involved in a lawsuit or other proceeding related to the ADSs or the deposit agreement on your behalf or on behalf of any other party unless indemnified to their satisfaction; and

may rely upon any advice of or information from legal counsel, accountants, any person depositing shares, any ADS holder or any other person believed in good faith to be competent to give them that advice or information.

## **Table of Contents**

In the deposit agreement, we and The Bank of New York Mellon agree to indemnify each other for liabilities arising out of acts performed or omitted by the other party in accordance with the deposit agreement.

### ***Requirements for Depositary Actions***

Before The Bank of New York Mellon will issue or register transfer of an ADS, make a distribution on an ADS, or permit withdrawal of shares, it may require:

payment of stock transfer or other taxes or other governmental charges and transfer or registration fees charged by third parties for the transfer of any shares or other deposited securities;

production of satisfactory proof of the identity and genuineness of any signature or other information it deems necessary; and

compliance with regulations it may establish, from time to time, consistent with the deposit agreement, including presentation of transfer documents.

The Bank of New York Mellon may refuse to deliver, transfer, or register transfers of ADSs generally when its transfer books are closed, when our transfer books are closed or at any time if it or we think it advisable to do so.

You have the right to cancel your ADSs and withdraw the underlying shares at any time except:

when temporary delays arise because: (1) The Bank of New York Mellon has closed its transfer books or we have closed our transfer books; (2) the transfer of shares is blocked to permit voting at a shareholders' meeting; or (3) we are paying a dividend on the shares;

when you or other ADS holders seeking to withdraw shares owe money to pay fees, taxes and similar charges; or

when it is necessary to prohibit withdrawals in order to comply with any laws or governmental regulations that apply to ADSs or to the withdrawal of shares or other deposited securities.

This right of withdrawal may not be limited by any other provision of the deposit agreement.

### ***Reports and Other Communications***

The Bank of New York Mellon will make available for your inspection at its corporate trust office any reports and communications, including any proxy soliciting material, that it receives from us, if those reports and communications are both (a) received by The Bank of New York



Mellon as the holder of the deposited securities and (b) made generally available by us to the holders of the deposited securities. If we ask it to, The Bank of New York Mellon will also send you copies of those reports it receives from us.

***Inspection of Transfer Books***

The Bank of New York Mellon will keep books for the registration and transfer of ADSs, which will be open for your inspection at all reasonable times. You will only have the right to inspect those books if the inspection is for the purpose of communicating with other owners of ADSs in connection with our business or a matter related to the deposit agreement or the ADSs.

**C. Material Contracts**

Except as described elsewhere in this Annual Report, all material contracts entered into by us in the past two years preceding the filing of this Annual Report were entered into in the ordinary course of business.

## **Table of Contents**

### **D. Exchange Controls**

#### **Foreign Exchange and Foreign Trade Law**

The Foreign Exchange and Foreign Trade Law of Japan and the cabinet orders and ministerial ordinances incidental thereto, collectively known as the Foreign Exchange Law, set forth, among other matters, regulations relating to the receipt by non-residents of Japan of payment with respect to shares to be issued by us and the acquisition and holding of shares by non-residents of Japan and foreign investors, both as defined below. It also applies in some cases to the acquisition and holding of ADSs representing such shares acquired and held by non-residents of Japan and by foreign investors. Generally, the Foreign Exchange Law currently in effect does not affect the right of a non-resident of Japan to purchase or sell an ADS outside Japan for non-Japanese currency.

Non-residents of Japan are defined as individuals who are not resident in Japan and corporations whose principal offices are located outside Japan. Generally, the branches and offices of non-resident corporations which are located in Japan are regarded as residents of Japan while the branches and offices of Japanese corporations located outside Japan are regarded as non-residents of Japan.

Foreign investors are defined as:

non resident individuals;

corporations which are organized under the laws of foreign countries or whose principal offices are located outside Japan;

corporations of which 50% or more of the shares are directly or indirectly held by individuals not resident of Japan and corporations which are organized under the laws of foreign countries or whose principal offices are located outside Japan; and

corporations, a majority of officers (or a majority of officers having the power of representation) of which are non-resident individuals.

#### **Dividends and Proceeds of Sales**

Under the Foreign Exchange Law, dividends paid on, and the proceeds of sales in Japan of, shares held by non-residents of Japan may in general be converted into any foreign currency and repatriated abroad. The acquisition of our shares by non-residents by way of a stock split is not subject to any notification or reporting requirements.

#### **Acquisition of Shares**

## Edgar Filing: MITSUBISHI UFJ FINANCIAL GROUP INC - Form 20-F

In general, a non-resident who acquires shares from a resident of Japan is not subject to any prior filing requirement, although the Foreign Exchange Law empowers the Minister of Finance of Japan to require a prior approval for any such acquisition in certain limited circumstances.

If a foreign investor acquires our shares, and, together with parties who have a special relationship with that foreign investor, holds 10% or more of our issued shares as a result of such acquisition, the foreign investor must file a report of such acquisition with the Minister of Finance and any other competent Minister by the fifteenth day of the month immediately following the month to which the date of such acquisition belongs. In certain limited circumstances, however, a prior notification of such acquisition must be filed with the Minister of Finance and any other competent Minister, who may modify or prohibit the proposed acquisition.

### **Deposit and Withdrawal under American Depositary Facility**

The deposit of shares with us, in our capacity as custodian and agent for the depositary, in Tokyo, the issuance of ADSs by the depositary to a non-resident of Japan in respect of the deposit and the withdrawal of the

## **Table of Contents**

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

## **Reporting of Substantial Shareholdings**

The Financial Instruments and Exchange Law of Japan requires any person who has become, beneficially and solely or jointly, a holder of more than 5% of the total issued shares of capital stock of a company listed on any Japanese financial instruments exchange or whose shares are traded on the over-the-counter market in Japan to file with the director of a competent finance bureau within 5 business days a report concerning such shareholdings.

A similar report must also be filed in respect of any subsequent change of 1% or more in any such holding ratio or any change in material matters set out in reports previously filed, with certain exceptions. For this purpose, shares issuable to such person upon exchange of exchangeable securities, conversion of convertible securities or exercise of share subscription warrants or stock acquisition rights (including those incorporated in bonds with stock acquisition rights) are taken into account in determining both the number of shares held by such holder and the issuer's total issued shares of capital stock. Copies of such report must also be furnished to the issuer of such shares and all Japanese financial instruments exchanges on which the shares are listed or (in the case of shares traded over-the-counter) the Japan Securities Dealers Association.

## **E. Taxation**

### **Japanese Taxation**

The following sets forth the material Japanese tax consequences to owners of shares of our common stock or ADSs who are non-resident individuals or non-Japanese corporations without a permanent establishment in Japan to which the relevant income is attributable, which we refer to as non-resident holders in this section. The statements regarding Japanese tax laws below are based on the laws in force and as interpreted by the Japanese taxation authorities as at the date of this Annual Report and are subject to changes in the applicable Japanese laws, double taxation treaties, conventions or agreements or interpretations thereof occurring after that date. This summary is not exhaustive of all possible tax considerations that may apply to a particular investor, and potential investors are advised to satisfy themselves as to the overall tax consequences of the acquisition, ownership and disposition of shares of our common stock or ADSs, including specifically the tax consequences under Japanese law, the laws of the jurisdiction of which they are resident and any tax treaty between Japan and their country of residence, by consulting their own tax advisers.

For the purpose of Japanese tax law and the Convention between the Government of the United States of America and Japan for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income, or the Tax Convention, a U.S. holder of ADSs will be treated as the owner of the shares of our common stock underlying the ADSs evidenced by the ADRs.

Generally, a non-resident holder of shares of our common stock or ADSs is subject to Japanese withholding tax on dividends paid by us. In the absence of any applicable tax treaty, convention or agreement reducing the rate of withholding tax, the rate of Japanese withholding tax applicable to dividends paid by us to non-resident holders is (i) 7.147% for dividends to be paid on or before December 31, 2013, (ii) 15.315%

## Edgar Filing: MITSUBISHI UFJ FINANCIAL GROUP INC - Form 20-F

for dividends to be paid on or after January 1, 2014 but on or before December 31, 2037 and (iii) 15% for dividends to be paid thereafter, except for dividends paid to any individual non-resident holder who holds 3% or more of our issued shares for which the applicable rate is (a) 20.42% for dividends to be paid on or before December 31, 2037 and (b) 20% for dividends to be paid thereafter, pursuant to Japanese tax law.

## **Table of Contents**

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

Japanese tax law provides in general that if the Japanese statutory rate is lower than the maximum rate applicable under tax treaties, conventions or agreements, the Japanese statutory rate as stated above shall be applicable.

Non-resident holders of shares who are entitled to a reduced rate of Japanese withholding tax on payments of dividends on the shares of our common stock or ADSs by us are required to submit an Application Form for the Income Tax Convention regarding Relief from Japanese Income Tax on Dividends, or an Application Form for the Income Tax Convention, in advance through a paying handling agent to the relevant tax authority before the payment of dividends. A standing proxy for non-resident holders may provide this application service for the non-resident holders. Those non-resident holders who receive dividends on listed shares through a paying handling agent may select a different procedure with respect to dividends payable on or after January 1, 2014. Under that procedure, the non-resident holders who submit a special application form to the relevant tax authority through the paying handling agent are deemed to submit the Application Form for the Income Tax Convention with respect to any dividend which will be paid by us to the non-resident holders through the paying handling agent thereafter, provided that the non-resident holders shall notify the paying handling agent of certain information regarding the dividends before the payment of the dividends. Non-resident holders who do not submit an application in advance will generally be entitled to claim a refund from the relevant Japanese tax authority of withholding taxes withheld in excess of the rate of an applicable tax treaty.

Gains derived from the sale or other disposition of shares of our common stock or ADSs by a non-resident holder are not, in general, subject to Japanese income or corporation taxes or other Japanese taxes.

Any deposits or withdrawals of shares of our common stock by a non-resident holder in exchange for ADSs are not subject to Japanese income or corporation tax.

Japanese inheritance and gift taxes, at progressive rates, may be payable by an individual who has acquired shares of our common stock or ADSs as legatee, heir or donee, even if none of the individual, the decedent or the donor is a Japanese resident.

## **U.S. Taxation**

The following sets forth the material U.S. federal income tax consequences of the ownership of shares and ADSs by a U.S. holder, as defined below. This summary is based on U.S. federal income tax laws, including the U.S. Internal Revenue Code of 1986, or the Code, its legislative history, existing and proposed Treasury regulations thereunder, published rulings and court decisions, and the Tax Convention (as defined above), all of which are subject to change, possibly with retroactive effect.

## Edgar Filing: MITSUBISHI UFJ FINANCIAL GROUP INC - Form 20-F

The following summary is not a complete analysis or description of all potential U.S. federal income tax consequences to a particular U.S. holder. It does not address all U.S. federal income tax considerations that may be relevant to all categories of potential purchasers, certain of which (such as banks or other financial institutions, insurance companies, dealers in securities, tax-exempt entities, non-U.S. persons, persons holding a share or an ADS as part of a straddle, hedge, conversion or integrated transaction, holders whose functional

**Table of Contents**

currency is not the U.S. dollar, holders liable for alternative minimum tax and holders of 10% or more of our voting shares) are subject to special tax treatment. This summary does not address any foreign, state, local or other tax consequences of investments in our shares or ADSs.

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

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

a citizen or resident of the United States as determined for U.S. federal income tax purposes;

a corporation or other entity taxable as a corporation created or organized under the laws of the United States, any state thereof or the District of Columbia;

an estate, the income of which is subject to U.S. federal income tax regardless of its source; or

a trust

the administration of which is subject to (1) the supervision of a court within the United States and (2) the control of one or more U.S. persons as described in Section 7701(a)(30) of the Code; or

that has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person.

A Non-U.S. holder is any beneficial holder of shares or ADSs that is not a U.S. holder.

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

**We urge U.S. holders to consult their own tax advisors concerning the U.S. federal, state and local and other tax consequences to them of the purchase, ownership and disposition of shares or ADSs.**

This summary is based in part on the assumption that each obligation under the deposit agreement and any related agreement will be performed in accordance with its respective terms. Subject to the discussion in the next paragraph, for U.S. federal income tax purposes, holders of ADSs will be treated as the owners of the shares represented by the ADSs. Accordingly, withdrawals or deposits of shares in exchange for ADSs generally will not be subject to U.S. federal income tax.



## Edgar Filing: MITSUBISHI UFJ FINANCIAL GROUP INC - Form 20-F

The U.S. Treasury has expressed concerns that intermediaries in the chain of ownership between the holder of an ADS and the issuer of the security underlying the ADS may be taking actions that are inconsistent with the beneficial ownership of the underlying shares (for example, pre-releasing ADSs to persons who do not have beneficial ownership of the securities underlying the ADSs). Accordingly, the discussion on the creditability of Japanese taxes and the availability of the reduced rate of tax for dividends received by certain non-corporate U.S. holders, each as described below, could be affected by actions taken by intermediaries in the chain of ownership between the holder of ADSs and us if, as a result of such actions, the holders of ADSs are not properly treated as beneficial owners of the underlying shares. We are not aware of any intention to take any such actions, and accordingly, the remainder of this discussion assumes that holders of ADSs will be properly treated as beneficial owners of the underlying shares.

Special adverse U.S. federal income tax rules apply if a U.S. holder holds shares or ADSs of a company that is treated as a passive foreign investment company (a PFIC) for any taxable year during which the U.S. holder held shares or ADSs, as discussed in more detail below. U.S. holders should consult their own tax advisors as to the potential application of the PFIC rules to their ownership and disposition of shares or ADSs.

---

**Table of Contents*****Taxation of Dividends***

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

If a U.S. holder is eligible for benefits under the Tax Convention, the holder may be able to claim a reduced rate of Japanese withholding tax. All U.S. holders should consult their tax advisors about their eligibility for reduction of Japanese withholding tax. A U.S. holder may claim a deduction or a foreign tax credit, subject to other applicable limitations, only for tax withheld at the appropriate rate. A U.S. holder should not be allowed a foreign tax credit for withholding tax for any portion of the tax that could have been avoided by claiming benefits under the Tax Convention. For foreign tax credit limitation purposes, the dividend will be income from sources outside the United States. The limitation on foreign taxes eligible for credit is calculated separately with respect to specific classes of income. For this purpose, dividends we pay will constitute passive income or, in the case of certain U.S. holders, financial services income. The rules governing U.S. foreign tax credits are very complex and U.S. holders should consult their tax advisors regarding the availability of foreign tax credits under their particular circumstances.

Subject to applicable exceptions with respect to short-term and hedged positions, qualified dividends received by non-corporate U.S. holders from a qualified corporation may be eligible for reduced rates of taxation. Qualified corporations include those foreign corporations eligible for the benefits of a comprehensive income tax treaty with the United States that the U.S. Treasury Department determines to be satisfactory for these purposes and that includes an exchange of information provision. The Tax Convention meets these requirements. We believe that we are a qualified foreign corporation and that dividends received by U.S. investors with respect to our shares or ADSs will be qualified dividends. Dividends received by U.S. investors from a foreign corporation that was a PFIC in either the taxable year of the distribution or the preceding taxable year are not qualified dividends.

***Passive Foreign Investment Company Considerations***

Special adverse U.S. federal income tax rules apply if a U.S. holder holds shares or ADSs of a company that is treated as a PFIC, for any taxable year during which the U.S. holder held shares or ADSs. A foreign

---

**Table of Contents**

corporation will be considered a PFIC for any taxable year in which (i) 75% or more of its gross income is passive income (the income test), or (ii) 50% or more of the average fair market value of its assets (determined quarterly) is attributable to assets that produce or are held for the production of passive income (the asset test). For this purpose, passive income generally includes dividends, interest, royalties, rents and certain gains from the sale of stock and securities. If a foreign corporation owns at least 25% (by value) of the stock of another corporation, the corporation will be treated, for purposes of the PFIC tests, as owning a proportionate share of the other corporation's assets and receiving its proportionate share of the other corporation's income. The determination of whether a foreign corporation is a PFIC is made annually.

Proposed Treasury regulations convert what would otherwise be passive income into non-passive income when such income is banking income earned by an active bank. Based upon these proposed Treasury regulations and certain IRS guidance relating to the treatment of certain qualifying government bonds, and upon certain management estimates and assumptions, we do not believe that we were a PFIC for the year ended March 31, 2013 because we did not meet either the income test or the asset test. The determination of whether we are a PFIC must be made annually and involves a fact-intensive analysis based upon, among other things, the composition of our income and assets and the value of our assets from time to time. It is possible that we may become a PFIC in the fiscal year ending March 31, 2014 or any future taxable year due to changes in our income or asset composition. In addition, a decrease in the price of our shares may also result in our becoming a PFIC. Furthermore, there can be no assurance that the above-described proposed Treasury regulations will be finalized in their current form or that the above IRS guidance which is scheduled to expire for taxable years beginning after 2013 will continue to apply. Moreover, the application of the proposed Treasury regulations is not clear. If we were classified as a PFIC in any year during which a U.S. holder owns shares or ADSs and the U.S. holder does not make a mark-to-market election, as discussed below, we generally would continue to be treated as a PFIC as to such U.S. holder in all succeeding years, regardless of whether we continue to meet the income or asset test discussed above. U.S. Holders are urged to consult their own tax advisors with respect to the tax consequences to them if we were to become a PFIC for any taxable year in which they own our shares or ADSs.

If we were classified as a PFIC for any taxable year during which a U.S. holder holds our shares or ADSs, the U.S. holder would generally not receive capital gains treatment upon the sale of the shares or ADSs and would be subject to increased tax liability (generally including an interest charge) upon the sale or other disposition of the shares or ADSs or upon the receipt of certain distributions treated as excess distributions, unless the U.S. holder makes the mark-to-market election described below. An excess distribution generally would be any distribution to a U.S. holder with respect to shares or ADSs during a single taxable year that is greater than 125% of the average annual distributions received by a U.S. holder with respect to shares or ADSs during the three preceding taxable years or, if shorter, during the U.S. holder's holding period for the shares or ADSs.

*Mark-to-Market Election.* If the shares or ADSs are regularly traded on a registered national securities exchange or certain other exchanges or markets, then such shares or ADSs would constitute marketable stock for purposes of the PFIC rules, and a U.S. holder would not be subject to the foregoing PFIC rules if such holder made a mark-to-market election. After making such an election, the U.S. holder generally would include as ordinary income each year during which the election is in effect and during which we are a PFIC the excess, if any, of the fair market value of our shares or ADSs at the end of the taxable year over such holder's adjusted basis in such shares or ADSs. These amounts of ordinary income would not be eligible for the favorable tax rates applicable to qualified dividend income or long-term capital gains. A U.S. holder also would be allowed to take an ordinary loss in respect of the excess, if any, of the holder's adjusted basis in our shares or ADSs over their fair market value at the end of the taxable year (but only to the extent of the net amount of income that was previously included as a result of the mark-to-market election). A U.S. holder's tax basis in our shares or ADSs would be adjusted to reflect any income or loss amounts resulting from a mark-to-market election. If made, a mark-to-market election would be effective for the taxable year for which the election was made and for all subsequent taxable years unless the shares or ADSs cease to qualify as marketable stock for purposes of the PFIC rules or the Internal Revenue Service consented to the revocation of the election. In the event that we are

## **Table of Contents**

classified as a PFIC, U.S. holders are urged to consult their tax advisors regarding the availability of the mark-to-market election, and whether the election would be advisable in the holder's particular circumstances.

*QEF Election.* The PFIC rules outlined above also would not apply to a U.S. holder if such holder alternatively elected to treat us as a qualified electing fund or QEF. An election to treat us as a QEF will not be available, however, if we do not provide the information necessary to make such an election. We will not provide U.S. holders with the information necessary to make a QEF election, and thus, the QEF election will not be available with respect to our shares.

Notwithstanding any election made with respect to our shares, dividends received with respect to our shares will not constitute qualified dividend income if we are a PFIC in either the year of the distribution or the preceding taxable year. Dividends that do not constitute qualified dividend income are not eligible for taxation at the reduced tax rate described above in *Taxation of Dividends*. Instead, such dividends would be subject to tax at ordinary income rates.

If a U.S. holder owns shares or ADSs during any year in which we are a PFIC, the U.S. holder must also file IRS Form 8621 regarding distributions received on the shares or ADSs, any gain realized on the shares or ADSs, and any reportable election in accordance with the instructions to such form. In addition, each U.S. holder is required to file a separate IRS Form 8621 if such U.S. holder owns shares or ADSs during any year in which we are a PFIC whether or not such U.S. holder received distributions on the shares or ADSs, realized a gain on the shares or ADSs or made a reportable election during such year. U.S. holders are urged to consult their own tax advisors concerning the U.S. federal income tax consequences of holding shares or ADSs if the Company were considered a PFIC in any taxable year.

## ***Taxation of Capital Gains***

Subject to the application of the PFIC rules discussed above, upon a sale or other disposition of shares or ADSs, a U.S. holder will recognize a gain or loss in an amount equal to the difference between the U.S. dollar value of the amount realized and the U.S. holder's tax basis, determined in U.S. dollars, in such shares or ADSs. Such gains or losses will be capital gains or losses and will be long-term capital gains or losses if the U.S. holder's holding period for such shares or ADSs exceeds one year. Long-term capital gains of non-corporate U.S. holders (including individuals) are generally eligible for reduced rates of taxation. A U.S. holder's adjusted tax basis in its shares or ADSs will generally be the cost to the holder of such shares or ADSs. Any such gains or losses realized by a U.S. holder upon disposal of the shares or ADSs will generally be income or loss from sources within the United States for foreign tax credit limitation purposes. The deductibility of capital losses is subject to limitations under the Code.

## ***Information Reporting and Backup Withholding***

Dividends paid on shares or ADSs to a U.S. holder, or proceeds from a U.S. holder's sale or other disposition of shares or ADSs, may be subject to information reporting requirements. Those dividends or proceeds from sale or disposition may also be subject to backup withholding unless the U.S. holder:

is a corporation or other exempt recipient, and, when required, demonstrates this fact; or

## Edgar Filing: MITSUBISHI UFJ FINANCIAL GROUP INC - Form 20-F

provides a correct taxpayer identification number on a properly completed U.S. Internal Revenue Service Form W-9 or substitute form, certifies that the U.S. holder is not subject to backup withholding, and otherwise complies with applicable requirements of the backup withholding rules.

Backup withholding is not an additional tax. Any amount withheld under these rules will be creditable against the U.S. holder's U.S. federal income tax liability or refundable to the extent that it exceeds such liability if the U.S. holder provides the required information to the Internal Revenue Service. If a U.S. holder is required to and does not provide a correct taxpayer identification number, the U.S. holder may be subject to penalties

## **Table of Contents**

imposed by the Internal Revenue Service. All holders should consult their tax advisors as to their qualification for the exemption from backup withholding and the procedure for obtaining an exemption.

In addition, certain U.S. holders who are individuals that hold certain foreign financial assets (which may include our shares or ADSs) to report information relating to such assets, subject to certain exceptions. U.S. Holders should consult their tax advisors regarding the effect, if any, of this legislation on their ownership and disposition of our shares and ADSs.

### ***Additional Tax on Investment Income***

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

### **F. Dividends and Paying Agents**

Not applicable.

### **G. Statement by Experts**

Not applicable.

### **H. Documents on Display**

We file periodic reports and other information with the SEC. You may read and copy any document that we file with the SEC at the SEC's public reference room at 100 F Street, NE, Washington, DC 20549. Please call the SEC at 1-800-SEC-0330 for further information on the operation of its public reference rooms. The SEC also maintains a web site that contains reports, proxy and information statements and other information regarding registrants that file electronically with the SEC (<http://www.sec.gov>). Some of this information may also be found on our website at <http://www.mufg.jp>.

### **I. Subsidiary Information**

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

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

Numerous changes in our business environment have occurred as a result of globalization of the financial industry, the advancement of information technology, and changes in economic conditions. We aim to be a global and comprehensive financial group encompassing leading commercial and trust banks, and securities firms. Risk management plays an increasingly important role as the risks faced by financial groups such as us increase in scope and variety.

We identify various risks arising from businesses based on uniform criteria, and implement integrated risk management to ensure a stronger financial condition and to maximize shareholder value. Based on this policy, we identify, measure, control and monitor a wide variety of risks so as to achieve a stable balance between earnings and risks. We undertake risk management to create an appropriate capital structure and to achieve optimal allocation of resources.

**Table of Contents**

**Risk Classification**

At the holding company level, we broadly classify and define risk categories faced by the Group including those that are summarized below. Group companies perform more detailed risk management based on their respective operations.

<b>Type of Risk</b>	<b>Definition</b>
Credit Risk	The risk of financial loss in credit assets (including off-balance sheet instruments) caused by deterioration in the credit conditions of counterparties. This category includes country risk.
Market Risk	Market risk is the risk of financial loss where the value of our assets and liabilities could be adversely affected by changes in market variables such as interest rates, securities prices and foreign exchange rates. Market liquidity risk is the risk of financial loss caused by the inability to secure market transactions at the required volume or price levels as a result of market turbulence or lack of trading liquidity.
Liquidity Risk	The risk of incurring loss if a poor financial position at a group company hampers the ability to meet funding requirements or necessitates fund procurement at interest rates markedly higher than normal.