MITSUBISHI UFJ FINANCIAL GROUP INC
Form 20-F
July 18, 2014
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As filed with the Securities and Exchange Commission on July 18, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 20-F

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

THE SECURITIES EXCHANGE ACT OF 1934

OR

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

THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended March 31, 2014

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(1)
American depositary shares, each of which represents one share of common stock	New York Stock Exchange

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

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

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

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

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

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

As of March 31, 2014, (1) 14,164,026,420 shares of common stock (including 3,389,416 shares of common stock held by the registrant and its consolidated subsidiaries as treasury stock) and (2) 1,000 shares of class 11 preferred stock. All of the outstanding class 11 preferred stock as of July 31, 2014 will be acquired mandatorily by the registrant on August 1, 2014.

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

Yes x No ¨

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

Yes ¨ No x

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

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

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

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

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

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

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 x

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For purposes of this Annual Report, we have presented our consolidated financial statements in accordance with accounting principles generally accepted in the United States, or 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 commercial banking subsidiaries refers to The Bank of Tokyo-Mitsubishi UFJ, Ltd., or BTMU, and, as the context requires, its consolidated subsidiaries engaged in the commercial banking business. Our trust banking subsidiaries refers to Mitsubishi UFJ Trust and Banking Corporation, or MUTB, and, as the context requires, its consolidated subsidiaries engaged in the trust banking business. Our banking subsidiaries refers to BTMU and MUTB and, as the context requires, their respective consolidated subsidiaries engaged in the banking business.

References to MUAH and MUB are to MUFG Americas Holdings Corporation and MUFG Union Bank, N.A., as single entities, respectively, as well as to MUAH and MUB and their respective consolidated subsidiaries, as the context requires. Effective July 1, 2014, we integrated BTMU s operations in the Americas region with the operations of UnionBanCal Corporation, or UNBC, which is a wholly owned subsidiary of BTMU, and changed UNBC s corporate name to MUFG Americas Holdings Corporation. Union Bank, N.A., which is MUAH s principal subsidiary, was also renamed MUFG Union Bank, N.A., effective the same day.

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 Unit dollars, and references to euro or are to the currency of the member states of the European Monetary Union. Our fiscal year ends on March 31 of each year. References to years not specified as being fiscal years are to calendar years.

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

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Forward-Looking Statements

We may from time to time make written or oral forward-looking statements. Written forward-looking statements may appear in documents filed with or submitted to the 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.

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PART I

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

Not applicable.

Item 2. Offer Statistics and Expected Timetable.

Not applicable.

Item 3. Key Information.

A. Selected Financial Data

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

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

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

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	Fiscal years ended March 31,				
	2010	2011	2012	2013	2014
	(in millions, except per share data and number of shares)				
Statement of income data:					
Interest income[1]	¥ 2,757,866	¥ 2,550,144	¥ 2,595,956	¥ 2,427,521	¥ 2,522,283
Interest expense	774,400	670,673	640,139	556,418	560,972
Net interest income	1,983,466	1,879,471	1,955,817	1,871,103	1,961,311
Provision (credit) for credit losses	647,793	292,035	223,809	144,542	(106,371)
Net interest income after provision (credit) for credit losses	1,335,673	1,587,436	1,732,008	1,726,561	2,067,682
Non-interest income	2,469,411	1,694,822	1,440,576	2,067,909	1,821,081
Non-interest expense	2,508,060	2,460,446	2,322,642	2,378,599	2,468,320
Income before income tax expense	1,297,024	821,812	849,942	1,415,871	1,420,443
Income tax expense	413,105	433,625	429,191	296,020	337,917
Net income before attribution of noncontrolling interests	883,919	388,187	420,751	1,119,851	1,082,526
Net income (loss) attributable to noncontrolling interests	15,257	(64,458)	4,520	50,727	67,133
Net income attributable to Mitsubishi UFJ Financial Group	¥ 868,662	¥ 452,645	¥ 416,231	¥ 1,069,124	¥ 1,015,393
Net income available to common shareholders of Mitsubishi UFJ Financial Group	¥ 846,984	¥ 431,705	¥ 398,291	¥ 1,051,184	¥ 994,152
Amounts per share:					
Basic earnings per common share net income available to common shareholders of Mitsubishi UFJ Financial Group	¥ 68.72	¥ 30.55	¥ 28.17	¥ 74.30	¥ 70.21
Diluted earnings per common share net income available to common shareholders of Mitsubishi UFJ Financial Group	68.59	30.43	28.09	74.16	69.98
Number of shares used to calculate basic earnings per common share (in thousands)	12,324,315	14,131,567	14,140,136	14,148,060	14,158,698
Number of shares used to calculate diluted earnings per common share (in thousands)[2]	12,332,681	14,144,737	14,156,820	14,169,080	14,180,080
Cash dividends per share paid during the fiscal year:					
Common stock	¥ 11.00	¥ 12.00	¥ 12.00	¥ 12.00	¥ 14.00
	$ 0.12	$ 0.14	$ 0.15	$ 0.15	$ 0.14
Preferred stock (Class 3)	¥ 60.00	¥ 30.00			
	$ 0.65	$ 0.34			
Preferred stock (Class 5)[3]	¥ 100.50	¥ 115.00	¥ 115.00	¥ 115.00	¥ 115.00
	$ 1.10	$ 1.33	$ 1.45	$ 1.42	$ 1.14
Preferred stock (Class 11)	¥ 5.30	¥ 5.30	¥ 5.30	¥ 5.30	¥ 5.30
	$ 0.06	$ 0.06	$ 0.07	$ 0.07	$ 0.05

	As of March 31,				
	2010	2011	2012	2013	2014
	(in millions)				
Balance sheet data:					
Total assets	¥ 200,081,462	¥ 202,850,243	¥ 215,202,514	¥ 230,559,276	¥ 253,661,077
Loans, net of allowance for credit losses	90,870,295	86,261,519	91,012,736	97,254,242	109,181,991
Total liabilities	190,980,363	194,187,331	206,344,067	219,617,296	240,909,633
Deposits	135,472,496	136,631,704	139,493,730	148,209,739	162,517,786
Long-term debt	14,162,424	13,356,728	12,593,062	12,182,358	14,498,678
Total equity	9,101,099	8,662,912	8,858,447	10,941,980	12,751,444
Capital stock common stock	1,643,238	1,644,132	1,645,144	1,646,035	1,647,145

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	Fiscal years ended March 31, 2010	2011	2012	2013	2014
	(in millions, except percentages)				
Other financial data:					
Average balances:					
Interest-earning assets	¥ 175,370,688	¥ 180,260,385	¥ 184,179,147	¥ 193,824,256	¥ 212,176,348
Interest-bearing liabilities	158,156,363	161,344,664	165,420,569	173,399,441	189,413,309
Total assets	195,571,703	204,781,984	211,835,389	225,682,785	247,729,744
Total equity	7,871,505	8,987,129	8,594,310	9,244,530	10,683,098
Return on equity and assets:					
Net income available to common shareholders as a percentage of total average assets	0.43%	0.21%	0.19%	0.47%	0.40%
Net income available to common shareholders as a percentage of total average equity	10.76%	4.80%	4.63%	11.37%	9.31%
Dividends per common share as a percentage of basic earnings per common share	16.01%	39.28%	42.60%	16.15%	19.94%
Total average equity as a percentage of total average assets	4.02%	4.39%	4.06%	4.10%	4.31%
Net interest income as a percentage of total average interest-earning assets	1.13%	1.04%	1.06%	0.97%	0.92%
Credit quality data:					
Allowance for credit losses	¥ 1,315,615	¥ 1,240,456	¥ 1,285,507	¥ 1,335,987	¥ 1,094,420
Allowance for credit losses as a percentage of loans	1.43%	1.42%	1.39%	1.36%	0.99%
Impaired loans	¥ 1,825,852	¥ 1,893,098	¥ 2,031,868	¥ 2,200,766	¥ 1,861,027
Impaired loans as a percentage of loans	1.98%	2.16%	2.20%	2.23%	1.69%
Allowance for credit losses related to impaired loans as a percentage of impaired loans	42.19%	39.30%	42.92%	43.39%	40.32%
Net loan charge-offs	¥ 468,400	¥ 342,100	¥ 173,370	¥ 112,862	¥ 153,748
Net loan charge-offs as a percentage of average loans	0.49%	0.39%	0.20%	0.12%	0.15%
Average interest rate spread	1.08%	0.99%	1.02%	0.93%	0.89%
Risk-adjusted capital ratio calculated under Japanese GAAP(4)	14.87%	14.89%	14.91%	16.68%	15.53%

Notes:

(1) Interest income for the fiscal year ended March 31, 2012 includes a gain of ¥139,320 million on the 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) Preferred dividends were ¥57.5 per share semi-annually, except for the semi-annual period ended March 31, 2009 when preferred dividends were ¥43.0 per share.

(4) 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.

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Exchange Rate Information

The tables below set forth, for each period indicated, certain information concerning the rate of exchange of Japanese yen per U.S. $1.00 based on exchange rate information found on Bloomberg. On July 7, 2014, the closing exchange rate was ¥101.86 to U.S.$1.00 and the inverse rate was U.S.$0.98 to ¥100.00.

	Year 2014					
	February	**March**	**April**	**May**	**June**	**July(1)**
High	¥ 102.83	¥ 103.76	¥ 104.13	¥ 103.02	¥ 102.80	¥ 102.27
Low	¥ 100.76	¥ 101.20	¥ 101.33	¥ 100.82	¥ 101.24	¥ 101.30

Note:
(1) Period from July 1, 2014 to July 7, 2014.

	Fiscal years ended March 31,				
	2010	**2011**	**2012**	**2013**	**2014**
Average (of month-end rates)	¥ 92.51	¥ 84.99	¥ 78.90	¥ 83.32	¥ 100.38

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 as well as our business operations are in Japan, we may incur losses if economic conditions in Japan worsen.

Our performance is particularly affected by the general economic conditions of Japan where we are headquartered and conduct a significant amount of our business. As of March 31, 2014, 62.6% of our total assets were related to Japanese domestic assets, including Japanese national government and Japanese government agency bonds, which accounted for 75.6% of our total investment securities portfolio and 16.5% of our total assets, respectively. Interest and non-interest income in Japan represented 71.6% of our total interest and non-interest income for the fiscal year ended March 31, 2014. Furthermore, as of March 31, 2014, our loans in Japan accounted for 64.0% of our total loans outstanding.

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Since December 2012, the Japanese government has put forth a series of policies, including emergency economic measures and a supplementary budget, expanded monetary easing, and a growth strategy. The Bank of Japan introduced quantitative and qualitative monetary easing in April 2013 in an effort to achieve an inflation target of two percent in two years. However, there is still significant uncertainty surrounding Japan s economy. If these government policies prove ineffective, the growing debt 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 increased from 5% to 8% on April 1, 2014 and will increase further to 10% by October 2015, which may significantly weaken consumer spending in 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. The shift in the monetary policy in the United States, slowing economic growth in China due to the deterioration of the Chinese financial market and other causes, and the political turmoil in various regions around world could negatively impact wider markets, including those of both emerging and developed countries. As of March 31, 2014, based principally on the domicile of the obligors, assets related to Europe accounted for approximately 8.8% of our total assets, assets related to Asia and Oceania excluding Japan accounted for approximately 8.8% of our total assets, and assets related to the United States accounted for approximately 16.0% 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, 2014 were ¥2,692.1 billion, ¥773.8 billion and ¥4.5 billion, respectively. In addition, if credit market conditions worsen, our capital funding structure may need to be adjusted or our funding costs may increase, which could have a material adverse impact on our financial condition and results of operations.

Furthermore, we have incurred losses, and may incur further losses, as a result of changes in the fair value of our financial instruments resulting from weakening market conditions. For example, declines in the fair value of our investment securities, particularly equity investment securities, resulted in our recording impairment losses of ¥195.7 billion, ¥124.2 billion and ¥6.5 billion for the fiscal years ended March 31, 2012, 2013 and 2014, respectively. As of March 31, 2014, approximately 36.7% 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.

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

As a major financial institution incorporated in Japan and operating in major international financial markets, our business operations, ATMs and other information technology systems, personnel, and facilities and other physical assets are subject to the risks of earthquakes, typhoons, floods and other natural disasters, terrorism and other political and social conflicts, health epidemics, and other disruptions caused by external events, which are beyond our control. Our risk management policies and procedures may be insufficient to address these unanticipated risks, resulting in our inability to continue to operate a part or the whole of our business.

As with other Japanese companies, we are exposed to heightened risks of large-scale natural disasters, particularly earthquakes. Our redundancy and backup measures may not be sufficient to avoid a material disruption in our operations, and our contingency and business continuity plans may not address all eventualities that may occur in the event of a material disruption. For example, large-scale natural disasters such as the March 2011 Great East Japan Earthquake, which led to tsunamis, soil liquefaction and fires, as well as electricity power supply shortages and electricity power conservation measures resulting from the suspension of the operations of the nuclear power plants, could significantly disrupt our facilities and other operational infrastructures, including branches, offices, ATMs and information technology systems.

As a consequence of earthquakes and other events, we may be required to incur significant costs and expenses for remedial measures or compensation to customers or transaction counterparties for resulting losses. We may also suffer loss of business. In addition, earthquakes and other events may have various other significant adverse effects, including deterioration in economic conditions, declines in the business performance of our borrowers and decreases in stock prices, which may result in higher credit costs or impairment or valuation losses on the financial instruments we hold. These effects could materially and adversely affect our business, operating results and financial condition.

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 which is 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;

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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, impaired loans, which primarily include nonaccrual loans and troubled debt restructurings, or TDRs, ranged from 1.69% to 2.23% as of the five most recent fiscal year-ends. As of March 31, 2014, impaired loans were ¥1,861.0 billion, representing 1.69% of our total outstanding loans. If the economic conditions in Japan or other parts of the world to which we have significant credit risk exposure worsen, 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.

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

Although we, from time to time, enter into credit derivative transactions, including credit default swap contracts, to manage our credit risk exposure, such transactions may not provide the protection against credit defaults that we intended due to counterparty defaults or similar issues. The credit default swap contracts could also result in significant losses. As of March 31, 2014, the total notional amount of the protection we sold through single name credit default swaps, index and basket credit default swaps, and credit-linked notes was ¥3.46 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 23 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 of 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 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 the suspension of all of the nuclear power plants for seismic safety inspections and other reasons, higher fuel prices in recent periods and compensation issues for affected individuals and companies. Other borrowers in Japan may be adversely affected by electricity power supply shortages and electricity rate increases. 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.

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For the fiscal year ended March 31, 2014, we recorded ¥106.4 billion of credit for credit losses, which was included in our consolidated statements of income. When there is an improvement in asset quality, a credit for credit losses is recorded to reverse the allowance for credit losses to a level management deems appropriate. However, we have historically more often provided for credit losses rather than recording credit for credit losses, and in future periods we may need to recognize a provision for credit losses, which may have a significant negative effect on our results of operations.

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 8.7% of our total investment securities portfolio, or 1.9% of our total assets, as of March 31, 2014. 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, 2014 declining to the intra-day lowest price of ¥11,805.78 on April 2, 2013 and rising to the intra-day highest price of ¥16,320.22 on December 30, 2013. As of July 7, 2014, the closing price of the Nikkei Stock Average was ¥15,379.44. 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, the Eurozone and Asian countries. For example, in Japan, if the economic measures under the Japanese government s Abenomics 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. Concerns over the impact of geopolitical tensions and conflicts in various parts of the world on Japanese companies may also adversely affect stock prices in Japan. 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 held as of March 31, 2014 was 17.5% of our total assets. In particular, the Japanese national government and Japanese government agency bonds accounted for 16.5% of our total assets as of March 31, 2014. 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 purchases up to ¥6.0 to ¥8.0 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 could also significantly increase in the event that Japanese government bonds decline in value due to such factors as a decline in confidence in the Japanese government s fiscal administration, further issuances of government bonds in connection with emergency economic measures and concerns over excessive government intervention with the Bank of Japan, or in the event that interest rates on U.S. Treasury securities rise due to such factors as the tapering of quantitative easing in the United States if implemented earlier than expected. The yield on newly issued ten-year Japanese government bonds rose above 1% in May 2013 for the first time in a year. If relevant interest rates increase for these or other reasons,

particularly if such increase is unexpected or sudden, we may incur significant losses on sales of, and valuation losses on, 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, 2014, the average balance of our foreign interest-earning assets was ¥77.09 trillion and the average balance of our foreign interest-bearing liabilities was ¥47.54 trillion, representing 36.3% of our average total interest-earning assets and 25.1% of our average total interest-bearing liabilities during the same period. For the fiscal year ended March 31, 2014, net foreign exchange losses, which primarily include net transaction losses on the translation into Japanese yen of monetary assets and liabilities denominated in foreign currencies, net losses on currency derivative instruments entered into for trading purposes, and net gains on translation into Japanese yen of securities accounted for under the fair value option, were ¥61.8 billion, compared to ¥39.0 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, 2014 was ¥100.24 per U.S.$1.00, compared to ¥83.10 per U.S.$1.00 for the previous fiscal year. 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 ¥285.2 billion, increasing net interest income by ¥171.0 billion and income before income tax expense by ¥115.4 billion, respectively, for the fiscal year ended March 31, 2014. Since the introduction of Abenomics in December 2012, the exchange rate between the Japanese yen and the U.S. dollar has been fluctuating with the Japanese yen depreciating from ¥92.57 to the U.S. dollar on April 2, 2013 to ¥105.44 to the U.S. dollar on January 2, 2014. As of July 7, 2014, the exchange rate was ¥101.86 to the U.S. dollar. For more information on foreign exchange gains and losses and foreign currency translation gains and losses, see Item 5. 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 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.

In December 2012, The Bank of Tokyo-Mitsubishi UFJ, Ltd., or BTMU, agreed to make an approximately $8.6 million payment to the Office of Foreign Assets Control, or OFAC, of the U.S. Department of the Treasury 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 the New York State Department of Financial Services, or 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 retained 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.

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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, which, in some cases, are supported by third-party service providers, in a timely manner or as planned. 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 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, in February 2014, the Federal Reserve Board, or FRB, approved final rules strengthening supervision and regulation of large U.S. bank holding companies and foreign banking organizations, or FBOs. These final rules require a large FBO with $50 billion or more in U.S. combined assets excluding the assets held by its U.S. branches or agencies, such as 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, capital stress testing, liquidity buffer requirements, and other enhanced prudential standards comparable to those applicable to top-tier U.S. bank holding companies of the same size. The rules will become effective in July 2016, and we continue to analyze the rules to assess its impact on our U.S. operations and overall governance structure. Significant resources and management attention may be required to ensure compliance with the rules. See Item 4.B. Information on the Company Business Overview Supervision and Regulation United States.

Global financial regulatory reform measures may also have a significant impact on our business operations. For example, various international organizations, including the Financial Stability Board and the Basel Committee on Banking Supervision, are currently considering ways to address, among other things, issues including the too big to fail issue and the measurement of interest rate risk in the banking book. We intend to continue to monitor developments relating to global regulatory reforms.

Any adverse changes in the business of MUFG Americas Holdings Corporation, an indirect wholly-owned subsidiary in the United States, could significantly affect our results of operations.

MUFG Americas Holdings Corporation, or MUAH, which is an indirect wholly owned subsidiary in the United States formerly called UnionBanCal Corporation, or UNBC, has historically contributed to a significant portion of our net income. MUAH reported net income of $762 million, $628 million and $667 million for the fiscal years ended December 31, 2011, 2012 and 2013, respectively. Any adverse developments which could arise at MUAH may have a significant negative impact on our results of operations and financial condition. The risks relating to MUAH have increased as MUAH has been expanding its business through acquisitions of community banks and other financially-related businesses in the United States. If MUAH 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, see Item 5. Operating and Financial Review and Prospects Recent Developments.

Other factors that have negatively affected, and could continue to negatively affect, MUAH s results of operations include difficult 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 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 MUAH. To the extent this policy continues, negative pressure on the net interest margins of U.S. banks, including MUAH, 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 adopted final rules to implement the Basel III global regulatory framework for U.S. banks and bank holding companies which require higher quality of capital, as well as significantly revise the calculations for risk-weighted assets. The FRB has also adopted final rules to implement various enhanced prudential standards required by the Dodd-Frank Act for larger U.S. bank holding companies, such as MUAH. These standards require the larger bank holding companies to meet enhanced capital,

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liquidity and leverage standards. Further, the FRB has adopted final regulations applicable to FBOs operating in the United States, which require MUFG s and BTMU s U.S. operations, including those of MUAH, 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.

MUFG Union Bank, N.A., or MUB, which is the principal subsidiary of MUAH, and reportedly other financial institutions have been the targets of various denial-of-service or other cyberattacks as part of what appears to be a coordinated effort to disrupt the operations of financial institutions and potentially test their cybersecurity in advance of future and more advanced cyberattacks. These denial-of-service attacks may require substantial resources to defend against and affect customer satisfaction and behavior. Moreover, MUB s information security measures may not be sufficient to defend against cyberattacks and other information security breaches, in which case the consequences could be significant in terms of financial, reputational and other losses. In addition, there have been increasing efforts to breach data security at financial institutions as well as other types of companies, such as large retailers, or with respect to financial transactions, including through the use of social engineering schemes such as phishing. Even if cyberattacks and similar tactics are not directed specifically at MUB, such attacks on other large institutions could disrupt the overall functioning of the U.S. or global financial system and undermine consumer confidence in banks generally to the detriment of other financial institutions, including MUB.

Any adverse changes in the business of Bank of Ayudhya, an indirect subsidiary in Thailand, could significantly affect our results of operations.

Any adverse changes to the business or management of Bank of Ayudhya Public Company Limited, or Krungsri, in Thailand, which became one of our major subsidiaries in December 2013 following our acquisition of 72.01% of its total outstanding shares through a Voluntary Tender Offer for ¥545.8 billion, may negatively affect our financial condition and results of operations. Factors that may negatively affect Krungsri s financial condition and results of operations include:

- volatile political and social conditions, adverse economic conditions, substantial competition in the banking industry, natural disasters including floods, terrorism and armed conflicts, restrictions under applicable financial systems and regulations, or significant fluctuations in interest rates, currency exchange rates, stock prices or commodity prices, in Southeast Asia, particularly in Thailand,

- the business performance of companies making investments in and entering into markets in the Southeast Asian region, as well as the conditions of economies, financial systems, laws and financial markets in the countries where such companies primarily operate,

- losses from legal proceedings involving Krungsri,

- credit rating downgrades and declines in stock prices of Krungsri s borrowers, and bankruptcies of Krungsri s borrowers resulting from such factors,

- defaults on Krungsri s loans to individuals,

- adverse changes in the cooperative relationship between us and the other major shareholder of Krungsri,

- higher-than-expected costs incurred as we integrate Krungsri into our group, and costs incurred due to unexpected weaknesses in the internal controls and regulatory compliance systems of Krungsri or any of its subsidiaries.

In connection with our acquisition of Krungsri, we recorded ¥217.4 billion of goodwill. If the business of Krungsri deteriorates, we may be required to record impairment losses, which could have a material adverse effect on our results of operations and financial condition. See Item 5. Operating and Financial Review and Prospects Recent Developments and Risks Related to Our Business 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.

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 and acquired approximately 20% of the ordinary shares of the Vietnamese bank in May 2013. In addition, in December 2013, BTMU purchased 72.01% of the outstanding shares of Krungsri. In some cases, we hold minority stakes in financial institutions as we seek to enter new markets or jurisdictions by collaborating with a local business partner. In such circumstances, the controlling shareholder may make or cause to be made business decisions that are inconsistent with our interests and, as a result, we may be unable to achieve the goals initially set out for the expansion strategy.

Our risk management systems may prove to be inadequate and may not work in all cases or to the degree required. The substantial market, credit, compliance and regulatory risks in relation to the expanding scope of our products, services and trading activities or expanding our business beyond our traditional markets, could result in us 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 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 40.0% from ¥15.94 trillion as of March 31, 2013 to ¥22.31 trillion as of March 31, 2014, accounting for 8.8% of our total assets as of March 31, 2014. 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

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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, 2014, 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 ¥22.35 trillion, ¥22.31 trillion and ¥9.56 trillion, representing 8.8%, 8.8% 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 a global strategic alliance with Morgan Stanley, under which we operate two joint venture securities companies in Japan, engage in joint corporate finance operations in the United States and pursue other cooperative opportunities. We hold approximately 21.9% of the voting rights in Morgan Stanley as of March 31, 2014 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.

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 impaired loans, to banks, securities companies, insurance companies and other financial institutions that are not our consolidated subsidiaries. Our loans to banks and other financial institutions have been more than 5% of our total loans as of each year-end in the three fiscal years ended March 31, 2014, with the percentage increasing from 11.0% to 12.5% between March 31, 2013 and March 31, 2014. We may also be adversely affected because we are a shareholder of some other banks and financial institutions that are not our consolidated subsidiaries, including our shareholdings in Japanese regional banks and our 21.9% voting interest in Morgan Stanley as of March 31, 2014. 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 ¥3.46 trillion as of March 31, 2014.

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

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amount to approximately one-seventh of our total outstanding loans. Of this amount, the consumer loans provided by Mitsubishi UFJ NICOS, Co., Ltd., which is our primary consumer financing subsidiary, were ¥608.6 billion as of March 31, 2014, compared to ¥671.6 billion as of March 31, 2013.

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 Act Regulating the Receipt of Contributions, the Receipt of Deposits, and Interest Rates, which, effective June 18, 2010, reduced the maximum permissible interest rate from 29.2% per annum to 20% per annum. The regulatory reforms also included amendments to the Money Lending Business Act, which, effective June 18, 2010, abolished the so-called gray-zone interest. Gray-zone interest refers to interest rates exceeding the limits stipulated by the Interest Rate Restriction Act (between 15% per annum to 20% per annum depending on the amount of principal). Prior to June 18, 2010, gray-zone interest was permitted under certain conditions set forth in the Money Lending Business Act. As a result of the regulatory reforms, all interest rates are now subject to the lower limits imposed by the Interest Rate Restriction Act, compelling lending institutions, including our consumer finance subsidiaries and equity method investees, to lower the interest rates they charge borrowers. 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. For the fiscal year ended March 31, 2014, our interest income attributable to the consumer finance business was approximately ¥100 billion.

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

Following the various legal developments in June 2010 and other industry developments, Mitsubishi UFJ NICOS revised its estimate by updating management s future forecast to reflect new reimbursement claims information and other data. As of March 31, 2012, 2013 and 2014, we had ¥99.4 billion, ¥77.6 billion and ¥54.1 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 ¥19.3 billion, ¥17.0 billion and ¥18.0 billion, respectively, on net equity in losses of equity method investees 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.

We also face intensifying competition in areas of our strategic expansion. For example, the 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 recently been growing and increasing their presence. 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.

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.

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 commercial 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.

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We have loan transactions with counterparties in or affiliated with Iran, the outstanding balance of which was approximately $4.5 million, representing less than 0.001% of our total assets, as of March 31, 2014. 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 pursuant to Section 13(r) of the Securities Exchange Act of 1934.

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

Global financial institutions, including us, have become subject to an increasingly complex set of sanctions laws and regulations in recent years, and this regulatory environment is expected to continue. Moreover, the measures proposed or adopted vary across the major jurisdictions, increasing the cost and resources necessary to design and implement an appropriate global compliance program. The U.S. federal government and some state governments in the United States have enacted legislation designed to limit economic and financial transactions with Iran by limiting the ability of financial institutions that may have engaged in any one of a broad range of activities related to Iran to conduct various transactions in the relevant jurisdictions. 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.

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 FSA which have been revised as of March 31, 2013, as described below. As of March 31, 2014, our total risk-adjusted capital ratio was 15.53% compared to the minimum risk-adjusted capital ratio required of 8.00%, our Tier 1 capital ratio was 12.45% compared to the minimum Tier 1 capital ratio required of 5.50%, and our Common Equity Tier 1 capital ratio was 11.25% compared to the minimum Common Equity Tier 1 capital ratio required of 4.00%. Our capital ratios are calculated in accordance with Japanese banking regulations based on information derived from our financial statements prepared in accordance with Japanese GAAP. In addition, some of our subsidiaries are also subject to the capital adequacy rules of various foreign countries, including the United States where each of MUFG, BTMU, Mitsubishi UFJ Trust and Banking Corporation, or MUTB, and MUAH 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 our and our banking subsidiaries credit risk assets and expected losses because of fluctuations in our or our banking subsidiaries portfolios due to deterioration in the creditworthiness of borrowers and the issuers of equity and debt securities,

- difficulty in refinancing or issuing instruments upon redemption or at maturity of such instruments to raise capital under terms and conditions similar to prior financings or issuances,

- declines in the value of our or our banking subsidiaries securities portfolios,

- adverse changes in foreign currency exchange rates,

- adverse revisions to the capital ratio requirements,

- reductions in the value of our or our banking subsidiaries deferred tax assets, and

- other adverse developments.

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 2013, 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, have begun, or are expected, to revise the capital and liquidity requirements imposed on our subsidiaries and operations in those countries to implement the more stringent requirements of Basel III as adopted in those countries.

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 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 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 upon the occurrence of certain events, including 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 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, 2014, the total balance of goodwill was ¥728.5 billion.

For the fiscal year ended March 31, 2014, we recognized ¥7.8 billion in impairment of goodwill relating to the Integrated Trust Assets Business Group segment. We readjusted our future projection of a reporting unit in this segment, considering a subsidiary s recent business performance. As a result, the fair value of this reporting unit, which is based on discounted future cash flows, fell below the carrying amount of the reporting unit, and the impairment loss was recognized on the related goodwill.

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 rating downgrade by Moody s, Fitch, Standard & Poor s Ratings Services LLC or any other credit rating agency may have an adverse impact on us. Substantially all of the derivative contracts with collateral obligations entered into by BTMU, MUTB and MUSHD are subject to a Credit Support Annex, or CSA, as published by the International Swaps and Derivatives Association, Inc., or ISDA. Following the downgrades by Moody s 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, 2014, 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 ¥6.5 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 ¥12.6 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.

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

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

As a financial institution in possession of customer information, we are required to treat personal and other confidential information as required by the Act on the Protection of Personal Information of Japan, as well as the Banking Law and the Financial Instruments and Exchange Law. 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.

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.

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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.

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

Item 4. Information on the Company.

A. History and Development of the Company

Mitsubishi UFJ Financial Group, Inc.

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

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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. MUMSS was 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, 2014, we held approximately 21.9% of the voting rights in Morgan Stanley and had two representatives appointed to Morgan Stanley s board of directors. We and Morgan Stanley continue to pursue a variety of business opportunities in Japan and abroad in accordance with the global strategic alliance.

On December 18, 2013, we acquired approximately 72.0% of the total outstanding shares of Bank of Ayudhya Public Company Limited, or Krungsri, through BTMU. As a result of the transaction, Krungsri has become a consolidated subsidiary of BTMU.

On July 1, 2014, we integrated BTMU s operations in the Americas region with UNBC s operations, and changed UNBC s corporate name to MUFG Americas Holdings Corporation, or MUAH. On the same day, Union Bank, N.A., which is MUAH s principal subsidiary and our primary operating subsidiary in the United States, was also renamed MUFG Union Bank, N.A., or MUB. MUAH currently oversees BTMU s operations in the Americas region as well as the operations of MUB.

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

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

The Bank of Tokyo-Mitsubishi UFJ, Ltd.

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

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

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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 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.

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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.

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

Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.

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

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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 ¥253.66 trillion as of March 31, 2014. The Group is comprised of BTMU, MUTB, MUMSS (through MUSHD), Mitsubishi UFJ NICOS and other subsidiaries and affiliates, for which we are the holding company. As a bank holding company, we are regulated under the Banking Law of Japan. Our services include commercial banking, trust banking, 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 MUB and Krungsri, in more than 40 countries.

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

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

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. As of March 31, 2014, 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 coordinate the activities of these business segments. Group-wide strategies are determined by the holding company and executed by the banking subsidiaries and other subsidiaries. For further information on our business segments, see Item 5.A. Operating and Financial Review and Prospects Operating Results Business Segment Analysis.

In October 2008, each of MUFG, BTMU, MUTB and UNBC (now MUAH) 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.

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MUFG Management Policy

MUFG Group has formulated 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.

Integrated Retail Banking Business Group

The Integrated Retail Banking Business Group covers all retail businesses, including commercial banking, trust banking and securities businesses, and offers a full range of banking products and services, including financial consulting services, to retail customers in Japan. This business group integrates the retail businesses of BTMU, MUTB, MUMSS and other affiliate companies of MUFG. 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. We also offer a variety of asset management and asset administration services, and trust products and other investment products, as well as other products and services described below.

MUFG, as an integrated financial service group, aims to respond to customers specific needs, utilizing its breadth of businesses such as commercial banking, trust banking, securities and credit card businesses. The MUFG Group is committed to offering customers safe and reliable services by strengthening frameworks for, among other things, customer protection, legal compliance, and security response.

Service Improvement Project. BTMU has launched a project titled Do *Smart* with an aim to improve quality of services for individual customers. In order to contribute to the lifelong wellbeing of customers and their families, this project focuses on enhancing online banking services with smartphones and other devices, and providing customized consulting to satisfy their needs.

Responding to Investment Needs. We aim to ensure that customers can adequately inform themselves of investment opportunities by providing various mediums such as appointments with representatives, seminars at branches with investment experts as lecturers, and investment consultation sessions on weekends and national holidays, and during evening hours. We have also been expanding our product lines, adding services such as investment trusts and foreign currency deposits, in order to be better able to respond to customers various investment needs. MUFG has also been working proactively to promote the Japanese individual savings account system, generally referred to as the NISA program, which was launched in January 2014 and offers tax exemptions on capital gains and dividend income for investments up to ¥1.0 million a year for a maximum of five years. The MUFG Group focuses on strengthening collaboration among group companies. For example, foreign bonds made available by MUMSS and other group securities companies are also available for purchases at BTMU and MUTB. Also, BTMU provides Retail Money Desk services at 63 branches across Japan, where investment experts seconded from MUMSS respond to customers sophisticated investment needs. We have implemented methods that are designed to better communicate information regarding product and service options to customers. The use of tablet computers enables BTMU s sales representatives to propose products and services that match individual customers needs by showing them the latest market information, detailed information on major products and services, and asset management and life-plan simulations. All MUTB branches now offer Private Account, an asset management account service through which each customer can consult with his or her portfolio manager in person to manage investments according to a personalized plan.

Responding to Insurance Needs. BTMU acts as a sales channel for a variety of insurance products, including annuity insurance, single premium whole life insurance, flat-rate premium whole life insurance, medical insurance, cancer insurance and nursing-care insurance. Insurance-sales specialists (insurance planners) and staffs who have taken insurance-sales and other relevant training take care of customers various insurance needs. Individual annuity insurance, whole life insurance and medical insurance plans are available at all MUTB branches. Continued efforts will be made to further reinforce product lines and sales framework.

Responding to Needs Relating to Inheritance, Gift and Real Estate. MUTB offers a number of services including a testamentary trust service called *Ishindenshin* which helps customers prepare, maintain and execute wills, an inheritance planning service called *Shisan Keisho Planning* which helps customers manage and analyze financial assets and real estate properties comprehensively, and an inheritance procedure support service called *Wakachi Ai* which helps customers navigate the necessary procedures upon inheritance. BTMU and MUMSS also offer inheritance-related products and services, serving as sales agents of MUTB. In January 2013, MUTB s asset management service called *Zutto Anshin Shintaku*, which helps customers and their families protect their funds and allows them to receive funds according to their chosen plan, received the Nikkei Veritas Award in the Nikkei Excellent Products & Services Awards for 2012. In April 2013, an educational fund gift trust product called *Magoyorokobu* was launched. BTMU also sells this product as a sales agent of MUTB. MUTB and Mitsubishi UFJ Real Estate Services offer real estate brokerage services for both investment and business properties and residential properties, responding to customers various real-estate-related needs.

Responding to Loan Needs. With respect to housing loans, BTMU offers Loans with Supplemental Health Insurance for Seven Major Illnesses through a third party insurance company to help with loan payments in case of unexpected major illnesses such as cancer or heart attacks, a group credit life insurance plan which is mandatory for housing loans, with reduced qualification requirements (*Wide Danshin*) and a preferred interest rate plan (*Gun-to Ureshii Housing Loan*). MUTB also offers housing loan plans incorporating *Wide Danshin* and other plans to respond to customers needs. BTMU also offers Card Loans and Purpose-Specific Term Loans, depending on customers needs. A card loan service called BANQUIC offers access to cash as quickly as in 40 minutes after the submission of an application through a video teller machine. Also, online applications are accepted 24 hours a day, 365 days a year, and the underwriting process can be completed as quickly as in 30 minutes. Applications are also accepted over the phone. A card loan service called My Card Plus automatically loans money into the customers linked account when its balance becomes negative. Customers who already have an account with BTMU can apply for this service online. Net DE Loan is a purpose-specific term loan, which BTMU-account-holder customers can, in most circumstances, apply for without visiting a bank branch. This loan can be used to pay for education, motor vehicle purchases and other purposes.

Responding to Internet Banking Needs. BTMU and MUTB offer Internet banking services called Mitsubishi Tokyo UFJ Direct and Mitsubishi UFJ Trust Direct, respectively, which allow customers to,

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among other things, transfer money, check their balance, make time deposits, make investments, apply for housing loans, and consult specialists regarding investments. In 2013, transaction screens of Mitsubishi Tokyo UFJ Direct were renewed, making the service even more user-friendly. The number of users has grown to approximately 14 million as of March 31, 2014. Jibun Bank Corporation was founded by BTMU in collaboration with KDDI Corporation in June 2008. The convenience that Jibun Bank offers by allowing users to execute transactions at any time on their cellphones has attracted customers in a wide age group. In addition to enabling users to check their balance and transfer money, Jibun Bank offers other products and services such as yen-denominated time deposits, foreign currency deposits, and, since June 2013, Jibun Bank FX (over-the-counter foreign exchange margin trading). As of March 31, 2014, Jibun Bank had approximately 1.6 million retail customer accounts with a total balance of deposits of ¥560 billion. Jibun Bank aims to continue offering high-quality services under the motto of a bank in the palm of your hand.

Credit Card Business. Mitsubishi UFJ Nicos offers a variety of credit cards, including MUFG Card (Gold Card), a credit card with an annual fee starting at as low as ¥2,000. With five international credit card brands (JCB, Visa, Master Card®, American Express® and China UnionPay) available, MUFG Card is designed to meet customers various needs. BTMU s Mitsubishi Tokyo UFJ VISA offers numerous attractive reward programs, such as cash-back in exchange for earned points.

Development of Branch and ATM Networks. We have an extensive network of branches in the greater Tokyo, Nagoya and Osaka areas. Also, MUFG Plazas, which are operated jointly by BTMU, MUTB and MUMSS, are strategically located across Japan. BTMU and MUTB have a nationwide ATM network, making use of convenience store ATMs and partnerships with other banks in addition to BTMU and MUTB s own ATMs. In an effort to improve access to its ATMs, BTMU increased its ATM locations and extended operating hours and transaction-fee-free hours in 2013. At the same time, BTMU introduced a revised fee schedule for using partner banks ATMs and transferring money using ATMs.

Finance Facilitation. We believe that finance facilitation for customers is one of our most important social responsibilities and strive to exemplify that standard. Although the Act Concerning Temporary Measures to Facilitate Financing for Small and Medium-sized Firms and Others has expired, our basic policy has not changed. We seek to offer consultation and otherwise deal attentively with small and medium-sized enterprise, or SME, customers who wish to modify terms and conditions for repayment.

Strengthening the Compliance Framework. We have been making efforts to strengthen our frameworks for customer protection and legal compliance. BTMU has 260 compliance specialists stationed at its branches across the country. As for MUTB, branches are given guidance by compliance officers based in the Head Office. We intend to continue to strictly monitor the legal compliance associated with selling financial products and services.

Integrated Corporate Banking Business Group

The Integrated Corporate Banking Business Group covers domestic corporate businesses, including commercial banking, investment banking, trust banking and securities businesses, as well as businesses outside of Japan assisting mainly Japanese companies in executing and expanding their operations. Through the integration of these business lines, diverse financial products and services are provided mainly to our Japanese corporate customers, 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 customers. We also help our customers develop business strategies, such as overseas expansions, inheritance-related business transfers and stock listings.

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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

Our transaction banking operations support customers with capital management, focusing on cash management and trade finance. Through our global network we support customers who wish to establish a global manufacturing and sales network with our friendly services and commitment to quality.

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.

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 Fund Services, Mitsubishi UFJ Asset Management Co., Ltd. and KOKUSAI Asset Management Co., Ltd.

Mitsubishi UFJ Global Custody S.A. and Mitsubishi UFJ Fund Services provide global custody services, administration services for investment funds and fiduciary and trust accounts, and other related services mainly 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.

MUTB acquired Mitsubishi UFJ Fund Services (MFS), formerly known as Butterfield Fulcrum Group, in September 2013. We have taken this opportunity to establish and promote a new brand called MUFG Investor Services. Under this brand, we provide a full suite of global asset administration services, including fund administration, custody, securities lending and foreign exchange as a one stop shop.

With an aim to further enhance its business, MUTB has strategic alliances with asset management companies outside of Japan, including Aberdeen Asset Management PLC, a U.K. asset manager, and AMP Capital Holdings Limited, an Australian asset manager.

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 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 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, the 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 MUB), 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 global 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 project finance, export credit agency, or ECA, finance, and financing through asset-backed commercial papers. We also provide investment banking services such as debt/equity issuance and M&A advisory services to help our clients develop their financial strategies and realize their goals. In order to meet clients various financing needs, we have established a client-oriented coverage model through which we coordinate our product experts who offer innovative finance services globally. We are among the world s top providers of project finance, one of the core businesses of CIB. We provide professional services in arranging limited-recourse finance and offering financial advice in various sectors, including natural resources, power, and infrastructure, backed by our experience, expertise, knowledge, and global network.

Transaction Banking

We have Transaction Banking offices in six locations around the globe through which we provide commercial banking products and services primarily for large corporations and financial institutions in managing and processing domestic and cross-border payments, mitigating risks in international trade, and providing working capital optimization. A team of approximately 400 officers provides customers with support for their domestic, regional and global trade finance and cash management programs through our extensive global network.

MUFG Union Bank, N.A., (MUB)

MUB is the primary subsidiary of MUAH, which is a wholly owned subsidiary of BTMU and is a bank holding company in the United States. Effective July 1, 2014, BTMU s operations in the Americas region were integrated with MUAH s operations. MUAH oversees BTMU s operations in the Americas region and MUB is the primary operating entity of BTMU in the United States. MUB is a leading regional bank in

California, ranked by the Federal Deposit Insurance Corporation, or FDIC, as the 20th largest bank in the United States in terms of total deposits as of March 2014. MUB 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, MUB acquired Smartstreet, formerly a division of Atlanta-based PNC Bank, N.A. which had approximately $1.0 billion in deposits and provided banking services nationwide to homeowners associations and community association management companies in the United States. In December 2012, MUAH 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 June 2013, MUB acquired PB Capital Corporation s institutional commercial real estate lending division platform. 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 the United States as of June 14, 2013. In November 2013, MUB completed the acquisition of First Bank Association Bank Services, a unit of First Bank, which provided a full range of banking services to homeowners associations and community management companies. MUB acquired approximately $570 million in deposits in this transaction. For more information, see Item 5. Operating and Financial Review and Prospects Recent Developments.

Activities in Asia

We have been expanding our operations in Asia in an effort to further develop our operations abroad. We opened five office and branch locations recently, namely Ulaanbaatar Representative Office in Mongolia, Suryacipta City of Industry Service Point in Indonesia, BTMU (China) Shanghai Pilot Free Trade Zone Sub-Branch, Bangalore Branch in India, and BTMU (China) Suzhou branch.

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 of March 31, 2014, we hold approximately 432 million shares of Morgan Stanley s common stock representing approximately 21.9% 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 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 an entity called Morgan Stanley MUFG Securities, Co., Ltd., or MSMS. We hold a 60% economic interest in MUMSS and MSMS, and Morgan Stanley holds a 40% economic interest in MUMSS and MSMS. We hold a 60% voting interest and Morgan Stanley holds a 40% voting interest in MUMSS, and we hold a 49% voting interest and Morgan Stanley holds a 51% voting interest in MSMS. Morgan Stanley s and our economic and voting interests in the 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.

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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.

We completed transactions to transfer shares of Mitsubishi UFJ Merrill Lynch PB Securities Co., Ltd. among our consolidated subsidiaries on March 20, 2014. Upon completion of the transactions, MUMSS holds 75%, and BTMU holds the remaining 25%, of the voting rights in the company. Prior to the transactions, MUSHD held 51%, and BTMU held the remaining 49%, of the voting rights in the company. Concurrent with the completion of the transactions, the company changed its name to Mitsubishi UFJ Morgan Stanley PB Securities Co., Ltd. In connection with its new shareholdings, Mitsubishi UFJ Morgan Stanley PB Securities entered into a new service agreement with Morgan Stanley. Mitsubishi UFJ Morgan Stanley PB Securities leverages MUFG s broad customer base, utilizes Morgan Stanley s global and high quality insight, and further its collaborations with other group companies by strengthening its coordination with MUMSS. It aims for further development of its wealth management business, which is one of the largest in Japan.

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.

Acquisition of Bank of Ayudhya Shares through Voluntary Tender Offer

On December 18, 2013, BTMU completed a voluntary tender offer (VTO) for shares of Krungsri in Thailand at 39 Thai Baht per share. BTMU purchased 72.01% (4,373,714,120 shares) shares of Krungsri for ¥545.8 billion in cash. As a result, Krungsri became a subsidiary of BTMU. Under a Conditional Branch Purchase Agreement between BTMU and Krungsri, or the BPA, dated September 18, 2013, BTMU s Bangkok Branch will be integrated with Krungsri through a contribution in kind of the BTMU Bangkok Branch business to Krungsri within one year from the date of the acquisition of Krungsri shares through the VTO. The effective date of the integration, however, is subject to change in accordance with an agreement between the parties and regulatory approval. In exchange for the contribution in kind, Krungsri will issue 1,143,221,782 common shares to BTMU, and BTMU s ownership in Krungsri is expected to be 76.44% immediately following the integration. However, the number of shares to be issued by Krungsri is subject to change in accordance with a price adjustment clause with a maximum of 1,500,000,000 shares and no specified minimum under the BPA.

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

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 take measures designed to enhance their financial group capabilities. For example, Mizuho Bank, Ltd. and Mizuho Corporate Bank, Ltd. merged in July 2013, and the merged entity presently operates under the corporate name of Mizuho Bank, Ltd.

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Heightened competition among the mega bank groups is currently expected in the various financial sectors as they have recently announced plans to expand, or have expanded, their respective businesses. For example, in the securities sector, in May 2010, we created two securities joint venture companies in Japan in conjunction with Morgan Stanley, 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 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.

In the retail business sector, customers often have needs for a broad range of financial products and services, such as investment trusts and insurance products. Recently, competition has increased due to the development of 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, generally referred to as the NISA program, commenced in January 2014, and offers 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 business sector is also expected to increase due to the implementation of the NISA program.

In the private banking sector, competition among the mega bank groups has intensified as a result of recent corporate actions designed to strengthen their operations. We made Mitsubishi UFJ Merrill Lynch PB Securities Co., Ltd. a wholly owned subsidiary in December 2012 to enhance our private banking services for high net-worth customers, and changed its name to Mitsubishi UFJ Morgan Stanley PB Securities, Ltd. in March 2014. In October 2013, Sumitomo Mitsui Banking Corporation acquired the former Société Générale Private Banking Japan, Ltd. from Société Générale S.A. and changed its name to SMBC Trust Bank Ltd.

In the consumer finance sector, recent regulatory reforms and legal developments have negatively impacted the business environment, resulting in failures of several consumer finance companies and intensified competitions among consumer finance companies that have remained in business, particularly among those affiliated with the mega banks. 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.

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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 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 but does not provide a specific deadline. Additionally, under the revised law, Japan Post Bank and Japan Post Insurance may enter into new business areas upon obtaining required government approvals, and if the government s equity holdings decrease to a certain level, the two companies will be allowed to enter into new business areas 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. Nonetheless, Japan Post may seek new business opportunities that compete with our business in Japan. 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.

The mega bank groups face significant competition with other domestic and foreign financial groups. For example, the Nomura Group has been a major player in the securities market in Japan, and Citigroup Inc. conducts its banking business in Japan through a locally incorporated banking subsidiary. In addition, various Japanese non-bank financial institutions and non-financial companies have entered into the Japanese banking sector. For example, Orix Corporation, a non-bank financial institution, and the Seven & i Holdings group and Sony Corporation, which were both non-financial companies, offer various banking services, often through non-traditional distribution channels.

Foreign

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

In other international markets, we also 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 and increasing their presence recently. As a result, we are exposed to intense competition in Asia. Furthermore, we are aiming to expand our retail and small and medium enterprises businesses along with our corporate banking business in South East Asia through our acquisition of Krungsri in Thailand, and compete with leading local banks in such businesses.

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.

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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 June 23, 2014):

- ordinary banks (125 ordinary banks and 55 foreign commercial banks with ordinary banking operations); and
- trust banks (16 trust banks, including two Japanese subsidiaries of foreign financial institutions).

Ordinary banks in turn are classified as city banks, of which there are four, including BTMU, and regional banks, of which there are 106 and other banks, of which there are 15. In general, the operations of ordinary banks correspond to commercial banking operations in the United States. City banks and regional banks are distinguished based on head office location as well as the size and scope of their operations.

The city banks are generally considered to constitute the largest and most influential group of banks in Japan. Generally, these banks are based in large cities, such as Tokyo and Osaka, and operate nationally through networks of branch offices. City banks have traditionally emphasized their business with large corporate clients, including the major industrial companies in Japan. However, many of these banks, including BTMU, in recent years have increased their emphasis on other markets, such as small and medium-sized companies and retail banking.

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

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

In recent years, almost all of the city banks have consolidated with other city banks and in some cases, integrated with trust banks. Consolidation or 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

There are a number of government financial institutions in Japan, which are corporations wholly owned by the government and operate under the government s supervision. Their funds are provided mainly from government sources. Certain types of operations undertaken by these institutions have been or are planned to be assumed by, or integrated with the operations of, private corporations through 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,

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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, for the primary purposes of supplementing and encouraging the private financing of exports, imports, overseas investments and overseas economic cooperation, and supplementing private financing to the general public, small and medium enterprises and those engaged in agriculture, forestry and fishery. In April 2012, Japan Finance Corporation spun off its international operations to create Japan Bank for International Cooperation as a separate government-owned entity;

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

The Japan Post Group companies, a group of joint stock companies including Japan Post Bank, which were formed in October 2007 as part of the Japanese government s privatization plan for the former Japan Post, a government-run public services corporation, which had been the Postal Service Agency until March 2003. 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 in the future.

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.

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, the bank may be exempt from such requirement and allowed to hold more than 5% of the outstanding shares of such company, if, among other exempted cases, a bank s shareholding contributes to revitalizing a company s business or the local economy related to such company. The exemption became effective on April 1, 2014.

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.

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.

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).

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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, during the transition period, other capital that meets Tier I requirements under the former Basel II standards, net of regulatory adjustments. Subject to transitional measures, adjustments are made to Additional Tier 1 capital for items including intangible fixed assets, such as goodwill, and foreign currency translation adjustments, with the amounts of such adjustments to Additional Tier 1 capital progressively decreasing over time.

Tier 2 capital generally consists of:

- Basel III compliant deferred obligations,
- during the transition period, 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 reflected in Tier 2 capital with the 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, 2014, 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 0.7%.

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 2013, 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.

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As for local banking regulations outside of Japan, such as those in the United States, in July 2013, the FRB and the other U.S. federal banking agencies adopted final rules making significant changes to the U.S. regulatory capital framework for U.S. banking organizations to conform it to the Basel III global regulatory capital framework. The final rules establish more restrictive capital definitions, create additional categories and higher risk weightings for certain asset classes and off-balance sheet exposures, higher minimum capital and leverage ratios and capital conservation buffers that will be added to the minimum capital requirements. The final rules began to apply to MUAH and MUB on January 1, 2014, subject to certain transition provisions.

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 applies the Financial Inspection Rating System, or FIRST, to major banks. 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 responses, (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.

In September 2013, the FSA announced its updated policy for monitoring financial institutions, which places a greater emphasis on identifying and minimizing significant risks to the financial system as a whole. Under the new policy, the FSA is expected to increase monitoring of, and communication with, financial institutions, particularly large global financial institutions, including us, and enhance cooperation with financial regulatory bodies in other jurisdictions.

The FSA, if necessary to secure the sound and appropriate operations 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 generally prohibit a bank from holding more than 5% of another company s voting rights do not apply to a bank holding company. However, the Banking Law prohibits a bank holding company and its subsidiaries from holding, on an aggregated basis, more than 15% of the voting rights of companies other than those which can legally become subsidiaries of bank holding companies.

In addition, a bank is prohibited from holding shares in other companies exceeding the aggregate of its Common Equity Tier 1 capital amount and Additional Tier 1 capital amount. For a detailed discussion on the capital requirements for Japanese banks, see Item 5.B. Operating and Financial Review and Prospects Liquidity and Capital Review Capital Adequacy.

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

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financial institutions to improve their sales rules and strengthen compliance frameworks and procedures. Among the instruments that the Japanese banks deal in, derivatives, foreign currency-denominated deposits, and variable insurance and annuity products are subject to regulations covered by the sales-related rules of conduct under the law.

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

Subsidiaries of bank holding companies engaging in the securities business are subject to the supervision of the FSA as financial instruments business operators. The Prime Minister has the authority to regulate the securities industry and securities companies, which authority is delegated to the Commissioner of the FSA under the Financial Instruments and Exchange 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 inspections of securities companies as well as banks in connection with their securities business. Furthermore, the Commissioner of the FSA delegates certain authority to the Director General of the Local Finance Bureau to inspect local securities companies and their branches. A violation of applicable laws and ordinances may result in various administrative sanctions, including revocation of registration, suspension of business or an order to discharge any director or executive officer who has failed to comply with applicable laws and ordinances. Securities companies are also subject to the rules and regulations of the Japanese stock exchanges and the Japan Securities Dealers Association, a self-regulatory organization of securities companies.

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

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.

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

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 act.

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, 2014, the Deposit Insurance Corporation charges insurance premiums equal to 0.108% per year on the deposits in the settlement accounts, which are fully protected as mentioned above, and premiums equal to 0.081% per year on the deposits in other accounts. If no financial institution becomes insolvent during the year ending on March 31, 2015, the premiums will be retrospectively revised to 0.090% 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 established a 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 financial holding companies, 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 operations and assets and receive financial assistance in the form of loans or subscription of shares. These amendments became effective on March 6, 2014.

Further, the Act on Special Measures for Strengthening of Financial Function enables the Japanese government to take special measures 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 be not insolvent. In response to the Great East Japan Earthquake in March, 2011, the act was revised in July 2011, adding a special case for the financial institutions suffering damage from the disaster. The requirement to create the improvement plan of profitability and efficiency is eased for such financial institutions. Moreover, the application deadline has been extended from March 31, 2012 to March 31, 2017.

Regulatory Developments Relating to Lending to Small and Medium-sized Firms and Others. The Act Concerning Temporary Measures to Facilitate Financing for Small and Medium-sized Firms and Others required 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. This legislation also required 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 expired on March 31, 2013, the FSA is encouraging the financial institutions to continue to provide support to

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small and medium-sized firms by revising the Inspection Manual, Supervisory Policy and Ordinance for Enforcement of the Baking 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 Act on the Protection of Personal Information. With regard to protection of personal information, the Act on the Protection of Personal Information requires, among other things, Japanese banking institutions to limit the use of personal information to the stated purpose and to properly manage the personal information in their possession, and forbids them from providing personal information to third parties without consent. If a bank violates certain provisions of the act, 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.

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

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

In addition, as a result of decisions made by the Supreme Court of Japan prior to June 18, 2010, imposing stringent requirements for charging such gray-zone interest rates, consumer finance companies have been responding to borrowers claims for reimbursement of previously collected interest payments in excess of the limits stipulated by the Interest Rate Restriction Act. 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 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
- 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 (now MUAH), 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 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

- MUFG Union Bank, N.A. or MUB (known prior to July 1, 2014 as Union Bank, N.A.), through BTMU and its subsidiary, MUAH, 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. MUB 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 MUAH 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 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

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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 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 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 , liquidity, and structural requirements), resolution plans, 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 February 2014 the FRB issued final rules that established enhanced prudential standards for the U.S. operations of foreign banking organizations such as MUFG. These rules will require us to organize by July 2016 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. Under these rules, we will be required to change the structure of our U.S. operations, including the manner in which we oversee and manage those operations, and may be required to inject capital into our U.S. operations. The rules require that financial banking organizations that have U.S. non-branch assets of $50 billion or more as of June 30, 2014, including MUFG, prepare an Implementation Plan for filing with the Federal Reserve by January 1, 2015, describing how we intend to meet the requirements of the rules. MUFG is in the process of preparing that Plan, and until that Plan is finalized and filed with and reviewed by the Federal Reserve, we are unable to assess the extent to which the rules may affect our operations in the United States.

The Volcker rule was issued in final form by the Federal Reserve in December 2013. Under the Volcker Rule, we are 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. We are also restricted from engaging in certain activities regarding hedge funds and private equity funds. While the Volcker Rule excludes restrictions on such activities conducted solely outside of the United States, the regulatory definition of such exempted activities is narrow and complex and in some cases requires further clarification. Our proprietary trading activities are generally executed outside of the United States, but certain activities within the United States could potentially fall within the scope of the definition of proprietary trading. The Federal Reserve has extended the conformance period under the Rule until July 2015, during which time further clarification under the Rule may be necessary to fully ascertain its impact on those activities. Given the limited amount of potentially restricted activities in which we engage within 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 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 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, issued final regulations of FATCA in January 2013.

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

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

Disclosure pursuant to Section 13(r) of the 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, 2014, 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, 2014, the aggregate interest and fee income relating to these transactions was less than ¥130 million, representing less than 0.005% 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 entities in or affiliated with Iran. In addition to such accounts, BTMU receives deposits in Japan from and provides settlement services in Japan to 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, 2014, 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 account holders was less than ¥3 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 less than ¥500 million, representing less than 0.001% of our total loans, as of March 31, 2014. For the fiscal year ended March 31, 2014, the aggregate gross interest and fee income relating to these loan transactions was less than ¥45 million, representing less than 0.005% of our total interest and fee income.

In addition, in accordance with the Joint Plan of Action agreed to among the P5+1 (the United States, United Kingdom, Germany, France, Russia and China) and Iran in November 2013, BTMU has been providing settlement services in connection with humanitarian trade to assist Iran in meeting its domestic needs, namely food, agricultural products, medicine and medical devices, since April 2014. The overall framework for these settlement services was based on an agreement between U.S. and Japanese authorities, and the relevant U.S. regulator has authorized the settlement services as compliant with applicable U.S. laws and regulations. The purchasers of the humanitarian goods were entities in or affiliated with Iran, including entities related to the Iranian government. The sellers of the humanitarian goods were entities permitted by U.S. and Japanese regulators. These transactions did not involve U.S. dollars nor clearing services of U.S. banks for the settlement of payments. These transactions were conducted through the use of special purpose yen accounts maintained with BTMU outside the United States by an Iranian financial institution which is affiliated with the Iranian government but through which these transactions were permitted to be settled. In connection with these transactions, the Iranian financial institution has increased the amount of its non-U.S. dollar deposits at BTMU used for the settlement purposes. BTMU intends to continue to provide the settlement services in connection with the exports of humanitarian goods to Iran in close coordination with U.S. and Japanese authorities.

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 and authorized exports of humanitarian goods to Iran, 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.

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C. Organizational Structure

The following chart presents our corporate structure summary as of March 31, 2014:

(1) Effective July 1, 2014, UnionBanCal Corporation has been renamed MUFG Americas Holding Corporation in connection with the integration of BTMU s operations in the Americas region with the operations of UnionBanCal. See Item 5. Operating and Financial Review and Prospects Recent Developments.
(2) Consumer finance subsidiaries.

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Set forth below is a list of our principal consolidated subsidiaries as of March 31, 2014:

Note:

(1) Effective July 1, 2014, UnionBanCal Corporation has been renamed MUFG Americas Holding Corporation in connection with the integration of BTMU s operations in the Americas region with the operations of UnionBanCal. See Item 5. Operating and Financial Review and Prospects Recent Developments.

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D. Property, Plant and Equipment

Premises and equipment as of March 31, 2013 and 2014 consisted of the following:

	As of March 31, 2013	As of March 31, 2014
	(in millions)	
Land	¥ 379,943	¥ 403,184
Buildings	723,902	747,998
Equipment and furniture	767,733	929,939
Leasehold improvements	236,353	251,875
Construction in progress	17,976	27,606
Total	2,125,907	2,360,602
Less accumulated depreciation	1,066,853	1,123,954
Premises and equipment net	¥ 1,059,054	¥ 1,236,648

Our registered address is 7-1, Marunouchi 2-chome, Chiyoda-ku, Tokyo 100-8330, Japan. As of March 31, 2014, we and our subsidiaries conducted our operations either in premises we owned or in properties we leased.

The following table presents the book values of our material offices and other properties as of March 31, 2014:

	Book value (in millions)
Owned land	¥ 403,184
Owned buildings	226,407

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, 2014, we invested approximately ¥158.5 billion, primarily for office renovations and relocation.

Item 4A. Unresolved Staff Comments.

None.

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Item 5. Operating and Financial Review and Prospects.

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

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Introduction

We are a holding company for The Bank of Tokyo-Mitsubishi UFJ, Ltd., or BTMU, Mitsubishi UFJ Trust and Banking Corporation, or MUTB, Mitsubishi UFJ 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,		
	2012	2013	2014
	(in billions, except per share data)		
Net interest income(1)	¥ 1,955.8	¥ 1,871.1	¥ 1,961.3
Provision (credit) for credit losses	223.8	144.5	(106.4)
Non-interest income(2)	1,440.6	2,068.0	1,821.0
Non-interest expense	2,322.7	2,378.7	2,468.3
Income before income tax expense	849.9	1,415.9	1,420.4
Net income before attribution of noncontrolling interests	420.7	1,119.9	1,082.5
Net income attributable to Mitsubishi UFJ Financial Group	416.2	1,069.1	1,015.4
Diluted earnings per common share earnings applicable to common shareholders of Mitsubishi UFJ Financial Group	28.09	74.16	69.98

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 ¥1,015.4 billion for the fiscal year ended March 31, 2014, a decrease of ¥53.7 billion from ¥1,069.1 billion for the fiscal year ended March 31, 2013. Domestic net income attributable to Mitsubishi UFJ Financial Group was ¥859.8 billion, and foreign net income attributable to Mitsubishi UFJ Financial Group was ¥155.6 billion, for the fiscal year ended March 31, 2014. Asia and Oceania excluding Japan, Europe, and other areas including Canada, Latin America, the Caribbean and the Middle East contributed ¥149.4 billion, ¥6.5 billion and ¥131.2 billion, respectively, to foreign net income which were partly offset by net loss of ¥131.5 billion in the United States.

For the fiscal year ended March 31, 2014, our domestic revenue, which consists of interest income and non-interest income attributable to our operations in Japan, was ¥3,110.1 billion, while our total foreign revenue, which consists of interest income and non-interest income attributable to our operations outside of Japan, was ¥1,233.3 billion, with revenue attributable to our operations in the United States contributing ¥219.0 billion, Asia and Oceania excluding Japan contributing ¥569.0 billion, and Europe contributing ¥155.0 billion. As a percentage of total revenue, domestic revenue increased to 71.6% for the fiscal year ended March 31, 2014 from 67.1% for the previous fiscal year.

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More specifically, our net income attributable to Mitsubishi UFJ Financial Group for the fiscal year ended March 31, 2014 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, 2014 was ¥1,961.3 billion, an increase of ¥90.2 billion from ¥1,871.1 billion for the fiscal year ended March 31, 2013. Interest income increased ¥94.8 billion while interest expense increased only ¥4.6 billion. The increase in interest income reflected higher interest income from foreign loans, foreign currency denominated trading debt securities and deposits in central banks primarily due to increased volumes of these assets, which were partially offset by a decrease in interest income from domestic loans due to lower interest rates and intensified competition among lending institutions, and a decrease in interest income from domestic investment securities due to our reduced holding of such securities, including Japanese government bonds. The increase in interest expense reflected higher interest payments on foreign deposits due to an increased balance of such deposits, and larger long-term debt primarily reflecting an increase in the balance of borrowings with longer maturities.

The average interest spread decreased 0.04 percentage points to 0.89% for the fiscal year ended March 31, 2014 from 0.93% for the fiscal year ended March 31, 2013, reflecting the continued low interest rate environment and intensified competition among financial institutions.

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, 2013 compared to the fiscal year ended March 31, 2012, and the fiscal year ended March 31, 2014 compared to the fiscal year ended March 31, 2013:

	Fiscal Year Ended March 31, 2012 versus Fiscal Year Ended March 31, 2013			Fiscal Year Ended March 31, 2013 versus Fiscal Year Ended March 31, 2014		
	Increase (decrease) due to changes in			Increase (decrease) due to changes in		
	Volume[1]	Rate[1]	Net change	Volume[1]	Rate[1]	Net change
			(in millions)			
Domestic	¥ 34,889	¥ (108,724)	¥ (73,835)	¥ (22,455)	¥ (48,533)	¥ (70,988)
Foreign[2]	174,449	(185,328)	(10,879)	254,092	(92,896)	161,196

Total	¥ 209,338	¥ (294,052)	¥ (84,714)	¥ 231,637	¥ (141,429)	¥ 90,208

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.

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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, 2012, 2013 and 2014:

	Fiscal years ended March 31,					
	2012		2013		2014	
	Average balance	Average rate	Average balance	Average rate	Average balance	Average rate
	(in billions, except percentages)					
Interest-earning assets:						
Domestic	¥ 130,856.7	1.07%	¥ 134,759.6	0.95%	¥135,087.3	0.87%
Foreign[(1)]	53,322.4	2.24	59,064.7	1.95	77,089.0	1.75
Total	¥ 184,179.1	1.41%	¥ 193,824.3	1.25%	¥212,176.3	1.19%
Financed by:						
Interest-bearing liabilities:						
Domestic	¥ 130,916.6	0.26%	¥ 135,974.9	0.21%	¥141,878.0	0.18%
Foreign	34,504.0	0.88	37,424.6	0.73	47,535.3	0.64
Total	165,420.6	0.39	173,399.5	0.32	189,413.3	0.30
Non-interest-bearing liabilities	18,758.5		20,424.8		22,763.0	
Total	¥ 184,179.1	0.35%	¥ 193,824.3	0.29%	¥212,176.3	0.26%
Interest rate spread		1.02%		0.93%		0.89%
Net interest income as a percentage of total interest-earning assets		1.06%		0.97%		0.92%

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 (credit) 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. When there is an improvement in asset quality, credit for credit losses is recorded to reverse the allowance for credit losses to an appropriate level. For the fiscal year ended March 31, 2014, we recorded ¥106.4 billion of credit for credit losses, compared to provision for credit losses of ¥144.5 billion for the previous fiscal year. For 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,
- 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) on 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 (losses) 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 account profits,

investment securities gains (losses) 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, 2012, 2013 and 2014:

	Fiscal years ended March 31,		
	2012	2013	2014
		(in billions)	
Fees and commissions income	¥ 1,100.0	¥ 1,160.9	¥ 1,294.1
Foreign exchange gains (losses) net	34.3	(39.0)	(61.8)
Trading account profits (losses) net	667.3	570.3	(33.9)
Investment securities gains net	19.4	156.0	303.5
Equity in earnings (losses) of equity method investees net	(499.4)	60.2	110.5
Gains on sales of loans	15.6	14.8	17.7
Government grant for transfer of substitutional portion of Employees Pension Fund Plans			115.2
Other non-interest income	103.4	144.8	75.7
Total non-interest income	¥ 1,440.6	¥ 2,068.0	¥ 1,821.0

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Fees and commissions income for the fiscal year ended March 31, 2014 was ¥1,294.1 billion, an increase of ¥133.2 billion from ¥1,160.9 billion for the fiscal year ended March 31, 2013. The increase reflected our improved performance in the securities, investment funds, trust and international businesses.

Net foreign exchange losses for the fiscal year ended March 31, 2014 were ¥61.8 billion, compared to ¥39.0 billion of net foreign exchange losses for the fiscal year ended March 31, 2013. This was mainly due to lower net foreign exchange gains related to the fair value option. This decrease was primarily because the Japanese yen depreciated to smaller degrees against other major currencies during the fiscal year ended March 31, 2014, compared to the previous fiscal year. This decrease was partially offset by decreases in losses related to foreign exchange derivative contracts and foreign exchange other than derivatives.

We recorded net trading account losses of ¥33.9 billion for the fiscal year ended March 31, 2014, compared to net trading account profits of ¥570.3 billion for the previous fiscal year. This was primarily attributable to lower fair values of foreign bonds, including U.S. Treasury bonds, due to higher interest rates in the United States, reflecting the tapering of the quantitative monetary easing program by the FRB.

Net investment securities gains for the fiscal year ended March 31, 2014 were ¥303.5 billion, an increase of ¥147.5 billion from ¥156.0 billion for the fiscal year ended March 31, 2013. This increase mainly reflected higher stock prices in Japan, increasing realized gains from sales of marketable equity securities, and a reduction of impairment losses on marketable equity securities.

Net equity in earnings of equity method investees for the fiscal year ended March 31, 2014 was ¥110.5 billion, compared to net equity in earnings of equity method investees of ¥60.2 billion for the previous fiscal year, mainly due to higher earnings from the equity method investees such as Morgan Stanley.

We recorded a one-time adjustment of ¥115.2 billion, which was reported as a component of our non-interest income, for the fiscal year ended March 31, 2014, as we transferred the substitutional portion of MUTB s benefit obligations relating to employee benefit funds to the Japanese government.

Core Business Areas

We operate our main businesses under an integrated business group system. This 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 the corporate center of MUFG, BTMU, MUTB and MUMSS and the elimination of net revenues among 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 income, see Note 29 to our consolidated financial statements included elsewhere in this Annual Report.

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The following table sets forth the relative contributions to operating profit for the fiscal year ended March 31, 2014 of the five core business areas and other based on our business segment information:

	Integrated Retail Banking Business Group	Integrated Corporate Banking Business Group	Integrated Trust Assets Business Group	Integrated Global Business Group			Global Markets	Other	Total
				Other than MUAH	MUAH	Total			
	(in billions)								
Net revenue	¥ 1,290.6	¥ 924.5	¥ 159.2	¥ 567.9	¥ 375.9	¥ 943.8	¥ 568.6	¥ (13.6)	¥ 3,873.1
Operating expenses	961.9	438.4	94.4	299.5	266.9	566.4	176.5	172.4	2,410.0
Operating profit (loss)	¥ 328.7	¥ 486.1	¥ 64.8	¥ 268.4	¥ 109.0	¥ 377.4	¥ 392.1	¥ (186.0)	¥ 1,463.1

Summary of Our Recent Financial Condition

The following table presents some key asset figures:

	As of March 31, 2013	As of March 31, 2014
	(in trillions)	
Total assets	¥ 230.56	¥ 253.66
Net loans	97.25	109.18
Loans, net of unearned income, unamortized premiums and deferred loan fees	98.59	110.28
Allowance for credit losses	(1.34)	(1.10)
Investment securities	61.87	55.33
Securities available for sale	58.84	51.89
Securities being held to maturity	2.13	2.71
Trading account assets	40.83	40.65
Trading securities	26.18	28.84
Trading derivative assets	14.65	11.81
Interest-earning deposits in other banks	8.11	20.50

Total assets as of March 31, 2014 were ¥253.66 trillion, an increase of ¥23.10 trillion from ¥230.56 trillion as of March 31, 2013.

Total loans outstanding as of March 31, 2014 were ¥110.28 trillion, an increase of ¥11.69 trillion from ¥98.59 trillion as of March 31, 2013. This primarily reflected an increase in foreign loans mainly due to favorable economic fundamentals in the United States, our acquisition of Bank of Ayudhya Public Company Limited, or Krungsri, and an appreciation of the relevant foreign currencies against the Japanese yen, as well as an increase in domestic loans particularly to government related institutions.

Total allowance for credit losses as of March 31, 2014 was ¥1,094.4 billion, a decrease of ¥241.6 billion from ¥1,336.0 billion as of March 31, 2013. The decrease mainly reflected charge-offs, and reversal of allowance for credit losses due to an overall improvement in the credit quality of our loan portfolio.

Total investment securities as of March 31, 2014 were ¥55.33 trillion, a decrease of ¥6.54 trillion from ¥61.87 trillion as of March 31, 2013. This was mainly due to a decrease in our holding of Japanese government bonds primarily in response to the Bank of Japan s monetary policy and measure to purchase such bonds in the market to stimulate the economy by increasing liquidity, and also as part of our asset and liability management.

Trading account assets as of March 31, 2014 were ¥40.65 trillion, compared to ¥40.83 trillion as of March 31, 2013. While the fair values of foreign currency-denominated bonds held by our commercial and trust banking subsidiaries increased on a Japanese yen basis, the fair values of trading derivatives, particularly interest rate-related derivatives, in our securities subsidiaries declined.

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Interest-earning deposits in other banks as of March 31, 2014 was ¥20.50 trillion, an increase of ¥12.39 trillion from ¥8.11 trillion as of March 31, 2013 mainly due to increased interest-earning deposits with the Bank of Japan and the FRB. A significant portion of the cash received as a result of our sale of Japanese government bonds was deposited with the Bank of Japan. Similarly, a significant portion of the cash received as a result of our sale of U.S. Treasury bonds was deposited with the FRB.

The following table presents some key liability figures:

	As of March 31,	
	2013	2014
	(in trillions)	
Total liabilities	¥ 219.62	¥ 240.91
Total deposits	148.21	162.52
Domestic	118.33	121.51
Overseas	29.88	41.01
Payables under repurchase agreements	15.70	21.27
Other short-term borrowings	11.61	11.11
Trading account liabilities	14.97	11.98
Long-term debt	12.18	14.50

Total liabilities as of March 31, 2014 were ¥240.91 trillion, an increase of ¥21.29 trillion from ¥219.62 trillion as of March 31, 2013.

Total deposits as of March 31, 2014 were ¥162.52 trillion, an increase of ¥14.31 trillion from ¥148.21 trillion as of March 31, 2013. This was mainly due to a higher balance of interest-bearing deposits in the United States.

Payables under repurchase agreements as of March 31, 2014 were ¥21.27 trillion, an increase of ¥5.57 trillion from ¥15.70 trillion as of March 31, 2013. This increase was primarily due to increases in the volumes of transactions by our commercial banking, securities and trust banking subsidiaries.

Trading account liabilities as of March 31, 2014 were ¥11.98 trillion, compared to ¥14.97 trillion as of March 31, 2013, as the fair values of trading derivatives, particularly interest rate-related derivatives, in our securities subsidiaries, declined.

Long-term debt as of March 31, 2014 was ¥14.50 trillion, an increase of ¥2.32 trillion from ¥12.18 trillion as of March 31, 2013. This primarily reflected increased long-term borrowings and issuances of bonds by our commercial banking, trust banking and securities subsidiaries.

Shareholders Equity

The following table presents some key shareholders equity figures:

	As of March 31, 2013	As of March 31, 2014
	(in trillions)	
Shareholders equity	¥ 10.61	¥ 12.21
Retained earnings	1.60	2.40
Unrealized gains on investment securities, net of tax	1.11	1.27
Foreign currency translation adjustments, net of tax	(0.21)	0.29

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Capital Ratio

The following tables present our risk-adjusted capital ratio in accordance with Basel III as of March 31, 2013 and 2014. 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 figures in the tables below are rounded down.

Common Equity Tier 1 (minimum capital ratios required: 4.00%)

	As of March 31,	
	2013	**2014**
MUFG (consolidated)	11.70%	11.25%
BTMU (consolidated)	11.71	11.05
BTMU (stand-alone)	11.76	11.88
MUTB (consolidated)	13.12	14.21
MUTB (stand-alone)	12.49	13.72

Tier 1 Capital (minimum capital ratios required: 5.50%)

	As of March 31,	
	2013	**2014**
MUFG (consolidated)	12.74%	12.45%
BTMU (consolidated)	13.11	12.21
BTMU (stand-alone)	13.99	13.74
MUTB (consolidated)	13.77	14.76
MUTB (stand-alone)	13.22	14.37

Total Capital (minimum capital ratios required: 8.00%)

	As of March 31,	
	2013	**2014**
MUFG (consolidated)	16.68%	15.53%
BTMU (consolidated)	17.51	15.57
BTMU (stand-alone)	18.52	17.52
MUTB (consolidated)	17.79	18.38
MUTB (stand-alone)	17.94	18.51

Business Environment

Through our subsidiaries and affiliated companies, we engage in a broad range of financial businesses and services, including commercial banking, investment banking, trust 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,

foreign currency exchange rates, and

stock and real estate prices.

The global economy lacked strong momentum during the fiscal year ended March 31, 2014. Although gradually improving trends in Japan and the United States generally continued, recovery in Europe and in other Asian countries was limited.

In Japan, since the introduction of the Abenomics policy at the end of the calendar year 2012 and the Bank of Japan s quantitative and qualitative monetary easing policy in April 2013, the Japanese yen depreciated against other major currencies, and this has generally had a positive effect on the Japanese economy while concerns still remain over the effectiveness of the government s economic measures in the longer-term. In the United States, stock, land and housing prices gradually improved while the FRB maintained its zero-interest rate policy, a policy to maintain the federal funds target rate between zero and 0.25%. However, uncertainty remains as to whether the improving trends would continue if, for example, the FRB further tapers or discontinues its economic stimulus measures. Eurozone GDP growth turned positive in the quarter ended June 30, 2013 for the first time in seven quarters and it maintained a positive growth for the four consecutive quarters since then, but the rate of economic recovery in the region has remained slow. Emerging economics have been slowing partially due to decreased foreign investments and heightened geopolitical risks.

Economic Environment in Japan

Signs of improvement in the Japanese economy continued to emerge in the fiscal year ended March 31, 2014. The depreciation of the Japanese yen against other major currencies after the introduction of the Abenomics policy helped large-scale exporters improve their financial performance, which led to higher stock prices. The stronger stock market led to increased corporate and household spending, production of goods and exports. The trend among large corporations to increase salaries through base-up (raising base pay rather than giving a one-time raise) in response to the Abe administration s encouragement and the temporary increase in private demand before the increase in the consumption tax rate from 5% to 8% on April 1, 2014, supported stronger private spending and economic growth, particularly in the second half of the fiscal year ended March 31, 2014. However, concerns still remain over the effectiveness of the government s economic measures in the longer-term particularly in light of the disparate effects of Abenomics, the increasing public debt, the adverse impact of higher consumption tax rates on private consumption, and the negative effect of a weaker Japanese yen on imports.

The Abenomics policy consists of three fundamental strategies. 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. The Bank of Japan put forth in January 2014 an inflation target of 2% in terms of a year-on-year rate of change in the consumer price index to be achieved in approximately two years, and began to implement measures under its quantitative and qualitative monetary easing policy in April 2014. 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 purchase of Japanese government bonds of up to ¥6.0 to ¥8.0 trillion per month, and
- market purchases of exchange-traded funds, Japanese real estate investment trust, commercial paper and corporate bonds.

According to the Bank of Japan, under this policy, Japan s monetary base increased ¥73.84 trillion to ¥219.89 trillion as of March 31, 2014 from ¥146.04 trillion as of March 31, 2013. As of June 30, 2014, the monetary base increased to ¥243.43 trillion. The aggregate amount that the Bank of Japan spent on purchasing long-term Japanese government bonds under the policy during the fiscal year ended March 31, 2014 was ¥88.03 trillion. The aggregate purchase amount of long-term Japanese government bonds during the quarter ended June 30, 2014 was ¥20.06 trillion. The continued supply of cash by the Bank of Japan in the market has had the effect of keeping interest rates low and contributed to increased stock and real estate purchases.

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The second fundamental strategy set forth by the Abe administration includes increased government spending to stimulate the economy. Measures discussed in connection with this strategy include the acceleration of measures to promote reconstruction, disaster prevention and safety, and mitigation of the adverse impact of the government s economic measures on low-income earners and child-rearing households. The third fundamental strategy includes deregulation and other growth measures, as well as plans focused on, among other things, the health, energy, infrastructure and agriculture sectors, foreign investments and trade, and labor and employment. Measures discussed in connection with this strategy include corporate tax reform, reform of investments of public and quasi-public funds, provision of services to enable women to participate more actively in the workforce, utilization of foreign human resources, and the introduction of flexible and diversified ways of working.

Despite the indicia of improvement in economic conditions in Japan seen thus far, however, there is still uncertainty surrounding Japan s economy, including the medium and long-term effects of the Abenomics measures on Japan s economy. Moreover, the Abenomics measures have affected, and may continue to affect, each economic segment differently, potentially creating varying business environments for our customers, borrowers and investees depending on their industry and particular circumstances.

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

	Calendar Year											(Unit: %)
	2011			2012				2013				2014
	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q
Gross Domestic Product	(0.8)	2.6	0.2	1.0	(0.6)	(0.8)	0.0	1.3	0.7	0.3	0.1	1.6
Private Consumption	1.0	1.6	0.6	0.4	0.4	(0.5)	0.5	1.0	0.7	0.2	0.4	2.2
Private Residential Investment	(2.3)	5.2	(1.8)	(1.6)	3.1	1.8	2.4	1.8	0.8	3.3	4.3	3.1
Private Non-Residential Investment	(0.4)	2.3	8.3	(2.9)	0.5	(1.5)	(0.2)	(2.2)	0.9	0.9	1.6	7.6
Government Consumption	0.3	0.1	0.2	1.5	(0.6)	0.4	0.7	0.9	0.4	0.2	0.2	0.1
Public Investment	2.5	(2.4)	(4.8)	9.9	(2.0)	(2.4)	(0.3)	4.6	6.4	6.8	1.1	(2.7)
Exports	(7.5)	9.6	(3.0)	2.8	(0.5)	(4.0)	(3.0)	4.3	2.9	(0.7)	0.5	6.0
Imports	(0.5)	3.3	1.9	2.0	1.4	(0.4)	(1.9)	1.1	1.8	2.4	3.7	6.3

Source: Cabinet Office, Government of Japan

Japan s GDP grew for the six consecutive quarters ended March 31, 2014 reflecting stronger domestic demand. The following trends were observed for each component of Japan s GDP in recent periods:

Private consumption continued to grow during the fiscal year ended March 31, 2014. In the quarter ended December 31, 2013, durable goods (such as vehicles) and services (such as financial services) contributed to the positive growth, while semi-durable goods showed little change, and non-durable goods (such as gasoline) contributed to the negative growth. In the quarter ended March 31, 2014, durable goods (such as vehicles, home electronics, personal computers and household items) contributed to positive growth. The improved economic environment after the introduction of the Abenomics policy, expectation of increases in salaries and bonuses, and the temporary increase in private demand before the increase in consumption tax from 5% to 8% on April 1, 2014 were among the key-drivers of the positive growth in private consumption. The impact of the increase in consumption tax on April 1, 2014 has been limited, although decreases were reported, for example, in the number of vehicles sold and the sales volume of luxury department stores. Private consumption may significantly weaken, however, if the consumption tax rate is increased again from 8% to 10% in October 2015 as currently planned.

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Private residential investment continued to grow during the fiscal year ended March 31, 2014, marking eight consecutive quarters of positive growth. The increase in private residential investment partly reflected the recovery from the negative impact of the Great East Japan Earthquake in 2011, and the positive impact of the Abenomics measures. In the fiscal year ended March 31, 2013, the Tohoku area, the northeastern area of Japan that suffered damages from the earthquake was the main region to show strong growth. In the fiscal year ended March 31, 2014, wider areas including the Tohoku area showed firm growth. However, this trend may not continue, as the number of new housing projects began to show negative growth in the quarter ended March 31, 2014.

Private non-residential investment grew during the fiscal year ended March 31, 2014. In the quarter ended December 31, 2013, private investments in manufacturing industries increased 0.7% compared to the quarter ended December 31, 2012, mainly due to increases in the automobile, electronics and communications devices industries, which were partially offset by a decrease in the chemical industry. Non-residential investments in non-manufacturing industries increased 5.7% compared to the quarter ended December 31, 2012, mainly due to increases in the service and transportation industries, which were partially offset by a decrease in the wholesale and retail industry. In the quarter ended March 31, 2014, private non-residential investments in manufacturing industries increased 6.8% compared to the quarter ended March 31, 2013, mainly due to increases in the automobile and food industries, which were partially offset by a decrease in the chemical industry. Non-residential investments in non-manufacturing industries increased 7.7% compared to the quarter ended March 31, 2013, mainly due to increases in the transportation and wholesale and retail industries, which were partially offset by a decrease in the telecommunications industry. Private inventory investments, however, showed negative growth in the quarter ended December 31, 2013, as finished goods inventories in the automobile and raw steels industries decreased. Decreases were recorded in finished goods inventories and channel inventories in the quarter ended March 31, 2014.

Government consumption grew during the fiscal year ended March 31, 2014 mainly due to increased social benefit expenses, including government spending on medical and nursing care services.

Public investment increased 2.3% in the quarter ended December 31, 2013, but decreased 2.4% in the quarter ended March 31, 2014, marking the first negative growth recorded in six quarters. The positive effects of the ¥3.3 trillion supplemental budget passed in February 2013 waned, which negatively impacted public investment.

Exports grew slowly during the fiscal year ended March 31, 2014. In the quarter ended December 31, 2013, exports of electronics, communications devices and semiconductor manufacturing equipment contributed to the increase in exports. This trend continued in the quarter ended March 31, 2014. In addition, exports of automobiles also grew in the quarter ended March 31, 2014. Imports showed consistent growth during the fiscal year ended March 31, 2014. In the quarter ended December 31, 2013, imports of crude oil, natural gas and petroleum products contributed to the positive growth of imports. Oil and natural gas imports continued to grow in the quarter ended March 31, 2014, and the growth in imports was further supported by increased imports of electronics and communications devices such as cellular phones and personal computers.

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

	Calendar Year													(Unit: %)
	2013									2014			
	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May
Consumer Price Index	(0.7)	(0.3)	0.2	0.7	0.9	1.1	1.1	1.5	1.6	1.4	1.5	1.6	3.4	3.7

Source: Ministry of Internal Affairs and Communications of Japan

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

	Calendar Year											(Unit: %)
	2011			2012				2013				2014
	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q
Unemployment Rate	4.7	4.4	4.3	4.5	4.6	4.3	4.0	4.3	4.2	4.0	3.7	3.7

Source: Ministry of Internal Affairs and Communications of Japan

Japan s nationwide unemployment rate for May 2014 was 3.5%.

The Bank of Japan has sought to keep short-term interest rates low by maintaining its quantitative and qualitative monetary easing policy. Euro-yen-3-month Tokyo Interbank Offered Rate, or TIBOR, declined from 0.22800% on October 1, 2013 to 0.21200% on March 31, 2014, and further declined to around 0.21% as of July 7, 2014, the lowest level since 2006. Long term interest rates have fluctuated during the fiscal year ended March 31, 2014. The yield on newly issued ten-year Japanese government bonds fell to the historical low of approximately 0.325% shortly after the introduction of the Abenomics measures, but rose to around 1% by May 2013 partly reflecting concerns over increased market volatility and a general shift in investors allocation of capital from the debt markets to the improving stock markets as well as increased bonds being sold off in reaction to the discussion surrounding the FRB s possible tapering of the quantitative monetary easing program. Since late May 2013, the yield on newly-issued ten-year Japanese government bonds has fluctuated between approximately 0.6% and 0.8%, influenced by events such as the drop of the Chinese Purchasing Managers Index, or PMI, to below 50 for the first time in seven months, indicating a contraction in the manufacturing sector, the FRB s decision to taper the quantitative easing program, and the fiscal cliff and government shut-down in the United States. The fluctuations in interest rates also reflected investor sentiment of risk aversion in response to signs of deteriorating economic conditions in developing countries and concerns over geopolitical risks, particularly in countries such as Iraq, Syria and Ukraine.

The following chart shows the interest rate trends in Japan since April 2012:

Source: Bank of Japan

With regards to the Japanese stock market, the closing price of the Nikkei Stock Average, or Nikkei 225, which is the average of 225 blue chip stocks listed on the Tokyo Stock Exchange, increased from ¥12,397.91 on March 29, 2013 to ¥14,827.83 on March 31, 2014. The depreciation of the Japanese yen, together with improved U.S. economic statistics, contributed to the rise in stock indices in Japan. The Nikkei 225 recorded an intra-day high of ¥15,942.60 on May 23, 2013. However, the Nikkei 225 started to decline rapidly on the same day after the announcement of weak Chinese statistics, and the downward trend continued for approximately one month until late June 2013, when the price was at a similar level to what it had been at the end of March 2013. The downward trend reflected investors reactions to a rapid increase in stock prices and to the congressional testimony of Mr. Ben Bernanke, the Chair of the FRB at the time, suggesting the possibility of tapering the quantitative monetary easing program. Subsequent to the one-month long downward trend, the Nikkei 225 remained generally between ¥13,100 and ¥14,800 until the end of October 2013. As interest rates in the United States rose, the Japanese yen depreciated against the U.S. dollar, and Japanese stock prices rose. On December 30, 2013, the Nikkei 225 was at ¥16,320.22, the high of the fiscal year ended March 31, 2014. The upward trend ended in early 2014, partially influenced by risk aversion among investors following weak U.S. economic statistics, the rapid depreciation of developing countries currencies, and increased political unrest such as in Crimea. The Nikkei 225 generally remained between ¥14,000 and ¥16,000 from April to July 2014.

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 due to the same reasons as those for the Nikkei 225. The TOPIX increased from the beginning of April 2013 to an intra-day high of 1,289.77 on May 23, 2013. On the same day, the TOPIX began to decline rapidly, and the downward trend continued for approximately one month. Subsequently, the stock market became more stable with the TOPIX remaining generally between 1,100 and 1,230 until the end of October 2013. Heightened expectations of tapering of the U.S. quantitative easing policy after the announcement of improved U.S. labor statistics contributed to a rise in stock prices towards mid-January 2014, and the TOPIX recorded intra-day high of 1,308.08 on January 16, 2014. Subsequently, weaker U.S. statistics and heightened geopolitical risks put downward pressure on stock prices, and as a result, the TOPIX remained between 1,140 and 1,300 for the rest of the fiscal year ended March 31, 2014. The TOPIX was generally in a similar range from April to mid-June 2014, but has since showed some increase.

The following chart shows the daily closing price of the Nikkei Stock Average since April 2012:

The Japanese yen depreciated against other major currencies, such as the U.S. dollar, from the closing price of ¥94.22 to $1 on March 29, 2013 to an intra-day high of ¥103.74 to $1 on May 22, 2013, reflecting the introduction of the quantitative and qualitative monetary easing policy by the Bank of Japan, and the stronger U.S. dollar after the announcement of reductions in the policy interest rates of the European Central Bank, or ECB, and the Reserve Bank of Australia. The Japanese yen appreciated against the U.S. dollar as U.S. statistics worsened, reaching an intra-day low of ¥93.79 to the U.S. dollar on June 13, 2013, and the exchange rate generally remained between ¥95 and ¥100 to the U.S. dollar until the end of October, 2013. In early November 2013, the United States reported improved labor statistics, and the FRB s decision to taper the quantitative monetary easing program was officially announced on December 18, 2013. Reflecting these events, the exchange rate reached the high for the fiscal year ended March 31, 2014 of ¥105.44 to the U.S. dollar on January 2, 2014. The exchange rate has remained between ¥100.76 and ¥104.13 to the U.S. dollar for the five months since February 2014.

The following chart shows the foreign exchange rates expressed in Japanese yen per U.S. dollar since April 2012:

Source: Bank of Japan

According to a land price survey conducted by the Japanese government, the average residential land price in Japan declined by 0.6% between January 1, 2013 and January 1, 2014. The average commercial land price in Japan also declined 0.5% during the same period. In the three major metropolitan areas of Tokyo, Osaka and Nagoya, the average residential land price increased 0.5% between January 1, 2013 and January 1, 2014, while the average commercial land price in those areas also increased 1.6% during the same period. In the local regions of Japan, which consist of regions other than the three major metropolitan areas, the average residential land price declined 1.5% between January 1, 2013 and January 1, 2014, and the average commercial land price declined 2.1% during the same period. Of the five areas with the greatest increases in land prices over the fiscal year ended March 31, 2014, three were in the Tohoku region, which was the region most heavily affected by the Great East Japan Earthquake in March of 2011.

According to Teikoku Databank, a Japanese research institution, the number of companies that filed for legal bankruptcies in Japan from April 2013 to March 2014 was approximately 10,100, a decrease of 5.7% 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 under the Abenomics policy and increased demand before the increase of the consumption tax in April 2014. The number of companies that filed for legal bankruptcy with debt exceeding ¥10 billion was 19 in the fiscal year ended March 31, 2014, the lowest recorded in 10 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 57.4%. The aggregate amount of liabilities subject to bankruptcy filings, excluding financial institutions bankruptcy filings, from April 2013 to March 2014 was approximately ¥2.75 trillion, a decrease of ¥0.18 trillion , or 6.2%, compared to the same period of the previous year.

International Financial Markets

U.S. Economy

The U.S. economy demonstrated signs of continued improvement during the fiscal year ended March 31, 2014, mainly driven by stronger personal consumption, which reflected improved stock prices. In addition, U.S.

labor statistics generally improved during the fiscal year ended March 31, 2014. However, uncertainty remains as to whether the improving trends would continue if, for example, the FRB further tapers or discontinues its economic stimulus measures. The FRB maintained its zero-interest rate policy during the six months ended September 30, 2013. On December 18, 2013, however, the FRB announced its decision to taper the quantitative monetary easing policy by decreasing by $5.0 billion the monthly purchase amounts for each of mortgage-backed securities and U.S. treasury bonds starting in January 2014. Thereafter, the monthly purchase amounts were again decreased by $5.0 billion each, once in March, and again in April 2014.

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:

	Calendar Year											(Unit: %)
	2011			2012				2013				2014
	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q
Gross Domestic Product	3.2	1.4	4.9	3.7	1.2	2.8	0.1	1.1	2.5	4.1	2.6	(2.9)
Personal Consumption Expenditures	1.5	2.1	2.4	2.9	1.9	1.7	1.7	2.3	1.8	2.0	3.3	1.0
Gross Private Domestic Investment	14.2	2.5	31.9	10.5	(1.6)	6.5	(2.4)	4.7	9.2	17.2	2.5	(11.7)
Fixed Investment	8.6	14.8	10.0	8.6	4.7	2.7	11.6	(1.5)	6.5	5.9	2.8	(1.8)
Non-residential	9.9	16.7	9.5	5.8	4.5	0.3	9.8	(4.6)	4.7	4.8	5.7	(1.2)
Residential	2.7	6.1	12.2	23.0	5.7	14.1	19.8	12.5	14.2	10.3	(7.9)	(4.2)
Government Consumption Expenditures and Gross Investment	(1.3)	(2.5)	(1.5)	(1.4)	0.3	3.5	(6.5)	(4.2)	(0.4)	0.4	(5.2)	(0.8)
Exports	4.9	7.0	2.7	4.2	3.8	0.4	1.1	(1.3)	8.0	3.9	9.5	(8.9)
Imports	0.7	4.9	5.9	0.7	2.5	0.5	(3.1)	0.6	6.9	2.4	1.5	1.8

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

The U.S. real GDP grew for the first three quarters of the fiscal year ended March 31, 2014. Private consumption, which accounted for approximately 68% of the U.S. GDP, demonstrated consistent growth during the fiscal year ended March 31, 2014, mainly due to increased purchasing activities.

Government consumption generally decreased during the fiscal year ended March 31, 2014, largely due to decreased expenditures on national defense. Federal government non-defense expenditures also decreased through the calendar year 2013 but increased in the quarter ended March 31, 2014, while consumption by state and local governments increased through the calendar year 2013 but subsequently declined.

The Consumer Price Index for All Urban Consumers, or CPI-U, increased 1.5% before seasonal adjustment over the 12 months ended March 31, 2014. Although CPI-U decreased 0.4% in April 2013 on a seasonally adjusted month-on-month basis, it has since shown growth of 0.0% to 0.4% on the same basis.

Housing prices showed signs of improvement during the fiscal year ended March 31, 2014. As of March 2014, the Federal Housing Finance Agency s U.S. house price index exhibited an eleventh consecutive quarterly price increase in the purchase-only, seasonally adjusted index. This also marked the ninth consecutive quarter where the house price index showed an increase compared to the same quarter of the previous year.

Interest rates on U.S. Treasury bonds decreased in April 2013 to 1.6120% on May 1, 2013, and were generally on an upward trend partly in reaction to the discussions surrounding the possible tapering of the FRB s quantitative monetary easing program and improved U.S. statistics including labor figures were released, reaching approximately 3.0% in September 2013. Following the FRB s decided not to taper their monetary easing policy in September and the U.S. federal government shut-down in early October 2013, interest rates fluctuated, dropping to just below 2.5% at the end of October 2013. U.S. Treasury bond rates reached 3.0516% on January 2, 2014, following the announcement of the FRB s decision to taper the quantitative monetary easing program. Interest rates have generally remained between 2.4% and 2.8% since February 2014.

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Stock prices in the United States were on a generally improving trend during the fiscal year ended March 31, 2014, with the Dow Jones Industrial Average generally fluctuating between $14,434.43 and $16,588.25. During the same period, the NASDAQ composite index was also on an upward trend, rising from 3,154.96 on April 18, 2013 to 4,371.71 on March 6, 2014. Subsequently, stock prices reached historical high levels as the U.S. economy showed signs of gradual growth, reflecting improved economic conditions supported by increased private consumption and lower unemployment rates. Since April 1, 2014, the Dow Jones Industrial Average has increased to an intra-day high of $17,074.65 on July 3, 2014, and the NASDAQ composite index increased to an intra-day high of 4,485.93 on the same day.

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

	Calendar Year														(Unit: %)
	2013									2014					
	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.
Unemployment Rate	7.5	7.5	7.5	7.3	7.2	7.2	7.2	7.0	6.7	6.6	6.7	6.7	6.3	6.3	6.1

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

Eurozone Economy

The Eurozone economy showed signs of recovery in the fiscal year ended March 31, 2014, but the growth remained weak. GDP grew in the quarter ended June 30, 2013 for the first time in seven quarters, and maintained positive growth for the following three quarters through the quarter ended March 31, 2014. The growth in GDP was mainly supported by increases in exports. The ECB has maintained its low interest rate policy, reducing its policy interest rate to 0.5% on May 2, 2013. On July 4, 2013, the ECB introduced forward guidance, indicating that short-term interest rates would remain low for an extended period of time. On November 7, 2013, the ECB further reduced its policy interest rate to a historical low of 0.25% to support the economy in response to low inflation rates in the Eurozone countries. On January 25, 2014, the ECB reaffirmed the forward guidance and its commitment to monetary easing, and also stated that it was willing and able to act further if needed. On June 5, 2014, the ECB took steps to further monetary easing by introducing a negative deposit facility interest rate of negative 0.1%. This new measure aims to stop the appreciation of the Euro against other currencies, which contributed to low inflation rates in the region, and also to increase the volume of loans especially to medium and small-sized enterprises in European peripheral countries.

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: %)
2011	2012	2013	