MITSUBISHI UFJ FINANCIAL GROUP INC
Form 6-K
January 22, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 6-K

Report of Foreign Private Issuer

Pursuant to Rule 13a-16 or 15d-16 under

the Securities Exchange Act of 1934

For the month of January 2015

Commission File Number 000-54189

MITSUBISHI UFJ FINANCIAL GROUP, INC.

(Translation of registrant s name into English)

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

Tokyo 100-8330, Japan

(Address of principal executive offices)

Indicate by check mark whether the registrant files or

will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F __X__ Form 40-F ________

Indicate by check mark if the registrant is submitting the Form 6-K

in paper as permitted by Regulation S-T Rule 101(b)(1):

Indicate by check mark if the registrant is submitting the Form 6-K

in paper as permitted by Regulation S-T Rule 101(b)(7):

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EXHIBITS TO FORM 6-K

Exhibit Number	Description
101.INS	XBRL Instance Document
101.SCH	XBRL Schema Document
101.CAL	XBRL Calculation Linkbase Document
101.DEF	XBRL Definition Linkbase Document
101.LAB	XBRL Label Linkbase Document
101.PRE	XBRL Presentation Linkbase Document

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SIGNATURES

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

Date: January 22, 2015

Mitsubishi UFJ Financial Group, Inc.

By:	/s/ Akira Takeda
Name:	Akira Takeda
Title:	Chief Manager, General Affairs Corporate Administration Division

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FINANCIAL REVIEW

Introduction

We, Mitsubishi UFJ Financial Group, Inc., or MUFG, are a holding company for The Bank of Tokyo-Mitsubishi UFJ, Ltd., or BTMU, Mitsubishi UFJ Trust and Banking Corporation, or MUTB, Mitsubishi UFJ 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., 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 individuals and corporate customers.

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

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, or MUAH. Union Bank, N.A., which is MUAH s principal subsidiary, was also renamed MUFG Union Bank, N.A., or MUB, effective the same day. Throughout this Report, the new corporate names, MUAH and MUB are used in place of UNBC and Union Bank, respectively.

Summary of Our Recent Financial Results

We reported net income attributable to Mitsubishi UFJ Financial Group of ¥838.3 billion for the six months ended September 30, 2014, an increase of ¥455.0 billion from ¥383.3 billion for the six months ended September 30, 2013. Our diluted earnings per common share (earnings applicable to common shareholders of Mitsubishi UFJ Financial Group) for the six months ended September 30, 2014 was ¥58.35, an increase of ¥32.25 from ¥26.10 for the six months ended September 30, 2013. Income before income tax expense for the six months ended September 30, 2014 was ¥1,274.0 billion, an increase of ¥743.6 billion from ¥530.4 billion for the six months ended September 30, 2013. Our business and results of operations, as well as our assets and liabilities, are heavily influenced by trends in economic conditions particularly in Japan, which slowed down with negative gross domestic product, or GDP, growth during the six months ended September 30, 2014, after the increase in the consumption tax rate in April 2014. Interest rates remained low under the Bank of Japan s monetary policy during the six months ended September 30, 2014, while the Japanese stock market improved during the latter half of the six-month period, as the Japanese yen depreciated against the U.S. dollar as economic conditions continued to gradually improve and interest rates rose in the United States. Our results of operations for the six months ended September 30, 2014 were also affected by declining interest rates in Europe in anticipation of further monetary easing by the European Central Bank, or ECB, which caused the value of euro-denominated bonds to significantly increase, resulting in higher net trading account profits, partially offset by a worsening of net foreign exchange losses attributable to the appreciation of the Japanese yen against the Euro.

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

	Six months ended September 30, 2013	2014
	(in billions, except per share data)	
Net interest income	¥ 966.4	¥ 1,101.4
Credit for credit losses	60.2	68.1
Non-interest income	693.5	1,432.8
Non-interest expense	1,189.7	1,328.3
Income before income tax expense	530.4	1,274.0
Net income before attribution of noncontrolling interests	431.0	864.0
Net income attributable to Mitsubishi UFJ Financial Group	383.3	838.3
Diluted earnings per common share earnings applicable to common shareholders of Mitsubishi UFJ Financial Group	26.10	58.35

Our net income attributable to Mitsubishi UFJ Financial Group mainly reflects 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 six months ended September 30, 2014 was ¥1,101.4 billion, an increase of ¥135.0 billion from ¥966.4 billion for the six months ended September 30, 2013. The increase in net interest income was primarily attributable to an increase in interest income reflecting larger volumes of domestic and foreign loans, partially offset by a smaller increase in interest expense mainly reflecting increased volumes of domestic and foreign interest-bearing deposits. The average interest rate spread increased 0.03 percentage points to 0.93% for the six months ended September 30, 2014 from 0.90% for the six months ended September 30, 2013. The average interest rate on foreign interest-earning assets increased 0.28 percentage points, mainly reflecting higher interest rates on foreign loans, trading account assets and investment securities. The average interest rate on foreign interest-bearing liabilities increased 0.10 percentage points, mainly reflecting higher short-term interest rates in the U.S. market primarily as a result of the tapering of the quantitative monetary easing program by the Federal Reserve Board, or FRB. However, the average interest rate spread on domestic activities declined since the average interest rate on interest-earning assets declined as interest rates continued to decline in Japan and competition further intensified in the domestic loan market, while the average interest rate on interest-bearing liabilities remained at near-zero levels.

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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 six months ended September 30, 2013 and 2014:

	Six months ended September 30,			
	2013		2014	
	Average balance	Average rate (Annualized)	Average balance	Average rate (Annualized)
	(in billions, except percentages)			
Interest-earning assets:				
Domestic	¥ 133,873.2	0.90%	¥ 142,428.9	0.82%
Foreign	72,980.3	1.73	84,150.0	2.01
Total	¥ 206,853.5	1.19%	¥ 226,578.9	1.26%
Financed by:				
Interest-bearing liabilities:				
Domestic	¥ 139,238.0	0.18%	¥ 146,635.7	0.17%
Foreign	45,064.0	0.64	54,943.5	0.74
Total	184,302.0	0.29	201,579.2	0.33
Non-interest-bearing liabilities	22,551.5		24,999.7	
Total	¥ 206,853.5	0.26%	¥ 226,578.9	0.29%
Interest rate spread		0.90%		0.93%
Net interest income as a percentage of total interest-earning assets		0.93%		0.97%

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 reduce the allowance for credit losses to an appropriate level. For the six months ended September 30, 2014, we recorded credit for credit losses of ¥68.1 billion, compared to credit for credit losses of ¥60.2 billion for the same period of 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 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,

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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 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 other financial instruments, and

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

Of the two categories, trading purpose activities represent a larger portion of our trading account profits for the six months ended September 30, 2014,

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

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

gains (losses) on sales of loans net, which include net gains (losses) on sales of loans which in many cases are non-performing loans, and

other non-interest income.

The following table is a summary of our non-interest income for the six months ended September 30, 2013 and 2014:

	Six months ended September 30, 2013	2014
	(in billions)	
Fees and commissions income	¥ 639.4	¥ 672.1
Foreign exchange losses net	(35.7)	(43.0)
Trading account profits (losses) net	(192.1)	562.5
Investment securities gains net	130.0	63.2
Equity in earnings of equity method investees net	87.2	121.5
Other non-interest income	64.7	56.5
Total non-interest income	¥ 693.5	¥ 1,432.8

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Fees and commissions income for the six months ended September 30, 2014 was ¥672.1 billion, an increase of ¥32.7 billion mainly due to advisory fees received for a large-scale structured finance project and higher fees charged for domestic retail banking transactions conducted through channels operated by third-party business partners, and larger volumes of insurance products sold by our banking subsidiaries as agent for insurance companies. The increase also reflected higher fees and commissions relating to our credit card business mainly attributable to the positive impact of the consolidation of Bank of Ayudhya Public Company Limited, or Krungsri, while fees and commissions on our securities business decreased mainly due to lower transaction volumes.

Net foreign exchange losses for the six months ended September 30, 2014 were ¥43.0 billion, compared to ¥35.7 billion for the six months ended September 30, 2013. Our banking subsidiaries recorded larger losses on currency swap contracts and paid higher currency option premiums. In addition, while the Japanese yen depreciated against the U.S. dollar, the appreciation of the Japanese yen against the Euro and other currencies caused a decline in the Japanese yen values of securities denominated in Euro or such other currencies under the fair value option. These losses were partially offset by the positive effect of the stronger Japanese yen on the transaction losses on the translation into Japanese yen of monetary liabilities denominated in Euro or such other currencies.

Net trading account profits for the six months ended September 30, 2014 were ¥562.5 billion, compared to ¥192.1 billion of net trading account losses for the six months ended September 30, 2013. This improvement was mainly due to an improvement of ¥630.7 billion in net profits on trading account securities, excluding derivatives, resulting from an increase in the value of foreign debt securities under the fair value option, reflecting the general decrease in interest rates in the Eurozone, including Germany and France, in anticipation of further monetary easing by the ECB, and also due to an improvement of ¥123.9 billion of net profits on derivative contracts reflecting an increase in net profits from a net receive position in interest rate swaps, taking advantage of lower interest rates in Japan.

Net investment securities gains for the six months ended September 30, 2014 were ¥63.2 billion, compared to ¥130.0 billion for the six months ended September 30, 2013. This was mainly due to decreases in net gains on sales of available-for-sale marketable equity securities and debt securities reflecting reduced volumes of sales transactions in exchange traded funds, or ETFs, and Japanese government bonds, compared to those for the six months ended September 30, 2013, when we decreased our holdings of these securities as part of our asset and liability management and interest rate risk management strategies.

Net equity in earnings of equity method investees for the six months ended September 30, 2014 was ¥121.5 billion, compared to ¥87.2 billion for the same period of the previous fiscal year, reflecting an increase of ¥37.2 billion in equity in earnings of Morgan Stanley.

Non-interest expense. Non-interest expense consists of:

- salaries and employee benefits, which include the amount of money paid as salaries and bonuses as well as the cost of fringe-benefits,
- occupancy expenses net, which include the amount of money paid as rents for offices and other facilities,
- fees and commissions expenses, which include the amount of money paid as fees and commissions on services received,
- outsourcing expenses, including data processing, which include the amount of money paid for the outsourcing services, including IT-related services,

depreciation of premise and equipment, which includes the depreciation of the value of buildings, equipment and furniture through the passage of time,

amortization of intangible assets, which includes the amount of deductions of the cost of investments in software and other intangible assets over their estimated useful lives,

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impairment of intangible assets, which includes the amount of reductions in the carrying amounts of intangible assets with indefinite useful lives in excess of their fair values,

insurance premiums, including deposits insurance, which include the amount of money paid as the insurance premiums including the deposit insurance premiums paid to the Deposit Insurance Corporation of Japan,

communications, which include the amount of money paid for communications such as postal services and telecommunications,

taxes and public charges, which include the amount of tax payments and other public charges,

provision for repayment of excess interest, which includes the amount of money reserved for the estimated amount of repayment of excess interest payments received in our consumer finance and credit card subsidiaries,

impairment of goodwill, which includes the amount of reductions in the carrying amount of goodwill recorded in connection with the acquisition of companies in excess of its fair value, and

other non-interest expenses.

The following table is a summary of our non-interest expense for the six months ended September 30, 2013 and 2014:

	Six months ended September 30, 2013	2014
	(in billions)	
Salaries and employee benefits	¥ 496.8	¥ 534.9
Occupancy expenses net	78.6	82.6
Fees and commission expenses	111.4	118.5
Outsourcing expenses, including data processing	105.1	121.6
Depreciation of premises and equipment	49.4	54.5
Amortization of intangible assets	99.6	107.3
Impairment of intangible assets	0.1	0.1
Insurance premiums, including deposit insurance	50.4	57.2
Communications	24.9	26.7
Taxes and public charges	34.5	47.6
Other non-interest expenses	138.9	177.3
Total non-interest expense	¥ 1,189.7	¥ 1,328.3

Non-interest expense for the six months ended September 30, 2014 was ¥1,328.3 billion, an increase of ¥138.6 billion from ¥1,189.7 billion for the six months ended September 30, 2013. This increase was mainly attributable to an increase in salaries and employee benefits as well as an increase in other non-interest expenses, reflecting $315 million, or ¥34.5 billion, of provision for a liability recorded in anticipation of a monetary payment to the New York Department of Financial Services, or DFS, which payment was made in November 2014. See Recent Developments.

Core Business Areas

We operate our main businesses under an integrated business group system, and we treat each integrated business group as a business segment. Under this system, the operations of BTMU, MUTB, MUMSS (through MUSHD), Mitsubishi UFJ NICOS and other subsidiaries are integrated into the following five integrated business groups Retail, Corporate, Trust Assets, Global, and Global Markets. In addition to these five integrated business groups, Krungsri, our banking subsidiary in Thailand, is treated as a business segment. Operations that are not covered under the integrated business group system and Krungsri, as well as the elimination of duplicated amounts of net revenues among business segments, are classified under Other.

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Our business segment information is based on financial information prepared in accordance with accounting principles generally accepted in Japan, or Japanese GAAP, as adjusted in accordance with internal management accounting rules and practices, except for Krungsri for which the business segment information is based on financial information prepared in accordance with Thai Financial Reporting Standards. Accordingly, the format and information are not consistent with our unaudited condensed consolidated financial statements included elsewhere in this Report, which have been prepared in accordance with U.S. GAAP. For a reconciliation of operating profit under our internal management reporting system to income before income tax expense shown on the unaudited condensed consolidated statements of income, see Note 17 to our unaudited condensed consolidated financial statements included elsewhere in this Report.

The following table sets forth the relative contributions to operating profit for the six months ended September 30, 2014 of the five integrated business groups, Krungsri 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			Krungsri	Integrated Global Markets Business Group	Other	Total
				Other than MUAH	MUAH	Total				
	(in billions)									
Net revenue	¥ 636.7	¥ 462.6	¥ 81.7	¥ 303.6	¥ 184.9	¥ 488.5	¥ 98.9	¥ 319.9	¥ 0.1	¥ 2,088.4
Operating expenses	478.6	220.5	49.0	168.7	123.4	292.1	51.6	92.3	117.3	1,301.4
Operating profit (loss)	¥ 158.1	¥ 242.1	¥ 32.7	¥ 134.9	¥ 61.5	¥ 196.4	¥ 47.3	¥ 227.6	¥ (117.2)	¥ 787.0

Summary of Our Recent Financial Condition

The following table presents some key asset figures:

	March 31, 2014	September 30, 2014
	(in trillions)	
Total assets	¥ 253.66	¥ 260.01
Net loans	109.18	110.25
Loans, net of unearned income, unamortized premiums and deferred loan fees	110.28	111.19
Allowance for credit losses	(1.10)	(0.94)
Investment securities	55.33	55.37
Available-for-sale securities	51.89	51.17
Held-to-maturity securities	2.71	3.46
Trading account assets	40.65	39.14
Trading securities	28.84	25.68
Trading derivative assets	11.81	13.46
Interest-earning deposits in other banks	20.50	28.53

Total assets as of September 30, 2014 were ¥260.01 trillion, an increase of ¥6.35 trillion from ¥253.66 trillion as of March 31, 2014.

Total loans outstanding as of September 30, 2014 were ¥111.19 trillion, an increase of ¥0.91 trillion from ¥110.28 trillion as of March 31, 2014. The average total balance of loans increased ¥9.80 trillion to ¥110.28 trillion for the six months ended September 30, 2014 from ¥100.48 trillion for the same period of the previous fiscal year. Before unearned income, net unamortized premiums and net deferred loan fees, our loan balance as of September 30, 2014 consisted of ¥69.25 trillion of domestic loans and ¥42.19 trillion of foreign loans. Between March 31, 2014 and September 30, 2014, domestic loans decreased ¥1.28 trillion, while foreign

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loans increased ¥2.18 trillion. The decrease in domestic loans was primarily due to decreases in our loans outstanding to central government institutions. The increase in foreign loans was mainly due to an increase in demand for loans in the United States and Asia as well as the appreciation of the relevant foreign currencies against the Japanese yen.

The total allowance for credit losses as of September 30, 2014 was ¥940.9 billion, compared to ¥1,094.4 billion as of March 31, 2014. This was primarily due to a decrease in allowance for credit losses provided for loans individually evaluated for impairment in Japan, which reflected the upgrading of the internal borrower ratings of some large borrowers whose financial condition and prospects improved, as well as collections and sales of some of our impaired loans. The total allowance for credit losses represented 0.85% of our total loan portfolio as of September 30, 2014, a decrease of 0.14 percentage points from 0.99% as of March 31, 2014.

Total investment securities increased to ¥55.37 trillion as of September 30, 2014 from ¥55.33 trillion as of March 31, 2014, primarily due to an increase of ¥0.75 trillion in held-to-maturity securities, partially offset by a decrease of ¥0.72 trillion in available-for-sale securities. The increase in held-to-maturity securities mainly resulted from purchases of Japanese government bonds. The decrease in available-for-sale securities was mainly due to sales of Japanese government bonds, partially offset by an increase in the fair value of marketable equity securities.

Trading account assets as of September 30, 2014 were ¥39.14 trillion, a decrease of ¥1.51 trillion from ¥40.65 trillion as of March 31, 2014. This decrease reflected a decrease of ¥3.16 trillion in trading securities, particularly Japanese government bonds and U.S. dollar-denominated bonds, offset in part by an increase of ¥1.65 trillion in trading derivative assets, particularly interest rate swaps.

Interest-earning deposits in other banks as of September 30, 2014 were ¥28.53 trillion, an increase of ¥8.03 trillion from ¥20.50 trillion as of March 31, 2014 mainly due to increased interest-earning deposits with the Bank of Japan by our banking subsidiaries.

The following table presents some key liability figures:

	March 31, 2014	September 30, 2014
	(in trillions)	
Total liabilities	¥ 240.91	¥ 246.50
Total deposits	162.52	163.64
Domestic	121.51	122.15
Overseas	41.01	41.49
Short-term borrowings	42.06	41.02
Trading account liabilities	11.98	14.19
Long-term debts	14.50	17.95

Total liabilities as of September 30, 2014 were ¥246.50 trillion, an increase of ¥5.59 trillion from ¥240.91 trillion as of March 31, 2014.

Total deposits as of September 30, 2014 were ¥163.64 trillion, an increase of ¥1.12 trillion from ¥162.52 trillion as of March 31, 2014. Of the ¥1.12 trillion increase, ¥0.64 trillion was attributable to our domestic offices, and ¥0.48 trillion to our foreign offices.

Trading account liabilities as of September 30, 2014 were ¥14.19 trillion, an increase of ¥2.21 trillion from ¥11.98 trillion as of March 31, 2014. The increase was mainly due to an increase in the negative fair value of currency swaps.

Short-term borrowings decreased ¥1.04 trillion to ¥41.02 trillion as of September 30, 2014 from ¥42.06 trillion as of March 31, 2014, mainly due to a decrease in payables under repurchase agreements, partially offset by an increase in payables under securities lending transactions.

Long-term debts as of September 30, 2014 were ¥17.95 trillion, an increase of ¥3.45 trillion from ¥14.50 trillion as of March 31, 2014, primarily due to an increase in borrowings from the Bank of Japan and an increase in bond issuances.

Shareholders Equity

The following table presents some key shareholders equity figures:

	March 31, 2014	September 30, 2014
	(in trillions)	
Shareholders equity	¥ 12.21	¥ 12.97
Capital Surplus	6.36	5.97
Retained earnings	2.40	3.10
Net unrealized gains on investment securities, net of tax	1.27	1.70

Shareholders equity as of September 30, 2014 was ¥12.97 trillion, an increase of ¥0.76 trillion from ¥12.21 trillion as of March 31, 2014.

Capital surplus as of September 30, 2014 was ¥5.97 trillion, a decrease of ¥0.39 trillion from ¥6.36 trillion as of March 31, 2014. This decrease was mainly due to the acquisition of the outstanding shares of preferred stock. See Recent Developments.

Retained earnings as of September 30, 2014 were ¥3.10 trillion, an increase of ¥0.70 trillion from ¥2.40 trillion as of March 31, 2014, reflecting the net income of our banking and securities subsidiaries for the six months ended September 30, 2014. We raised our semi-annual interim dividend to ¥9.0 per share of common stock for the six months ended September 30, 2014, and also plan to pay a year-end dividend of ¥9.0 per share of common stock for the six months ending March 31, 2015.

Net unrealized gains on investment securities, net of tax, as of September 30, 2014 were ¥1.70 trillion, an increase of ¥0.43 trillion from ¥1.27 trillion as of March 31, 2014, mainly due to favorable price movements in the equity market in Japan.

Capital Ratio

The following tables present our risk-adjusted capital ratio in accordance with Basel III as of March 31, 2014 and September 30, 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 Japanese Financial Service Agency, or FSA. The figures in the tables below are rounded down.

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

	March 31, 2014	September 30, 2014
MUFG (consolidated)	11.25%	10.97%
BTMU (consolidated)	11.05	10.72
BTMU (stand-alone)	11.88	11.57
MUTB (consolidated)	14.21	14.98
MUTB (stand-alone)	13.72	14.29

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

	March 31, 2014	September 30, 2014
MUFG (consolidated)	12.45%	12.21%
BTMU (consolidated)	12.21	11.95
BTMU (stand-alone)	13.74	13.30
MUTB (consolidated)	14.76	15.54
MUTB (stand-alone)	14.37	14.95

Total Capital (minimum capital ratios required: 8.00%)

	March 31, 2014	September 30, 2014
MUFG (consolidated)	15.53%	15.39%
BTMU (consolidated)	15.57	15.41
BTMU (stand-alone)	17.52	17.12
MUTB (consolidated)	18.38	19.72
MUTB (stand-alone)	18.51	19.61

As of September 30, 2014, our management believed that we were in compliance with all capital adequacy requirements to which we were subject.

Business Environment

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.

Economic Environment in Japan

During the six months ended September 30, 2014, Japan s economic recovery slowed with negative GDP growth. Private spending declined after the Abe administration increased the consumption tax rate from 5% to 8% in April 2014 and consumer prices rose. Long-term interest rates were under downward pressure while short-term interest rates remained at near zero levels during the six-month period. The stock market s upward trend weakened for most of the six-month period but regained momentum in September 2014 as the Japanese yen depreciated against the U.S. dollar while appreciating against the Euro. There remains significant uncertainty surrounding the future of the Japanese economy despite the economic stimulus measures implemented by the Japanese government and the Bank of Japan, including the decision made in November 2014 to postpone the effective date of the additional increase in the consumption tax rate from 8% to 10% from October 2015 to April 2017.

In October 2014, the Bank of Japan further expanded its anti-deflation monetary measures under the quantitative and qualitative monetary easing policy, which included:

money market operations with an aim to increase Japan s monetary base by approximately ¥80 trillion per annum (representing an addition of about ¥10 trillion to ¥20 trillion to the previous target),

market purchases of Japanese government bonds with an aim to increase the Bank of Japan s aggregate holding of such bonds by approximately ¥80 trillion per annum (representing an addition

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of about ¥30 trillion to the previous target) and shifting the target average remaining maturity of the bonds purchased by the Bank of Japan to approximately seven to ten years (representing an increase of about three years from the previous target), and

purchases of ETFs and Japanese real estate investment trusts with an aim to increase the Bank of Japan s aggregate holdings of such funds and trusts by about ¥3 trillion per annum (representing an increase of three times the previous target) and ¥90 billion per annum (representing an increase of three times the previous target), respectively.

As the Bank of Japan continued to supply cash to the market through its purchase of Japanese government bonds, interest rates remained low and the Japanese yen depreciated against the U.S. dollar, contributing to increases in stock prices and real estate purchases.

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

	Calendar Year											(Unit: %)
	2011	2012				2013				2014		
	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q
Gross Domestic Product	0.1	1.1	(0.4)	(0.5)	(0.2)	1.5	0.7	0.4	(0.4)	1.4	(1.7)	(0.5)
Private Consumption	0.5	0.6	0.7	(0.4)	0.1	1.3	0.8	0.3	(0.1)	2.2	(5.1)	0.4
Private Residential Investment	(2.5)	(2.1)	4.7	2.5	0.9	1.0	2.2	4.3	2.2	2.3	(10.0)	(6.8)
Private Non-Residential Investment	8.0	(3.0)	0.7	(1.2)	(0.6)	(0.9)	2.5	0.5	1.0	6.2	(4.7)	(0.4)
Government Consumption	0.3	1.2	(0.4)	0.4	0.7	0.8	0.6	(0.1)	0.1	(0.3)	0.3	0.3
Public Investment	(4.8)	9.5	(1.3)	(3.3)	(0.1)	4.6	3.1	5.1	1.6	(2.7)	0.9	1.4
Exports	(3.1)	2.8	(0.5)	(4.0)	(3.2)	4.2	3.0	(0.6)	0.2	6.4	(0.5)	1.3
Imports	1.7	2.0	1.8	(0.7)	(2.0)	1.0	2.3	1.7	3.7	6.2	(5.4)	0.7

Source: Cabinet Office, Government of Japan

Japan s GDP recorded a negative growth of 1.7% in the quarter ended June 30, 2014, reflecting weaker private spending and investments after the increase in the consumption tax rate in April 2014. Additional factors, including unexpectedly long periods of heavy rains particularly in the western regions of Japan, negatively impacted Japan s economic growth in the quarter ended September 30, 2014. Private investments were adversely affected particularly in the electronics and communications device manufacturing industry and the financial and insurance industry during the quarter ended June 30, 2014, and the automobile and electronics and communications device manufacturing industries during the quarter ended September 30, 2014. On the other hand, during the two quarters ended September 30, 2014, government consumption grew mainly due to larger social welfare expenditures, including spending for medical and nursing care services, and public investment also increased under the supplemental budget passed in February 2014. Both exports and imports decreased in the quarter ended June 30, 2014, particularly in the electronics and communications device industry, and grew in the quarter ended September 30, 2014.

In December 2014, following the general election, the Abe administration introduced a supplemental budget of ¥3.5 trillion aiming to revitalize the Japanese economy by focusing on the following four areas: support of households and companies, stimulation of regional economies in Japan, recovery from natural disasters including the 2011 East Japan Earthquake, and measures to recreate a stable and virtuous cycle of activities within the Japanese economy.

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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										
	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.
Consumer Price Index	1.1	1.5	1.6	1.4	1.5	1.6	3.4	3.7	3.6	3.4	3.3	3.2	2.9	2.4

Source: Ministry of Internal Affairs and Communications of Japan

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

	Calendar Year											(Unit: %)
	2011	2012				2013				2014		
	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q
Unemployment Rate	4.3	4.5	4.6	4.3	4.0	4.3	4.2	4.0	3.7	3.7	3.7	3.6

Source: Ministry of Internal Affairs and Communications of Japan

Japan s nationwide unemployment rate was 3.5% for each of October and November 2014.

The Bank of Japan has sought to keep short-term interest rates low by maintaining its quantitative and qualitative monetary easing policy in recent periods. Long-term interest rates remained under downward pressure in recent periods with some fluctuations during the six months ended September 30, 2014 due to such factors as the economic conditions of the United States, Eurozone countries and China, including interest rate fluctuations, geopolitical issues in Ukraine, the Middle East, Scotland, Hong Kong and Africa, and the slowdown of Japan s economic growth.

The following chart shows the interest rate trends in Japan since April 2013:

Source: Bank of Japan

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The closing price of the Nikkei Stock Average, which is the average of 225 blue chip stocks listed on the Tokyo Stock Exchange, was generally on an upward trend during the six months ended September 30, 2014, with the average fluctuating between approximately ¥14,000 and ¥15,500 from April 2014 to August 2014 and increasing to an intra-day high of ¥16,374.14 on September 25, 2014 as the Japanese yen depreciated against the U.S. dollar. The Nikkei Stock Average remained on a rising trend for the rest of the calendar year 2014 while the Japanese yen remained weak against the U.S. dollar as the Bank of Japan expanded its anti-deflation monetary measures and the Abe administration postponed the additional increase in the consumption tax rate. The trend reversed in early January 2015 when lower oil prices and geopolitical events in Europe turned investors away from riskier financial products. The Tokyo Stock Price Index, generally referred to as TOPIX, a composite index of all stocks listed on the First Section of the Tokyo Stock Exchange, has followed similar trends since April 2014.

The following chart shows the daily closing price of the Nikkei Stock Average since April 2013:

The Japanese yen remained around ¥102 to the U.S. dollar from April 2014 to mid-August 2014. The Japanese yen depreciated against the U.S. dollar for the remainder of the six months ended September 30, 2014, as the market expectation for further monetary easing by the Bank of Japan increased. Following a slight appreciation of the Japanese yen against the U.S. dollar in early October 2014, the Japanese yen depreciated further, reaching an intra-day high of ¥121.85 to the U.S. dollar on December 8, 2014, after the announcement of strong U.S. GDP statistics together with the FRB s decision to end the quantitative easing program and the announcement of the Bank of Japan s additional anti-deflation monetary measures. The trend reversed in early January 2015 when the Japanese yen appreciated against other major currencies as oil prices declined and concerns over geopolitical events in Europe grew.

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The following chart shows the foreign exchange rates expressed in Japanese yen per U.S. dollar since April 2013:

Source: Bank of Japan

The Japanese yen was on an appreciating trend against the Euro for most of the six months ended September 30, 2014. The Japanese yen was above ¥142 to the Euro at the beginning of the six-month period and reached an intraday-low of ¥135.73 to the Euro on August 8, 2014, as economic conditions in the Eurozone, including Germany, weakened due to such factors as the European Union s decision to reduce exports to Russia, heightening the expectation for the ECB to implement additional monetary easing measures. The Japanese yen depreciated against the Euro in November and December 2014 to nearly ¥150 to the Euro as the Japanese yen was sold against other major currencies following the Bank of Japan s announcement of the additional anti-deflation measures in October 2014. The trend reversed in early January 2015.

According to a land price survey conducted by the Japanese government, the average residential land price in Japan declined 1.2% between July 1, 2013 and July 1, 2014. The average commercial land price in Japan also declined 1.1% during the same period. In the three major metropolitan areas of Tokyo, Osaka and Nagoya, the average residential land price increased 0.5% between July 1, 2013 and July 1, 2014, while the average commercial land price in those areas increased 1.7% 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 1.8% between July 1, 2013 and July 1, 2014, and the average commercial land price also declined 2.2% during the same period.

According to Teikoku Databank, a Japanese research institution, the number of companies that filed for legal bankruptcies in Japan from April 2014 to September 2014 was 4,750, a decrease of 10.7% from the same period of the previous year. The decrease was mainly due to the positive effects of the increase in public works projects as part of the Japanese government s economic stimulus measures and the temporary increase in private investments before the increase in the consumption tax rate in April 2014. Higher exports also contributed to the decrease in the number of bankruptcies in the manufacturing and wholesale sectors. The number of companies that filed for legal bankruptcy with debt exceeding ¥10 billion in Japan in the six months ended September 30, 2014 was five, and the number has since remained low. As a percentage of the total number of legal bankruptcy filings made in the six months ended September 30, 2014, the number of such filings made by businesses that are

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either unincorporated or capitalized at less than ¥10 million was 57.9%, which was comparable to recent periods. The aggregate amount of liabilities subject to bankruptcy filings, excluding financial institutions bankruptcy filings, from April 2014 to September 2014 was approximately ¥0.91 trillion, a decrease of ¥0.84 trillion, or 47.9%, compared to the same period of the previous year.

International Financial Markets

During the six months ended September 30, 2014, the U.S. economy demonstrated signs of continued recovery with improved labor and income statistics and increased private consumption. The Eurozone economy generally remained stagnant during the same period with continuing economic difficulties in some European peripheral countries, high levels of bad loans held by banks and growing geopolitical concerns. The Asian economy experienced moderate growth with increased exports to developed countries and strong domestic demand, which were partially offset by the negative impact of the shift in China s economic policy from focusing on rapid growth to achieving sustainable growth.

U.S. Economy

The U.S. economy demonstrated signs of continued improvement during the six months ended September 30 2014, with positive GDP growth mainly driven by stronger personal consumption, which reflected higher stock prices. The FRB has ended its quantitative easing program but maintained its zero-interest rate policy.

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

	Calendar Year											(Unit: %)
	2011	2012				2013				2014		
	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q
Gross Domestic Product	4.6	2.3	1.6	2.5	0.1	2.7	1.8	4.5	3.5	(2.1)	4.6	5.0
Personal Consumption Expenditures	1.4	2.8	1.3	1.9	1.9	3.6	1.8	2.0	3.7	1.2	2.5	3.2
Gross Private Domestic Investment	32.1	6.9	5.8	1.6	(5.3)	7.6	6.9	16.8	3.8	(6.9)	19.1	7.2
Fixed Investment	9.9	9.1	4.4	3.1	6.6	2.7	4.9	6.6	6.3	0.2	9.5	7.7
Non-residential	9.5	5.8	4.4	0.8	3.6	1.5	1.6	5.5	10.4	1.6	9.7	8.9
Residential	11.7	25.5	4.3	14.1	20.4	7.8	19.0	11.2	(8.5)	(5.3)	8.8	3.2
Government Consumption Expenditures and Gross Investment	(1.6)	(2.7)	(0.4)	2.7	(6.0)	(3.9)	0.2	0.2	(3.8)	(0.8)	1.7	4.4
Exports	4.1	1.3	4.8	2.1	1.5	(0.8)	6.3	5.1	10.0	(9.2)	11.1	4.5
Imports	4.5	1.7	4.0	(0.6)	(3.5)	(0.3)	8.5	0.6	1.3	2.2	11.3	(0.9)

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

The Consumer Price Index for All Urban Consumers, or CPI-U, increased 1.7% before seasonal adjustment over the 12 months ended September 30, 2014. CPI-U on a seasonally adjusted month-on-month basis showed almost no change in October 2014, and decreased 0.3% in November 2014.

Stock prices in the United States were on a generally improving trend during the six months ended September 30, 2014, with the Dow Jones Industrial Average increasing from around U.S.$16,500 in April 2014 to above U.S.$17,000 in September 2014. Following a decline in October 2014 to an intra-day low of U.S.$15,855.12, the Dow Jones Industrial Average rose further to a historic intra-day high of U.S.$18,103.45 on December 26, 2014. The trend reversed in early January 2015 as oil prices declined and concerns over geopolitical events in Europe grew.

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Interest rates on U.S. Treasury bonds decreased during the six months ended September 30, 2014, despite the tapering of the monetary easing policy. The yield on 10-year U.S. Treasury bonds decreased about 23 basis points from 2.7180% on March 31, 2014 to 2.4888% on September 30, 2014, influenced in part by lower commodity prices and heightened global geopolitical concerns. This downward pressure continued in early January 2015 with the yield temporarily declining to below 1.9%, as oil prices declined and concerns over geopolitical events in Europe grew.

Housing prices showed some signs of improvement during the six months ended September 30, 2014. As of September 30, 2014, the Federal Housing Finance Agency s U.S. house price index exhibited a thirteenth consecutive quarterly price increase in the purchase-only, seasonally adjusted index. This also marked the eleventh consecutive quarter where the house price index showed an increase compared to the same quarter of the previous year. The increase in prices, while slight, was mostly due to the modestly improving labor market conditions and low interest rates.

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

	Calendar Year														(Unit: %)
	2013			2014											
	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
Unemployment Rate	7.2	7.0	6.7	6.6	6.7	6.6	6.2	6.3	6.1	6.2	6.1	5.9	5.7	5.8	5.6

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

Eurozone Economy

The Eurozone s economic growth remained weak during the six months ended September 30, 2014, with low GDP growth rates. The following table sets forth the growth rates of the Eurozone real GDP and its main expenditure components on a quarter-on-quarter basis for the period indicated:

	Calendar Year											(Unit: %)
	2011	2012				2013				2014		
	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q
Gross Domestic Product	(0.3)	(0.1)	(0.3)	(0.1)	(0.4)	(0.4)	0.3	0.2	0.2	0.3	0.1	0.2
Private Final Consumption	(0.5)	(0.3)	(0.5)	(0.2)	(0.5)	(0.2)	0.1	0.1	0.1	0.2	0.3	0.5
Gross Fixed Capital Formation	(0.4)	(1.1)	(1.1)	(1.0)	(0.4)	(2.3)	0.7	0.6	0.7	0.3	(0.6)	(0.2)
Government Final Consumption	0.2	(0.1)	(0.1)	(0.2)	0.1	0.0	0.1	0.2	0.3	0.1	0.3	0.3
Exports	(0.1)	1.3	0.6	0.9	(0.9)	0.3	1.8	0.7	0.8	0.4	1.4	0.8
Imports	(1.2)	0.5	(0.5)	0.0	(0.8)	0.0	1.4	1.6	0.2	0.4	1.3	1.2

Source: European Central Bank Eurosystem

The ECB has maintained a low interest rate policy. In July 2013, the ECB introduced forward guidance, indicating that short-term interest rates would remain low for an extended period. In June 2014, the ECB took steps to expand monetary easing by introducing a deposit facility interest rate of negative 0.10%. In September 2014, the Governing Council of the ECB cut the key policy interest rates by 10 basis points each, reducing the interest rate on the deposit facility from negative 0.10% to negative 0.20%, the interest rate on the main refinancing operation of the Euro system from 0.15% to 0.05%, and the interest rate on the marginal lending facility from 0.40% to 0.30%. These measures are designed to counter the appreciation of the Euro against other currencies and also to increase the volume of loans especially to small and medium-sized enterprises in the European peripheral countries. In addition, the ECB also began purchasing non-financial private assets through asset-backed securities, or ABSs, in order to reactivate the ABS market in the Eurozone and encourage European financial institutions to increase lending, which is currently substantially restricted due to leverage ratio regulations.

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Long-term interest rates in the Eurozone, including German Bunds and French Obligations Assimilables du Trésor, or OATs, were generally on decreasing trends during the six months ended September 30, 2014. The yield on 10-year German Bunds decreased approximately 62 basis points from 1.566% on March 31, 2014 to 0.947% on September 30, 2014. The yield further decreased to below 0.45% in early January 2015. Similarly, the yield on 10 year French OATs decreased approximately 80 basis points from 2.084% on March 31, 2014 to 1.285% on September 30, 2014. The yield further decreased to below 0.75% in early January 2015. The decreases in the yields of these sovereign bonds were mainly due to heightened market expectation for the ECB to commence to purchase government bonds as a means to supply cash to the market.

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

	Calendar Year													(Unit: %)
		2013							2014					
	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.
Unemployment Rate	11.9	11.9	11.8	11.8	11.8	11.7	11.6	11.6	11.5	11.6	11.5	11.5	11.5	11.6

Source: European Central Bank Eurosystem

Recent Developments

During the six months ended September 30, 2014, we continued to pursue global growth opportunities, including opportunities to strengthen our business in Southeast Asia and the operations of MUB in the United States. We plan to continue to selectively review and consider growth opportunities that will enhance our global competitiveness. We will monitor regulatory developments and pursue prudent transactions that will create a strong capital structure to enable us to contribute to the real economy, both domestically and globally, as a provider of a stable source of funds and high quality financial services. In order to respond to the increasingly complex market and legal risks, we continue to endeavor to enhance our compliance and internal control frameworks.

Integration of Bank of Ayudhya and BTMU Bangkok Branch

On January 5, 2015, BTMU integrated its Bangkok Branch with Krungsri through a contribution in kind of the BTMU Bangkok Branch business to Krungsri. In exchange for the contribution in kind, Krungsri issued 1,281,618,026 common shares to BTMU, which increased BTMU s ownership interest in Krungsri to 76.88%. Previously, in December 2013, BTMU acquired a 72.01% ownership interest in Krungsri. The integration was completed pursuant to a Conditional Branch Purchase Agreement that BTMU and Krungsri entered into in September 2013 to comply with the Thai regulatory requirement generally referred to as the one presence policy, which limits financial conglomerates to a single licensed deposit taking entity in Thailand.

Integration of BTMU s Operations in the Americas with UNBC s Operations

Effective July 1, 2014, we integrated BTMU s operations in the Americas region with the operations of UNBC which is a wholly owned subsidiary of BTMU, and changed UNBC s corporate name to MUAH. Union Bank, which is MUAH s principal subsidiary and our primary operating subsidiary in the United States, was also renamed MUB, effective the same day. MUAH currently oversees BTMU s operations in the Americas region as well as the operations of MUB.

In February 2014, the FRB approved a final rule establishing enhanced prudential standards for foreign banking organizations, or FBOs, and large U.S. bank holding companies, or BHCs, as required under the Dodd-Frank Wall Street Reform and Consumer Protection Act. The final rule requires FBOs, including us, to align their key U.S. operations to the same standards as those applicable to large BHCs, including stricter capital and

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liquidity standards and stress testing requirements as well as the requirement to create a risk management framework. The final rule also requires an FBO to establish an intermediate holding company, or IHC, in the United States, whereby all of the FBO s U.S. non-branch entities will be managed as U.S. subsidiaries under the IHC. In addition, the final rule requires that the FBO s current BHC assets and 90% of the FBO s U.S. non-branch assets that are not within the scope of the BHC Act be transferred to the IHC by July 1, 2016, with any remaining assets to be transferred to the IHC by July 1, 2017. In December 2014, we submitted to the FRB an implementation plan outlining the steps we would take to comply with the final rule.

Planned Merger of Mitsubishi UFJ Asset Management and KOKUSAI Asset Management

In December 2014, we announced a plan to merge two asset management subsidiaries in Japan, Mitsubishi UFJ Asset Management Co., Ltd. and KOKUSAI Asset Management Co., Ltd., on July 1, 2015. Through the planned merger, we aim to strengthen our asset management business by combining the subsidiaries know-how to enhance our investment management capabilities and product and service offerings so as to flexibly respond to changes in customer needs and market conditions.

Recent Regulatory Developments in the United States

In November 2014, BTMU entered into a consent agreement with DFS to resolve issues relating to instructions given to PricewaterhouseCoopers LLP, or PwC, and the disclosures made to DFS in connection with BTMU s 2007 and 2008 voluntary investigation of BTMU s U.S. dollar clearing activity toward countries under U.S. economic sanctions. BTMU had hired PwC to conduct a historical transaction review report in connection with that investigation. Under the terms of the agreement with DFS, BTMU made a payment of $315 million to DFS, and agreed to take actions on persons involved in the matter at that time, relocate its U.S. BSA/AML and OFAC sanctions compliance programs to New York, and extend, if regarded as necessary by DFS, the period during which an independent consultant is responsible for assessing BTMU s internal controls regarding compliance with applicable laws and regulations related to U.S. economic sanctions. BTMU voluntarily submitted the report to DFS s predecessor agency in 2008. BTMU had reached an agreement with DFS in June 2013 regarding inappropriate operational processing of U.S. dollar clearing transactions with countries subject to OFAC sanctions during the period of 2002 to 2007. Under the terms of the June 2013 agreement, BTMU made a 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. In December 2012, BTMU agreed to make a payment of approximately $8.6 million to OFAC to settle potential civil liability for apparent violations of certain U.S. sanctions regulations from 2006 to 2007. BTMU continues to cooperate closely with all relevant regulators and is undertaking necessary actions.

Redemption of Preferred Securities Issued by Special Purpose Company

In November 2014, we decided to redeem, effective January 26, 2015, a total of ¥130.0 billion of Series C Japanese yen-denominated non-cumulative preferred securities issued by an overseas special purpose company in the Cayman Islands called MUFG Capital Finance 9 Limited. Under the transitional measures for Basel III, preferred securities that were previously reflected as part of Tier I capital under Basel II can be counted towards Tier 2 capital up to a prescribed amount. However, because the aggregate amount of such preferred securities outstanding after the redemption of Series C preferred securities exceeded the prescribed threshold amount, the redemption of Series C preferred securities did not affect our capital ratio under Basel III.

Implementation of a Share Repurchase Program

During November and December 2014, we repurchased 148,595,500 shares of our common stock for ¥99,999,965,771 under a share repurchase program that was adopted in November 2014 and completed in December 2014. Under the program, we were authorized by the Board of Directors to repurchase up to the lesser of an aggregate of 180,000,000 shares of our common stock and an aggregate of ¥100.0 billion between

November 17, 2014 and March 31, 2015. The purposes of the program were to enhance shareholder value, improve our capital efficiency and allow the implementation of flexible capital policies in response to changes in the business environment. Based on the Japanese GAAP information used to calculate our capital ratios as of September 30, 2014, we estimate that our capital ratios would be reduced by about one tenth of a percentage point as a result of the share repurchase implemented under the program.

Issuance of Basel III-Compliant Domestic Subordinated Bonds

In June 2014, we issued in Japan two tranches of Basel III-compliant Japanese yen-denominated subordinated bonds due 2024 in an aggregate principal amount of ¥50 billion. The terms and conditions of these bonds contain a clause that requires the bonds to be written off upon the occurrence of certain events, including when the Japanese banking regulator deems us to be at risk of becoming non-viable. The issuance of these bonds was our first issuance of Basel III-compliant subordinated bonds.

Acquisition of Outstanding Classes of Preferred Stock

In April 2014, we acquired all of the 156,000,000 outstanding shares of First Series of Class 5 Preferred Stock for ¥390.0 billion and cancelled all of the acquired shares. In addition, in August 2014, we acquired all of the 1,000 outstanding shares of Class 11 Preferred Stock in exchange for 1,245 shares of our common stock and cancelled all of the acquired shares. The cancellation of the acquired shares of Class 5 and Class 11 Preferred Stock resulted in a reduction in our capital surplus of ¥390,001 million. As a result, we currently have no outstanding shares of any class of preferred stock.

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Exposures to Selected European Countries

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

The following table sets forth information about our aggregate exposure to selected European countries of BTMU, MUTB and MUSHD, which were the subsidiaries holding the exposure, as of September 30, 2014. The information in the table is categorized by counterparties, consisting of sovereign, non-sovereign financial institutions and non-sovereign non-financial institutions, and by type of financial instruments, which include loans, securities, derivatives and credit default swap, or CDS, protection (sold and bought). The securities exposure includes available-for-sale, held-to-maturity and trading securities. The information included in the table below is based on information compiled for internal risk management purposes only, and not for financial accounting purposes. The exposures are determined based on the country in which the borrower s head office is located. However, in the case of a subsidiary located in a country different from that in which its parent company is located, the country exposure is determined based on the country in which the subsidiary is located.

	September 30, 2014 (in billions)						
	Loans (funded & unfunded)	Securities(1)	Derivatives(2)	CDS protection sold(3)	Gross exposure (funded & unfunded)	CDS protection bought(3)	Net exposure(4)
Italy	$ 5.1	$ 0.4	$ 1.1	$ 0.0	$ 6.6	$ 0.3	$ 6.3
Sovereign		0.1			0.1		0.1
Financial Institutions	0.0	0.1	0.0	0.0	0.1	0.0	0.1
Others	5.1	0.2	1.1	0.0	6.4	0.3	6.1
Spain	3.6	0.5	0.0	0.0	4.1	0.1	4.0
Sovereign		0.2			0.2		0.2
Financial Institutions	0.0	0.1	0.0	0.0	0.1	0.0	0.1
Others	3.6	0.2	0.0	0.0	3.8	0.1	3.7
Portugal	0.4	0.0	0.0		0.4	0.2	0.2
Sovereign							
Financial Institutions	0.0	0.0			0.0		0.0
Others	0.4		0.0		0.4	0.2	0.2
Ireland	0.2	0.0	0.0		0.2		0.2
Sovereign							
Financial Institutions		0.0	0.0		0.0		0.0
Others	0.2	0.0	0.0		0.2		0.2
Greece							
Sovereign							
Financial Institutions							
Others							
Total	$ 9.3	$ 0.9	$ 1.1	$ 0.0	$ 11.3	$ 0.6	$ 10.7
Sovereign		0.3			0.3		0.3
Financial Institutions	0.0	0.2	0.0	0.0	0.2	0.0	0.2
Others	9.3	0.4	1.1	0.0	10.8	0.6	10.2

Notes:

(1) Securities include held-to-maturity securities, available-for-sale securities, and trading securities. Held-to-maturity securities are shown at amortized cost, and available-for-sale securities and trading securities are shown at fair value.
(2) Derivatives amounts represent current exposures, taking into consideration legally enforceable master netting agreements.
(3) CDS protection amounts represent notional amounts.
(4) Net exposure represents gross exposure (funded & unfunded), net of CDS protection bought.

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(5) To the extent financial instruments are originally denominated in currencies other than U.S. dollars, the exposure amounts have been translated into U.S. dollars at an internal exchange rate used for our internal risk management purposes as of September 30, 2014.

Based on information collected for internal risk management purposes as of September 30, 2014, the consolidated exposure of BTMU, MUTB and MUSHD listed above to Italy, Spain, Portugal, Ireland and Greece, represented less than 1.0% of our total assets.

As of September 30, 2014, other than BTMU, MUFG group companies had limited exposures to those European countries, except such other group companies exposures to sovereign bonds issued by those countries as discussed below. As of the same date, BTMU held no sovereign bonds issued by those European countries.

As of September 30, 2014, we had a total balance of $0.3 billion of sovereign bonds of the European peripheral countries identified in the table above on a consolidated basis. Among these countries, we had no Portuguese, Irish or Greek government bonds as of September 30, 2014. All of our Italian and Spanish government bonds were held in our trading accounts as of September 30, 2014.

As of September 30, 2014, excluding sovereign bonds, we had a total of $10.4 billion of exposures relating to the European peripheral countries identified in the table above. These exposures mainly consisted of commercial loan exposures to corporations and structured finance transactions. Our exposures to Italy and Spain mainly related to the infrastructure sector, such as electricity, gas and telecommunications. Our loan-related exposures to financial institutions in those countries were limited and not material.

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

Critical Accounting Estimates

Our unaudited condensed consolidated financial statements included elsewhere in this Report are prepared in accordance with U.S. GAAP. Many of the accounting policies require management to make difficult, complex or subjective judgments regarding the valuation of assets and liabilities. The accounting policies are fundamental to understanding our operating and financial review and prospects. Critical accounting estimates include the allowance for credit losses, impairment of investment securities, the allowance for repayment of excess interest, the valuation of deferred tax assets, accruals for uncertain tax positions, the accounting for goodwill and intangible assets, accrued severance indemnities and pension liabilities, and the valuation of financial instruments. For a further discussion of our critical accounting estimates, see our annual report on Form 20-F for the fiscal year ended March 31, 2014.

Accounting Changes and Recently Issued Accounting Pronouncements

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

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Results of Operations

The following table sets forth a summary of our results of operations for the six months ended September 30, 2013 and 2014:

	Six months ended September 30, 2013	2014
	(in billions)	
Interest income	¥ 1,235.9	¥ 1,433.2
Interest expense	269.5	331.8
Net interest income	966.4	1,101.4
Credit for credit losses	60.2	68.1
Non-interest income	693.5	1,432.8
Non-interest expense	1,189.7	1,328.3
Income before income tax expense	530.4	1,274.0
Income tax expense	99.4	410.0
Net income before attribution of noncontrolling interests	¥ 431.0	¥ 864.0
Net income attributable to noncontrolling interests	47.7	25.7
Net income attributable to Mitsubishi UFJ Financial Group	¥ 383.3	¥ 838.3

Major components of our net income for the six months ended September 30, 2014 are discussed in further detail below.

Net Interest Income

The following table is a summary of the interest rate spread for the six months ended September 30, 2013 and 2014:

	Six months ended September 30, 2013		2014	
	Average balance	Average rate (Annualized)	Average balance	Average rate (Annualized)
	(in billions, except percentages)			
Interest-earning assets:				
Domestic	¥ 133,873.2	0.90%	¥142,428.9	0.82%
Foreign	72,980.3	1.73	84,150.0	2.01
Total	¥ 206,853.5	1.19%	¥226,578.9	1.26%
Financed by:				

Interest-bearing liabilities:				
Domestic	¥ 139,238.0	0.18%	¥146,635.7	0.17%
Foreign	45,064.0	0.64	54,943.5	0.74
Total	184,302.0	0.29	201,579.2	0.33
Non-interest-bearing liabilities	22,551.5		24,999.7	
Total	¥ 206,853.5	0.26%	¥226,578.9	0.29%
Interest rate spread		0.90%		0.93%
Net interest income as a percentage of total interest-earning assets		0.93%		0.97%

Net interest income for the six months ended September 30, 2014 was ¥1,101.4 billion, an increase of ¥135.0 billion from ¥966.4 billion for the six months ended September 30, 2013. Both interest income and interest expense increased, with the increase in interest income exceeding the increase in interest expense, mainly

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reflecting higher interest income from loans. The average interest rate spread (which is the average interest rate on interest-earning assets minus the average interest rate on interest-bearing liabilities) increased, reflecting improved interest rate spreads on foreign activities. In addition, the average balance of interest-earning assets increased by a larger margin than the average balance of interest-bearing liabilities, primarily reflecting larger volumes of interest-earning deposits in other banks and loans.

Interest income increased ¥197.3 billion to ¥1,433.2 billion for the six months ended September 30, 2014 from ¥1,235.9 billion for the same period of the previous fiscal year. This was mainly attributable to increased interest income from the loan business. The average interest rate on loans increased 0.14 percentage points, and the average loan balance increased ¥9.80 trillion. The higher average interest rate on loans was due to an increase of 0.43 percentage points in the average interest rate on foreign loans, reflecting higher long-term market interest rates in the United States as well as higher interest rates on loans in Asia, particularly China, as a result of streamlining the loan portfolios of our commercial banking subsidiaries and increases in market interest rates and in the onshore premium over the Chinese interest rate market. On the other hand, the average interest rate on domestic loans decreased 0.09 percentage points due to lower market interest rates and intensified competition in the loan market in Japan. The average foreign loan balance increased ¥8.38 trillion primarily due to increased lending to Chinese companies in Asia and non-Japanese companies in the United States, partially offset by decreases in lending to non-Japanese companies in Europe and the Middle East as the market competition intensified as a result of European banks recovering from the financial crisis and re-entering the market. The average domestic loan balance increased ¥1.42 trillion mainly as a result of our efforts to capture customers needs for capital and financing driven by corporate events such as mergers and acquisitions. Interest income on other interest-earning assets, including trading account assets and investment securities, also increased for the six months ended September 30, 2014, compared to the same period of the previous fiscal year. Between the same periods, while interest income on foreign activities increased ¥212.7 billion, interest income on activities in Japan decreased ¥15.5 billion.

Interest expense increased ¥62.3 billion to ¥331.8 billion for the six months ended September 30, 2014 from ¥269.5 billion for the same period of the previous fiscal year. The increase was mainly due to an increase in interest expense on interest-bearing deposits, reflecting higher average balance of and higher average interest rate on interest-bearing deposits. The average interest rate on foreign interest-bearing deposits increased 0.16 percentage points mainly due to higher short-term interest rates in the United States primarily as a result of the tapering of the quantitative monetary easing program by the FRB as well as the impact of the consolidation of Krungsri. The average balance of foreign interest-bearing deposits increased ¥6.15 trillion mainly in our banking subsidiaries. The average balance of domestic interest-bearing deposits increased ¥3.03 trillion mainly in our banking subsidiaries. The average interest rate on domestic interest-bearing deposits, however, decreased 0.003 percentage points as short-term interest rates were maintained at historic low levels in Japan, resulting in a slight decrease in interest expense on domestic interest-bearing deposits. Interest expense on other interest-bearing liabilities, including long-term debt, increased for the six months ended September 30, 2014, compared to the same period of the previous fiscal year. The increase in interest expense on long-term debt despite lower interest rates was mainly attributable to larger borrowings from the Bank of Japan in our banking subsidiaries and issuances of bonds by our banking and securities subsidiaries. Between the same periods, interest expense on foreign activities increased ¥60.0 billion, and interest expense on activities in Japan increased ¥2.3 billion.

The average interest rate spread increased 0.03 percentage points to 0.93% for the six months ended September 30, 2014 from 0.90% for the six months ended September 30, 2013. The average interest rate on interest-earning assets increased 0.07 percentage points, reflecting higher average interest rates on loans, investment securities and trading account assets. The average interest rate on interest-bearing liabilities increased 0.04 percentage points, reflecting the increase in the average interest rate on deposits, partially offset by the decrease in the average interest rate on long-term debt. While the average interest rate spread on foreign activities increased 0.18 percentage points, the average interest rate spread on domestic activities decreased 0.07 percentage points as interest rates on domestic interest-earning assets tended to decline more steeply than interest rates on domestic interest-bearing liabilities in the current near-zero interest rate environment.

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In Japan, the Bank of Japan sought to keep short-term interest rates low by maintaining its quantitative and qualitative monetary easing policy throughout the reporting period. As a result, the average interest rate on domestic interest-earning assets continued to decline, while the average interest rate on domestic interest-bearing liabilities remained at historic low levels. If the Bank of Japan continues to maintain its current short-term interest rate policy and other monetary easing policies, and the yields on long-term Japanese government bonds decline further, our interest rate spread on domestic activities will likely continue to be under severe pressure. Moreover, monetary easing policies adopted in foreign markets in the Americas, Europe, Asia and other regions have negatively affected our interest rate spread on foreign activities in recent periods. For further information on the Bank of Japan s monetary policy and recent interest rate fluctuations in Japan, see Business Environment Economic Environment in Japan.

The average balance of interest-earning assets for the six months ended September 30, 2014 was ¥226,578.9 billion, an increase of ¥19,725.4 billion from ¥206,853.5 billion for the six months ended September 30, 2013. The average balance of domestic interest-earning assets increased ¥8,555.7 billion mainly due to increases in interest-earning deposits in other banks, particularly the Bank of Japan, and the fair values of marketable equity securities as a result of general increases in domestic stock prices towards the end of the six months ended September 30, 2014. The increases in these assets were partially offset by a decrease in the balance of Japanese government bonds held as available-for-sale securities as a result of sales of such bonds to reduce the risk of a sudden and drastic increase in short-term interest rates. The average balance of foreign interest-earning assets increased ¥11,169.7 billion mainly due to the increased volume of loans as well as the appreciation of the relevant foreign currencies against the Japanese yen.

The average balance of interest-bearing liabilities for the six months ended September 30, 2014 was ¥201,579.2 billion, an increase of ¥17,277.2 billion from ¥184,302.0 billion for the six months ended September 30, 2013. The average balance of domestic interest-bearing liabilities increased ¥7,397.7 billion mainly due to increases in short-term market funding and long-term debt as part of our asset and liability management in light of continued low interest rates and a larger balance of loans, as well as an increase in deposits. The average balance of foreign interest-bearing liabilities increased ¥9,879.5 billion mainly due to increases in interest-bearing deposits in foreign branches and subsidiaries particularly in the United States and East Asia.

Provision (credit) for credit losses

Provision (credit) for credit losses is charged to operations to maintain the allowance for credit losses at a level deemed appropriate by management. For more information on our provision for credit losses and a description of the approach and methodology used to establish the allowance for credit losses, see Financial Condition Loan Portfolio.

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Non-Interest Income

The following table is a summary of our non-interest income for the six months ended September 30, 2013 and 2014:

	Six months ended September 30, 2013	Six months ended September 30, 2014
	(in billions)	
Fees and commissions income:		
Trust fees	¥ 52.6	¥ 52.6
Fees on funds transfer and service charges for collections	69.1	73.6
Fees and commissions on international business	33.2	32.3
Fees and commissions on credit card business	76.4	86.7
Service charges on deposits	10.0	11.4
Fees and commissions on securities business	117.8	98.3
Fees on real estate business	15.4	16.4
Insurance commissions	18.8	31.3
Fees and commissions on stock transfer agency services	25.7	24.9
Guarantee fees	27.1	26.3
Fees on investment funds business	75.4	79.9
Other fees and commissions	117.9	138.4
Total	639.4	672.1
Foreign exchange losses net	(35.7)	(43.0)
Trading account profits (losses) net:		
Net profits (losses) on derivative contracts	(62.1)	61.8
Net profits (losses) on trading account securities, excluding derivatives	(130.0)	500.7
Total	(192.1)	562.5
Investment securities gains net:		
Net gains on sales of available-for-sale securities:		
Debt securities	73.8	49.2
Marketable equity securities	48.2	8.0
Impairment losses on available-for-sale securities:		
Debt securities	(1.3)	(1.0)
Marketable equity securities	(0.2)	(0.4)
Other	9.5	7.4
Total	130.0	63.2
Equity in earnings of equity method investees net	87.2	121.5
Other non-interest income	64.7	56.5
Total non-interest income	¥ 693.5	¥ 1,432.8

Non-interest income for the six months ended September 30, 2014 was ¥1,432.8 billion, an increase of ¥739.3 billion from ¥693.5 billion for the six months ended September 30, 2013. This increase was mainly attributable to an increase of ¥754.6 billion in the trading account profits, which reflected an increase in the value of foreign debt securities accounted for under the fair value option. The increase in non-interest income was also attributable to fees received for a large-scale structured finance project and higher fees charged for domestic retail banking transactions conducted through channels operated by third-party business partners, both of which were included in other fees and commissions, as well as increases in insurance commissions and fees and commissions on credit card business. These increases were partially offset by a decrease in net gains on investment securities due to smaller gains on sales of available-for-sale marketable equity and debt securities, which reflected reduced volumes of sales transactions in ETFs and Japanese government bonds.

In December 2013, the final rules to implement Section 619 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, which is generally referred to as the Volcker Rule, were issued. The Volcker Rule is

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designed, among other things, to restrict banking entities trading in securities and derivatives for their own accounts, and may impact some of our proprietary trading activities in the United States. However, since the extraterritorial application of the Volcker Rule is limited so as to exclude proprietary trading activities conducted outside of the United States, we currently do not expect the effect to be material to us on a consolidated basis. We intend to continue to monitor developments relating to the Volcker Rule as further guidance and clarification on the interpretation and application of the final rules are expected from the regulators.

Fees and commissions income

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

Fees and commissions income for the six months ended September 30, 2014 was ¥672.1 billion, an increase of ¥32.7 billion from ¥639.4 billion for the six months ended September 30, 2013. This increase was primarily due to an increase of ¥20.5 billion in other fees and commissions, reflecting the advisory fees received for a large-scale structured finance project and higher fees charged for domestic retail banking transactions conducted through channels operated by third-party business partners. The increase in fees and commissions income was also attributable to higher insurance commissions reflecting larger volumes of insurance product sales through our banking subsidiaries and higher fees and commissions on credit card business reflecting the impact of the consolidation of Krungsri. These increases were partially offset by a decrease of ¥19.5 billion in fees and commissions on securities business mainly due to a decline in transaction volumes.

Net foreign exchange gains (losses)

The following table sets forth the details of our foreign exchange gains and losses for the six months ended September 30, 2013 and 2014:

	Six months ended September 30,	
	2013	**2014**
	(in billions)	
Foreign exchange losses net:		
Foreign exchange losses on derivative contracts	¥ (5.1)	¥ (190.2)
Foreign exchange losses on other than derivative contracts	(812.6)	(364.5)
Foreign exchange gains related to the fair value option	782.0	511.7
Total	¥ (35.7)	¥ (43.0)

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

Foreign exchange gains (losses) on derivative contracts are net gains (losses) primarily on currency derivative instruments entered into for trading purposes. For the details of derivative contracts, see Note 13 to our unaudited condensed consolidated financial statements included elsewhere in this Report. Foreign exchange gains (losses) on other than derivative contracts include foreign exchange trading gains (losses) as well as transaction gains (losses) on the translation into Japanese yen of monetary assets and liabilities denominated in foreign currencies. The transaction gains (losses) on the translation into Japanese yen fluctuate from period to period depending upon the spot rates at the end of each reporting period. In principle, all transaction gains (losses) on translation of monetary assets and liabilities denominated in foreign currencies are included in current earnings. Foreign exchange gains (losses) related to the fair value option include transaction gains (losses) on translation into Japanese yen of securities under the fair value option. For the details of the fair value option, see Note 18 to our unaudited condensed consolidated financial statements included elsewhere in this Report.

Net foreign exchange losses for the six months ended September 30, 2014 were ¥43.0 billion, compared to ¥35.7 billion for the six months ended September 30, 2013. The Japanese yen depreciated ¥4.05 against the U.S. dollar from ¥94.22 to the U.S. dollar on March 29, 2013 to ¥98.27 to the U.S. dollar on September 30, 2013, while the Japanese yen depreciated ¥6.42 against the U.S. dollar from ¥103.23 to the U.S. dollar on March 31, 2014 to ¥109.65 to the U.S. dollar on September 30, 2014. The Japanese yen depreciated ¥12.17 against the Euro from ¥120.76 to the Euro on March 29, 2013 to ¥132.93 to the Euro on September 30, 2013, while the Japanese yen appreciated ¥3.64 against the Euro from ¥142.13 to the Euro on March 31, 2014 to ¥138.49 to the Euro on September 30, 2014. The appreciation of the Japanese yen against the Euro and other currencies caused a decline in the Japanese yen values of Euro-denominated securities under the fair value option, more than offsetting the impact of the depreciation of the Japanese yen against the U.S. dollar and other currencies and resulting in a decrease in net foreign exchange gains related to the fair value option. The stronger Japanese yen also caused a decline in the transaction losses on the translation into Japanese yen of monetary liabilities denominated in Euros or such other currencies, and resulted in an improvement in net foreign exchange losses on other than derivative contracts. Increased losses on currency swaps and paid currency option premiums in our banking subsidiaries resulted in larger net foreign exchange losses on derivative contracts.

Net trading account profits (losses)

The following table sets forth details of our trading account profits and losses for the six months ended September 30, 2013 and 2014:

	Six months ended September 30, 2013	Six months ended September 30, 2014
	(in billions)	
Trading account profits (losses) net:		
Net profits (losses) on derivative contracts		
Interest rate contracts	¥ 33.7	¥ 170.5
Equity contracts	(94.0)	(82.3)
Commodity contracts	(3.7)	(0.0)
Credit derivatives	(0.2)	0.6
Other	2.1	(27.0)
Total	(62.1)	61.8
Net profits (losses) on trading account securities, excluding derivatives		
Trading account securities	119.1	223.8
Trading account securities under the fair value option	(249.1)	276.9

Total	(130.0)	500.7
Total	¥ (192.1)	¥ 562.5

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

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

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

Of the two categories, trading purpose activities represent a larger portion of our trading account profits for the six months ended September 30, 2014.

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

Net trading account profits (losses) consist of net profits (losses) on derivative contracts and net profits (losses) on trading account securities, excluding derivatives.

Net profits (losses) on derivative contracts are reported for net profits (losses) on derivative instruments which primarily relate to trading purpose activities and include:

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

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

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

- *Commodity contracts*: Commodity contracts are mainly utilized to meet customers demand for hedging the risks relating to their commodity transactions, and to diversify our portfolio.

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

Net profits (losses) on trading account securities, excluding derivatives, consist of net profits (losses) on trading account securities and net profits (losses) on trading account securities under the fair value option. Net profits (losses) on trading account securities primarily consist of gains and losses on trading and valuation of trading securities which relate to trading purpose activities. Net profits (losses) on investment securities held by certain consolidated VIEs are included in accordance with the applicable accounting rules. Net profits (losses) on securities under the fair value option are classified into trading accounts profits (losses) in accordance with certain accounting rules. For the details of the fair value option, see Note 18 to our unaudited condensed consolidated financial statements included elsewhere in this Report.

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Net trading account profits for the six months ended September 30, 2014 were ¥562.5 billion, compared to net losses of ¥192.1 billion for the six months ended September 30, 2013. This reflected the general increase in the value of European debt securities and increases in gains on marketable equity securities and interest rate contracts.

Net profits on derivative contracts were ¥61.8 billion for the six months ended September 30, 2014, compared to net losses of ¥62.1 billion for the same period of the previous fiscal year. This was primarily due to ¥170.5 billion of net profits on interest rate contracts, mainly interest rate swaps, resulting from a net receive position in interest rate swap contracts entered into by our commercial banking subsidiaries as part of their risk management activity, taking advantage of lower interest rates in Japan.

Net profits on trading account securities, excluding derivatives, were ¥500.7 billion for the six months ended September 30, 2014, compared to net losses of ¥130.0 billion for the same period of the previous fiscal year. This was mainly attributable to ¥276.9 billion of net profits on trading account securities under the fair value option for the six months ended September 30, 2014, compared to ¥249.1 billion of net losses for the same period of the previous fiscal year, resulting from an increase in the value of foreign debt securities at our banking subsidiaries, which reflected the general decrease in interest rates in European markets, including Germany and France, in anticipation of further monetary easing by the ECB. The improvement in net profits on trading account securities, excluding derivatives, was also due to a ¥104.7 billion increase in net profits on trading account securities, resulting from gains on trading of marketable equity securities in our commercial banking subsidiaries. The gains reflected favorable stock market movements towards the end of the six months ended September 30, 2014.

Net investment securities gains (losses)

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

Net investment securities gains of ¥63.2 billion were recorded for the six months ended September 30, 2014, compared to ¥130.0 billion for the same period of the previous fiscal year. This was primarily due to a decrease of ¥40.2 billion in net gains on sales of available-for-sale marketable equity securities and a decrease of ¥24.6 billion in net gains on sales of available-for-sale debt securities, reflecting reduced volumes of sales of the ETFs and Japanese government bonds, compared to those for the six months ended September 30, 2013, when we decreased our holdings of these securities as part of our asset and liability management and interest rate risk management strategies.

Net equity in earnings of equity method investees

Net equity in earnings of equity method investees for the six months ended September 30, 2014 was ¥121.5 billion, compared to ¥87.2 billion for the same period of the previous fiscal year. This increase reflected an increase of ¥37.2 billion in equity in earnings of Morgan Stanley as Morgan Stanley s earnings improved.

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Non-Interest Expense

The following table shows a summary of our non-interest expense for the six months ended September 30, 2013 and 2014:

	Six months ended September 30, 2013	2014
	(in billions)	
Salaries and employee benefits	¥ 496.8	¥ 534.9
Occupancy expenses net	78.6	82.6
Fees and commission expenses	111.4	118.5
Outsourcing expenses, including data processing	105.1	121.6
Depreciation of premises and equipment	49.4	54.5
Amortization of intangible assets	99.6	107.3
Impairment of intangible assets	0.1	0.1
Insurance premiums, including deposit insurance	50.4	57.2
Communications	24.9	26.7
Taxes and public charges	34.5	47.6
Other non-interest expenses	138.9	177.3
Total non-interest expense	¥ 1,189.7	¥ 1,328.3

Non-interest expense for the six months ended September 30, 2014 was ¥1,328.3 billion, an increase of ¥138.6 billion from ¥1,189.7 billion for the six months ended September 30, 2013. This increase was mainly attributable to increases in salaries and employee benefits and other non-interest expenses.

Salaries and employee benefits

Salaries and employee benefits for the six months ended September 30, 2014 were ¥534.9 billion, an increase of ¥38.1 billion from ¥496.8 billion for the six months ended September 30, 2013. This increase was mainly due to an increase in salaries of ¥23.6 billion as a result of the consolidation of Krungsri. Salaries also increased in our commercial banking subsidiaries foreign offices and subsidiaries mainly due to the depreciation of the Japanese yen against the U.S. dollar.

Other non-interest expenses

Other non-interest expenses for the six months ended September 30, 2014 were ¥177.3 billion, an increase of ¥38.4 billion from ¥138.9 billion for the same period of the previous fiscal year. This increase reflected $315 million, or ¥34.5 billion, of provision for a liability recorded in anticipation of a monetary payment to the DFS, which payment was made in November 2014. See Recent Developments.

Income Tax Expense

The following table shows a summary of our income tax expense for the six months ended September 30, 2013 and 2014:

	Six months ended September 30, 2013	2014
	(in billions, except percentages)	
Income before income tax expense	¥ 530.4	¥ 1,274.0
Income tax expense	99.4	410.0
Effective income tax rate	18.7%	32.2%
Combined normal effective statutory tax rate	38.0%	35.6%

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On November 30, 2011, the Japanese Diet enacted two tax-related laws Amendment to the 2011 Tax Reform and Special Measures to Secure the Financial Resources to Implement the Restoration from The Great East Japan Earthquake. The changes under the new laws include a limitation on the use of net operating loss carryforwards to 80% of taxable income, a two-year increase in the carryforward period of certain net operating loss carryforwards to a nine-year period, and an approximately 5% reduction in the effective statutory rate of corporate income tax from 40.6% to 35.6%. While the reduction in the effective statutory rate was effective for the fiscal year beginning on or after April 1, 2012, a temporary surtax levied on corporate income taxes to fund the earthquake recovery efforts caused the effective statutory rate of corporate income tax to be approximately 38.0% for the three year period between April 1, 2012 and March 31, 2015. However, on March 20, 2014, the Japanese Diet enacted the 2014 Tax Reform which terminated the temporary surtax levied on corporate income taxes one year earlier than the change in tax law on November 30, 2011. As a result, the effective statutory rate of corporate income tax for the fiscal year ending March 31, 2015 was set at approximately 35.6%.

For the six months ended September 30, 2014, the effective income tax rate was 32.2%, which was 3.4 percentage points lower than the combined normal effective statutory tax rate of 35.6%. This primarily reflected receipt of nontaxable dividends. Under Japanese tax law, a certain percentage of dividends received is regarded as nontaxable dividends and excluded from gross revenue in computing taxable income. This creates a permanent difference between our taxable income for Japanese tax purposes and our income before income tax expense reported under U.S. GAAP.

For the six months ended September 30, 2013, the effective income tax rate was 18.7%, which was 19.3 percentage points lower than the combined normal effective statutory tax rate of 38.0%. This primarily reflected a reduction in valuation allowance to the extent that it was more likely than not that the deferred tax assets would be realized mainly because certain subsidiaries were considered to remain profitable even in future periods, considering the current business environment.

Net Income Attributable to Noncontrolling Interests

We recorded net income attributable to noncontrolling interests of ¥25.7 billion for the six months ended September 30, 2014, compared to ¥47.7 billion for the six months ended September 30, 2013. This decrease was mainly due to a decrease in net income recorded at MUMSS, in which MUFG has a 60% economic interest, mainly resulting from a lower volume of brokerage activity as the equity market fluctuated less during the six months ended September 30, 2014, particularly the first half of the six-month period, compared to the same period of the previous fiscal year.

Business Segment Analysis

We measure the performance of each of our business segments primarily in terms of operating profit. Operating profit and other segment information in this Report are based on the financial information prepared in accordance with Japanese GAAP as adjusted in accordance with internal management accounting rules and practices, except for Krungsri for which the business segment information is based on financial information prepared in accordance with Thai Financial Reporting Standards. Accordingly, the format and information are not consistent with our unaudited condensed consolidated financial statements prepared on the basis of U.S. GAAP. For example, operating profit does not reflect items such as a part of the provision for credit losses (primarily equivalent to the formula allowance under U.S. GAAP), foreign exchange gains (losses) and investment securities gains (losses). For a reconciliation of operating profit under the internal management reporting system to income before income tax expense shown on the unaudited condensed consolidated statements of income, see Note 17 to our unaudited condensed consolidated financial statements included elsewhere in this Report. We do not use information on the segments total assets to allocate our resources and assess performance. Accordingly, business segment information on total assets is not presented.

We operate our main businesses under an integrated business group system, which integrates the operations of BTMU, MUTB, MUMSS (through MUSHD), Mitsubishi UFJ NICOS and other subsidiaries in the

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following five groups Retail, Corporate, Trust Assets, Global, and Global Markets. In addition to these five integrated business groups, Krungsri, our banking subsidiary in Thailand, is treated as a business segment. Operations that are not covered under the integrated business group system and Krungsri, as well as the elimination of duplicated amounts of net revenues among business segments, are classified under Other as further described below.

The following is a brief explanation of our business segments:

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

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

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

Integrated Global Business Group Covers businesses outside Japan, including commercial banking such as loans, deposits and cash management services, investment banking, retail banking, trust banking and securities businesses (with the retail banking and trust assets businesses being conducted through MUB), through a global network of more than 500 offices outside Japan to provide customers with financial products and services that meet their increasingly diverse and sophisticated financing needs. MUB is one of the largest commercial banks in California by both total assets and total deposits. MUB provides a wide range of financial services to consumers, small businesses, middle market companies and major corporations, primarily in California, Oregon and Washington but also nationally and internationally. MUB s parent company is MUAH, which is a bank holding company in the United States.

Krungsri Covers businesses conducted mainly in Thailand by Krungsri. Krungsri provides a comprehensive range of banking, consumer finance, investment, asset management, and other financial products and services to individual consumers, small and medium enterprises, and large corporations mainly in Thailand. In addition, Krungsri s consolidated subsidiaries include the major credit card issuer in Thailand as well as a major automobile financing service provider, an asset management company, and a microfinance service provider in Thailand. MUFG holds a 76.88% interest in Krungsri through BTMU. The amounts for this segment in the table below represent the respective amounts before taking into account the noncontrolling interest.

Integrated Global Markets Business Group Covers asset and liability management and strategic investments of BTMU and MUTB, and sales and trading of financial products of BTMU, MUTB and MUSHD.

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

Effective October 1, 2013 and April 1, 2014, in order to further streamline and integrate our managerial accounting methodologies on a group-wide basis, we made modifications to such methodologies, which mainly affected the Integrated Retail Banking Business Group and the Integrated Global Markets Business Group. These modifications had no impact on our total operating profit for the six months ended September 30, 2013, but affected net revenue and operating expense allocations among business segments. Prior period business segment information has been reclassified to enable comparisons between the relevant amounts for the six months ended September 30, 2013 and 2014, respectively.

Effective April 1, 2014, to be consistent with modifications we made to the designations internally assigned to certain businesses included in Global Markets, we began calling Global Markets the Integrated Global Markets Business Group for business segment information purposes. The modifications relate only to the titles assigned to the relevant businesses within the business segment and do not require any adjustments to the previously reported segment information pertaining to the business segment.

For further information, see Note 17 to our unaudited condensed consolidated financial statements included elsewhere in this Report.

The following table set forth our business segment information for the six months ended September 30, 2013 and 2014:

	Integrated Retail Banking Business Group	Integrated Corporate Banking Business Group	Integrated Trust Assets Business Group	Integrated Global Business Group			Krungsri	Integrated Global Markets Business Group	Other	Total
				Other than MUAH	MUAH	Total				
	(in billions)									
Six months ended September 30, 2013										
Net revenue	¥ 651.4	¥ 457.5	¥ 76.7	¥ 266.0	¥ 175.2	¥ 441.2	¥	¥ 284.0	¥ (8.6)	¥ 1,902.2
Operating expenses	477.6	217.0	44.7	147.7	124.5	272.2		82.8	85.6	1,179.9
Operating profit (loss)	¥ 173.8	¥ 240.5	¥ 32.0	¥ 118.3	¥ 50.7	¥ 169.0	¥	¥ 201.2	¥ (94.2)	¥ 722.3
Six months ended September 30, 2014										
Net revenue	¥ 636.7	¥ 462.6	¥ 81.7	¥ 303.6	¥ 184.9	¥ 488.5	¥ 98.9	¥ 319.9	¥ 0.1	¥ 2,088.4
Operating expenses	478.6	220.5	49.0	168.7	123.4	292.1	51.6	92.3	117.3	1,301.4
Operating profit (loss)	¥ 158.1	¥ 242.1	¥ 32.7	¥ 134.9	¥ 61.5	¥ 196.4	¥ 47.3	¥ 227.6	¥ (117.2)	¥ 787.0

Integrated Retail Banking Business Group

Net revenue of the Integrated Retail Banking Business Group decreased ¥14.7 billion to ¥636.7 billion for the six months ended September 30, 2014 from ¥651.4 billion for the six months ended September 30, 2013. Integrated Retail Banking Business Group net revenue mainly consists of domestic revenues from commercial banking operations, such as deposit and lending operations, and fees related to sales of investment products to retail customers, as well as fees received by subsidiaries within the Integrated Retail Banking Group. The decrease in net revenue was mainly due to decreases in fees and commissions related to sales of mutual funds, fixed income bonds and marketable equity securities, and lower revenues from the financial product brokerage business. Financial markets were less volatile during the six months ended September 30, 2014, particularly the first half of the six-month period, compared to the six months ended September 30, 2013, when we experienced stronger and more favorable market conditions. In addition, a weaker Japanese housing market after the increase in the consumption tax rate in April

2014 and tighter interest rate spreads in Japan also adversely affected income from the housing loan business.

Operating expenses of the Integrated Retail Banking Business Group increased ¥1.0 billion to ¥478.6 billion for the six months ended September 30, 2014 from ¥477.6 billion for the six months ended September 30, 2013.

As a result, operating profit of the Integrated Retail Banking Business Group decreased ¥15.7 billion to ¥158.1 billion for the six months ended September 30, 2014 from ¥173.8 billion for the six months ended September 30, 2013.

Integrated Corporate Banking Business Group

Net revenue of the Integrated Corporate Banking Business Group increased ¥5.1 billion to ¥462.6 billion for the six months ended September 30, 2014 from ¥457.5 billion for the six months ended September 30, 2013. Integrated Corporate Banking Business Group net revenue mainly consists of domestic revenues from corporate lending and other commercial banking operations, investment banking and trust banking businesses in relation to corporate clients, as well as fees received by subsidiaries within the Integrated Corporate Banking Business Group. The increase in net revenue was mainly due to increases in non-interest income from the solutions business, including M&A finance, sales of derivative products, and the real estate business in our banking subsidiaries. These increases were partially offset by a decrease in interest income due to tighter interest rate spreads particularly in Japan and a decrease in revenues of our securities subsidiaries due to a less active primary market and a weaker secondary market in the six months ended September 30, 2014, compared to the same period of the previous fiscal year.

Operating expenses of the Integrated Corporate Banking Business Group were ¥220.5 billion for the six months ended September 30, 2014, an increase of ¥3.5 billion from ¥217.0 billion for the six months ended September 30, 2013.

As a result, operating profit of the Integrated Corporate Banking Business Group increased ¥1.6 billion to ¥242.1 billion for the six months ended September 30, 2014 from ¥240.5 billion for the six months ended September 30, 2013.

Integrated Trust Assets Business Group

Net revenue of the Integrated Trust Assets Business Group increased ¥5.0 billion to ¥81.7 billion for the six months ended September 30, 2014 from ¥76.7 billion for the six months ended September 30, 2013. Integrated Trust Assets Business Group net revenue mainly consists of fees from asset management and administration services for products, such as pension trusts and mutual funds. The increase in net revenue was mainly due to increases in domestic pension assets and mutual fund assets under administration. The acquisition of Butterfield Fulcrum Group on September 30, 2013, which was subsequently renamed Mitsubishi UFJ Fund Services Holdings Limited, also contributed to the increase in net revenue. These increases were partially offset by a decrease in revenues from the mutual fund management business as the mutual fund assets under management, particularly some of our flagship mutual funds, decreased during the six months ended September 30, 2014.

Operating expenses of the Integrated Trust Assets Business Group increased ¥4.3 billion to ¥49.0 billion for the six months ended September 30, 2014 from ¥44.7 billion for the six months ended September 30, 2013.

As a result, operating profit of the Integrated Trust Assets Business Group increased ¥0.7 billion to ¥32.7 billion for the six months ended September 30, 2014 from ¥32.0 billion for the six months ended September 30, 2013.

Integrated Global Business Group

Net revenue of the Integrated Global Business Group increased ¥47.3 billion to ¥488.5 billion for the six months ended September 30, 2014 from ¥441.2 billion for the six months ended September 30, 2013. Net

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revenue of the Integrated Global Business Group mainly consists of commercial banking businesses outside of Japan, including loan, deposit and cash management, investment banking, retail banking, trust banking and securities businesses. The increase in net revenue was mainly due to increases in revenues from our banking subsidiaries operations in East Asia and our banking and securities subsidiaries operations in the United States. In East Asia, the loan business of our overseas affiliates in China improved, while, in the United States, MUAH s sales of loan assets increased and the primary market business of our securities subsidiaries also improved. These positive effects on net revenue were partially offset by lower revenues in other parts of Asia and Oceania as well as Europe, the Middle East and Africa due to intensified competition with other financial institutions, including European and U.S. banks with improving financial and operational performance, and also due to geopolitical events.

Operating expenses of the Integrated Global Business Group increased ¥19.9 billion to ¥292.1 billion for the six months ended September 30, 2014 from ¥272.2 billion for the six months ended September 30, 2013.

As a result, operating profit of the Integrated Global Business Group increased ¥27.4 billion to ¥196.4 billion for the six months ended September 30, 2014 from ¥169.0 billion for the six months ended September 30, 2013.

Krungsri

In December 2013, BTMU acquired a controlling interest in Krungsri. Accordingly, no business segment information was stated for the six months ended September 30, 2013 in the table above. For the six months ended September 30, 2014, net revenue of Krungsri was ¥98.9 billion.

Operating expenses of Krungsri was ¥51.6 billion for the six months ended September 30, 2014.

As a result, operating profit of Krungsri was ¥47.3 billion for the six months ended September 30, 2014.

Integrated Global Markets Business Group

Net revenue of the Integrated Global Markets Business Group increased ¥35.9 billion to ¥319.9 billion for the six months ended September 30, 2014 from ¥284.0 billion for the six months ended September 30, 2013, mainly due to an increase in revenue from our asset and liability management operations by our banking subsidiaries, primarily reflecting an increase in unrealized gains on their holdings of foreign government bonds, particularly German and French sovereign bonds. This was partially offset by a decrease in realized gains on sales of marketable equity securities and Japanese government bonds as we engaged in reduced volumes of sales transactions in such securities and bonds in the six months ended September 30, 2014 compared to the same period of the previous fiscal year.

Operating expenses of the Integrated Global Markets Business Group increased ¥9.5 billion to ¥92.3 billion for the six months ended September 30, 2014 from ¥82.8 billion for the six months ended September 30, 2013.

As a result, operating profit of the Integrated Global Markets Business Group increased ¥26.4 billion to ¥227.6 billion for the six months ended September 30, 2014 from ¥201.2 billion for the six months ended September 30, 2013.

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Financial Condition

Total Assets

Our total assets as of September 30, 2014 were ¥260.01 trillion, an increase of ¥6.35 trillion from ¥253.66 trillion as of March 31, 2014.

Loan Portfolio

The following table sets forth our loans outstanding, before deduction of allowance for credit losses, as of March 31, 2014 and September 30, 2014, based on the industry segment loan classifications as defined by the Bank of Japan for regulatory reporting purposes, which is not necessarily based on the use of proceeds:

	March 31, 2014	September 30, 2014
	(in billions)	
Domestic:		
Manufacturing	¥ 11,540.8	¥ 11,830.4
Construction	980.9	995.1
Real estate	10,989.6	10,829.9
Services	2,693.6	2,657.3
Wholesale and retail	8,475.1	8,258.3
Banks and other financial institutions(1)	3,985.1	4,177.5
Communication and information services	1,443.5	1,527.6
Other industries	13,496.7	12,226.9
Consumer	16,921.3	16,749.0
Total domestic	70,526.6	69,252.0
Foreign:		
Governments and official institutions	811.5	903.1
Banks and other financial institutions(1)	9,792.2	10,745.5
Commercial and industrial	24,533.8	25,546.0
Other	4,872.4	4,997.5
Total foreign	40,009.9	42,192.1
Unearned income, unamortized premium net and deferred loan fees net	(260.1)	(249.9)
Total(2)	¥ 110,276.4	¥ 111,194.2

Notes:

(1)

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

(2) The above table includes loans held for sale of ¥46.6 billion and ¥161.1 billion as of March 31, 2014 and September 30, 2014, respectively, which are carried at the lower of cost or estimated fair value.

Loans are our primary use of funds. As of September 30, 2014, our total loans were ¥111.19 trillion, representing an increase of ¥0.91 trillion from ¥110.28 trillion as of March 31, 2014. For the six months ended September 30, 2014, the average balance of loans was ¥110.28 trillion, accounting for 48.7% of the average total interest-earning assets, compared to ¥100.48 trillion, representing 48.6% of the average total interest-earning assets, for the same period of the previous fiscal year.

Before unearned income, net unamortized premiums and net deferred loan fees, our loan balance as of September 30, 2014 consisted of ¥69.25 trillion of domestic loans and ¥42.19 trillion of foreign loans, while the loan balance as of March 31, 2014 consisted of ¥70.53 trillion of domestic loans and ¥40.01 trillion of foreign loans. Between March 31, 2014 and September 30, 2014, domestic loans decreased ¥1.28 trillion and foreign loans increased ¥2.18 trillion.

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The decrease in domestic loans was mainly due to a ¥1.27 trillion decrease in our loans outstanding to the other industries, mainly reflecting repayments of loans of ¥1.01 trillion provided to central government institutions.

The higher balance of foreign loans mainly reflected increases of ¥1.01 trillion and ¥0.95 trillion in our loans outstanding to the commercial and industrial category and the banks and other financial institutions category, respectively, in the Americas, particularly in the United States, where economic conditions continued to improve at a moderate pace, as well as in Asia, where emerging economies continued to grow. The depreciation of the Japanese yen against the U.S. dollar also contributed to the increase in the balance of foreign loans.

Changes in the allowance for credit losses and provision (credit) for credit losses

The following table shows a summary of the changes in the allowance for credit losses by portfolio segment for the six months ended September 30, 2013 and 2014:

Six months ended September 30, 2013:	**Commercial**	**Residential**	**Card**	**MUAH**	**Total**
			(in billions)		
Allowance for credit losses:					
Balance at beginning of period	¥ 1,068.5	¥ 157.2	¥ 51.9	¥ 58.4	¥ 1,336.0
Provision (credit) for credit losses	(47.1)	(15.1)	4.2	(2.2)	(60.2)
Charge-offs	102.3	0.5	12.3	3.8	118.9
Recoveries	11.6	0.1	1.7	1.7	15.1
Net charge-offs	90.7	0.4	10.6	2.1	103.8
Others(1)	3.9	0.0		7.5	11.4
Balance at end of period	¥ 934.6	¥ 141.7	¥ 45.5	¥ 61.6	¥ 1,183.4

Six months ended September 30, 2014:	**Commercial**	**Residential**	**Card**	**MUAH**	**Krungsri(2)**	**Total**
			(in billions)			
Allowance for credit losses:						
Balance at beginning of period	¥ 876.9	¥ 116.9	¥ 40.6	¥ 60.0	¥	¥ 1,094.4
Provision (credit) for credit losses	(102.3)	(15.5)	1.6	(0.9)	49.0	(68.1)
Charge-offs	67.8	10.8	6.2	2.1	9.9	96.8
Recoveries	6.6	0.1	1.7	2.0		10.4
Net charge-offs	61.2	10.7	4.5	0.1	9.9	86.4
Others(1)	3.7			(2.3)	(0.4)	1.0
Balance at end of period	¥ 717.1	¥ 90.7	¥ 37.7	¥ 56.7	¥ 38.7	¥ 940.9

Notes:

(1) Others are principally comprised of gains or losses from foreign exchange translation.
(2) For the Krungsri segment, acquired loans were recorded at their fair values as of the acquisition date, and there have been no indications that allowance for credit loss is necessary for these loans for the fiscal year ended March 31, 2014. Therefore, for the balance at the beginning of the period for the six months

ended September 30, 2014, no allowance for credit losses was stated in the above table.

For the six months ended September 30, 2014, we recorded credit for credit losses of ¥68.1 billion, compared to credit for credit losses of ¥60.2 billion for the same period of the previous fiscal year. A credit for credit losses is recorded to reduce the allowance for credit losses to a level deemed appropriate by management. The increase in credit for credit losses was mainly attributable to an increase in the Commercial segment, partially offset by a provision for credit losses recorded in connection with the consolidation of Krungsri.

For the Commercial segment, ¥102.3 billion of credit for credit losses was recorded for the six months ended September 30, 2014, compared to ¥47.1 billion of credit for credit losses for the same period of the previous fiscal year. This mainly reflected the upgraded internal borrower ratings of a substantial portion of large borrowers in the segment, whose financial performance and prospects improved in light of a depreciating Japanese yen and rising stock prices, which also resulted in improvements in other factors, such as the probability of default, used to estimate the allowance for credit losses.

For the Residential segment, ¥15.5 billion of credit for credit losses was recorded for the six months ended September 30, 2014, compared to ¥15.1 billion of credit for credit losses for the same period of the previous fiscal year. This primarily reflected an overall improvement in the credit quality of the loan portfolio of the segment mainly due to the stable corporate environment contributing to higher income for our borrowers.

For the Card segment, ¥1.6 billion of provision for credit losses was recorded for the six months ended September 30, 2014, an improvement of ¥2.6 billion compared to the same period of the previous fiscal year. This primarily reflected an overall improvement in the credit quality of the loan portfolio of the segment, mainly due to our continued application of strict borrower screening originally implemented in June 2010 under regulatory reforms in the consumer finance industry as well as the stable corporate environment contributing to higher income for our borrowers.

For the MUAH segment, ¥0.9 billion of credit for credit losses was recorded for the six months ended September 30, 2014, compared to ¥2.2 billion of credit for credit losses for the same period of the previous fiscal year. This was because of a general improvement in the credit quality of MUAH s borrowers, reflecting continued improvements in U.S. economic conditions, including higher stock and real estate prices.

Charge-offs for the six months ended September 30, 2014 were ¥96.8 billion, a decrease of ¥22.1 billion from ¥118.9 billion for the six months ended September 30, 2013, due to a charge-off in the six months ended September 30, 2013 of a sizable portion of the loan outstanding to a large borrower in the domestic manufacturing category to assist the borrower in improving its financial performance and repayment ability. In addition, charge-offs increased in the Residential segment mainly due to our decision to sell some of our apartment loans.

The total allowance for credit losses as of September 30, 2014 was ¥940.9 billion, an improvement of ¥153.5 billion from ¥1,094.4 billion as of March 31, 2014, as we recorded a credit for credit losses of ¥68.1 billion while we had net charge-offs of ¥86.4 billion for the six months ended September 30, 2014. For further information on our allowance for credit losses, see Allowance for credit losses below.

Allowance policy

Our credit rating system is closely linked to the risk grading standards set by the Japanese regulatory authorities for asset evaluation and assessment, and is used as a basis for establishing the allowance for credit losses and charge-offs. The categorization is based on conditions that may affect the ability of borrowers to service their debt, such as current financial condition and results of operations, historical payment experience, credit documentation, other public information and current trends.

We account for our loans and allowance for loan losses in five portfolio segments Commercial, Residential, Card, MUAH and Krungsri.

For the Commercial, MUAH and Krungsri segments, our allowance for credit losses primarily consists of allocated allowances. The allocated allowances consist of (1) an allowance for loans individually evaluated for impairment, (2) an allowance for large groups of smaller-balance homogeneous loans, and (3) a formula allowance. The allocated allowance within the Commercial segment also includes an allowance for country risk

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

For more information on our credit and borrower ratings, see Item 11. Quantitative and Qualitative Disclosures about Credit, Market and Other Risk Credit Risk Management of our annual report on Form 20-F for the fiscal year ended March 31, 2014.

For more information on our methodologies used to estimate the allowance for each portfolio segment, see Summary of Significant Accounting Policies in Note 1 to our consolidated financial statements included in our annual report on Form 20-F for the fiscal year ended March 31, 2014.

Allowance for credit losses

Allowance for credit losses and recorded investment in loans by portfolio segment as of March 31, 2014 and September 30, 2014 are shown below:

As of March 31, 2014:	Commercial	Residential	Card	MUAH	Krungsri[2]	Total
			(in billions)			
Allowance for credit losses:						
Individually evaluated for impairment	¥ 640.5	¥ 69.6	¥ 29.2	¥ 4.1	¥	¥ 743.4
Collectively evaluated for impairment	209.1	45.4	11.3	55.8		321.6
Loans acquired with deteriorated credit quality	27.3	1.9	0.1	0.1		29.4
Total	¥ 876.9	¥ 116.9	¥ 40.6	¥ 60.0	¥	¥ 1,094.4
Loans:						
Individually evaluated for impairment	¥ 1,459.3	¥ 211.8	¥ 102.9	¥ 64.0	¥	¥ 1,838.0
Collectively evaluated for impairment	83,052.5	14,751.2	493.0	7,060.6	3,025.2	108,382.5
Loans acquired with deteriorated credit quality	75.7	15.3	12.7	115.0	50.7	269.4
Total[1]	¥ 84,587.5	¥ 14,978.3	¥ 608.6	¥ 7,239.6	¥ 3,075.9	¥ 110,489.9

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As of September 30, 2014:	Commercial	Residential	Card	MUAH	Krungsri	Total
			(in billions)			
Allowance for credit losses:						
Individually evaluated for impairment	¥ 508.4	¥ 55.1	¥ 27.3	¥ 6.4	¥ 3.6	¥ 600.8
Collectively evaluated for impairment	184.6	33.2	10.3	50.0	34.5	312.6
Loans acquired with deteriorated credit quality	24.1	2.4	0.1	0.3	0.6	27.5
Total	¥ 717.1	¥ 90.7	¥ 37.7	¥ 56.7	¥ 38.7	¥ 940.9
Loans:						
Individually evaluated for impairment	¥ 1,323.2	¥ 174.9	¥ 95.4	¥ 62.9	¥ 16.8	¥ 1,673.2
Collectively evaluated for impairment	84,360.6	14,319.1	472.6	7,223.0	3,027.3	109,402.6
Loans acquired with deteriorated credit quality	61.4	14.7	12.3	79.2	39.6	207.2
Total[1]	¥ 85,745.2	¥ 14,508.7	¥ 580.3	¥ 7,365.1	¥ 3,083.7	¥ 111,283.0

Notes:

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

(2) For the Krungsri segment, acquired loans were recorded at their fair values as of the acquisition date, and there have been no indications that allowance for credit loss is necessary for these loans for the fiscal year ended March 31, 2014. Therefore, as of March 31, 2014, no allowance for credit loss was stated in the above table.

The total allowance for credit losses as of September 30, 2014 was ¥940.9 billion, a decrease of ¥153.5 billion from ¥1,094.4 billion as of March 31, 2014. This was primarily attributable to a decrease of ¥142.6 billion in allowance for credit losses provided for loans individually evaluated for impairment, including a ¥132.1 billion decrease in the Commercial segment. The total allowance for the Commercial segment as of September 30, 2014 was ¥717.1 billion, a decrease of ¥159.8 billion from ¥876.9 billion as of March 31, 2014. This decrease was primarily due to a decrease in allowance for credit losses provided for loans individually evaluated for impairment in Japan, which reflected the upgrading of the internal borrower ratings of some large borrowers whose financial condition and prospects improved, as well as collections and sales of some of our impaired loans. The total allowance for the Residential segment as of September 30, 2014 was ¥90.7 billion, a decrease of ¥26.2 billion from ¥116.9 billion as of March 31, 2014, mainly due to the stable corporate environment contributing to higher income for our borrowers. The total allowance for the Card segment as of September 30, 2014 was ¥37.7 billion, a decrease of ¥2.9 billion from ¥40.6 billion as of March 31, 2014, primarily reflecting an overall improvement in the credit quality of the loan portfolio mainly due to our continued application of strict borrower screening originally implemented in June 2010 under regulatory reforms in the consumer finance industry as well as the stable corporate environment contributing to higher income for our borrowers. The total allowance for the MUAH segment as of September 30, 2014 was ¥56.7 billion, a decrease of ¥3.3 billion from ¥60.0 billion as of March 31, 2014, primarily attributable to a general improvement in the credit quality of the loan portfolio due to continued improvements in U.S. economic conditions.

The total allowance for credit losses represented 0.85% of our total loan portfolio as of September 30, 2014, a decrease of 0.14 percentage points from 0.99% as of March 31, 2014. By segment, the ratio of total allowance to the total loan balance as of September 30, 2014 was 0.84% in the Commercial segment, 0.63% in the Residential segment, 6.50% in the Card segment and 0.77% in the MUAH segment, representing a decrease of 0.20, 0.15, 0.18 and 0.06 percentage points in the Commercial, Residential, Card and MUAH segments, respectively, compared to the ratio as of March 31, 2014. The decreases in the Commercial, Residential, Card

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and MUAH segments reflected the decreases in allowance for credit losses. The ratio of total allowance to the total loan balance in the Krungsri segment as of September 30, 2014 was 1.25%.

Nonaccrual loans and troubled debt restructurings

We consider a loan to be a nonaccrual loan when substantial doubt exists as to the full and timely payment of interest on, or repayment of, the principal of the loan, which is a borrower condition that generally corresponds to borrowers in categories 13 and below in our internal rating system (which corresponds to Likely to become Bankrupt, Virtually Bankrupt and Bankrupt or de facto Bankrupt status under Japanese banking regulations). Substantially all nonaccrual loans are also impaired loans. Loans are also placed in nonaccrual status when principal or interest is contractually past due one month or more with respect to loans within all classes of the Commercial segment, three months or more with respect to loans within the Card, MUAH and Krungsri segments, and six months or more with respect to loans within the Residential segment.

We modify certain loans in conjunction with our loss-mitigation activities. Through these modifications, concessions are granted to a borrower who is experiencing financial difficulty, generally in order to minimize economic loss, to avoid foreclosure or repossession of collateral, and to ultimately maximize payments received from the borrower. The concessions granted vary by portfolio segment, by program, and by borrower-specific characteristics, and may include interest rate reductions, term extensions, payment deferrals, and partial principal forgiveness. Loan modifications that represent concessions made to borrowers who are experiencing financial difficulties are identified as troubled debt restructurings, or TDRs.

Generally, accruing loans that are modified in a TDR remain as accruing loans subsequent to the modification, and nonaccrual loans remain as nonaccrual. However, if a nonaccrual loan has been restructured as a TDR and the borrower is not delinquent under the restructured terms, and demonstrates that its financial condition has improved, we may reclassify the loan to accrual status. This determination is generally performed at least once a year through a detailed internal credit rating review process. Although we have not defined any minimum period to qualify for an upgrade, it is not common for a borrower to be able to demonstrate that its business problems have been resolved or can soon be resolved within a short period of time following a restructuring. If the borrower is upgraded to category 12 or higher in our internal rating system (which corresponds to Normal and Close Watch status under the Japanese banking regulations), a TDR would be reclassified to accrual status. Once a nonaccrual loan is deemed to be a TDR, we will continue to designate the loan as a TDR even if the loan is reclassified to accrual status.

A loan that has been modified into a TDR is considered to be impaired until it matures, is repaid, or is otherwise liquidated, regardless of whether the borrower performs under the modified terms. Because loans modified into TDRs are considered to be impaired, these loans are measured for impairment using our established asset-specific allowance methodology, which considers the expected default rates for the modified loans.

For more information on our credit and borrower ratings, see Item 11. Quantitative and Qualitative Disclosures about Credit, Market and Other Risk Credit Risk Management of our annual report on Form 20-F for the fiscal year ended March 31, 2014.

For more information on our TDRs, see Note 4 to our unaudited condensed consolidated financial statements included elsewhere in this Report.

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The following table shows information about the nonaccrual status of loans by class as of March 31, 2014 and September 30, 2014:

	March 31, 2014	September 30, 2014
	(in billions)	
Commercial		
Domestic	¥ 737.9	¥ 592.2
Manufacturing	167.8	147.6
Construction	30.1	24.0
Real estate	142.0	101.0
Services	72.1	59.1
Wholesale and retail	211.8	169.9
Banks and other financial institutions	7.2	5.8
Communication and information services	24.9	24.4
Other industries	36.0	20.5
Consumer	46.0	39.9
Foreign-excluding MUAH and Krungsri	82.6	55.4
Residential	111.2	98.3
Card	72.5	68.8
MUAH	46.6	52.0
Krungsri	26.0	44.4
Total(1)	¥ 1,076.8	¥ 911.1

Note:

(1) The above table does not include loans held for sale of nil and ¥3.2 billion as of March 31, 2014 and September 30, 2014, respectively, and loans acquired with deteriorated credit quality of ¥38.7 billion and ¥30.3 billion as of March 31, 2014 and September 30, 2014, respectively.

Total nonaccrual loans were ¥911.1 billion as of September 30, 2014, a decrease of ¥165.7 billion from ¥1,076.8 billion as of March 31, 2014. The decrease was mainly due to a ¥172.9 billion decrease in the Commercial segment, which included a ¥41.9 billion decrease in the domestic wholesale and retail category, a ¥41.0 billion decrease in the domestic real estate category, and a ¥27.2 billion decrease in the foreign excluding MUAH and Krungsri category. The decrease in the domestic wholesale and retail category was mainly due to a charge-off of loans to a large borrower. The decrease in the domestic real estate category primarily reflected the improved credit condition of a large borrower, which resulted in upgrading of the borrower s internal borrower rating, and the sale of loans outstanding to another large borrower. The decrease in the foreign excluding MUAH and Krungsri category mainly resulted from the repayment of a portion of the loan to a large borrower and forgiveness of the remaining loan balance. Nonaccrual loans in the Residential segment decreased ¥12.9 billion primarily due to the transfer from nonaccrual status to accrual status of loans to borrowers whose repayment ability improved. Nonaccrual loans in the Card segment decreased ¥3.7 billion mainly due to an overall improvement in the credit quality of the loan portfolio. Nonaccrual loans in the MUAH segment increased ¥5.4 billion mainly due to one large loan being placed on nonaccrual status in the six months ended September 30, 2014. Nonaccrual loans in the Krungsri segment increased ¥18.4 billion primarily because the credit quality of the consumer loan portfolio worsened as the economic growth slowed in Thailand.

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The following table shows information about outstanding recorded investment balances of TDRs by class as of March 31, 2014 and September 30, 2014:

	March 31, 2014	September 30, 2014
	(in billions)	
Commercial(1)		
Domestic	¥ 528.1	¥ 565.3
Manufacturing	257.0	281.7
Construction	13.7	15.8
Real estate	64.0	65.3
Services	57.5	58.7
Wholesale and retail	95.8	105.7
Banks and other financial institutions	1.2	1.1
Communication and information services	12.0	11.6
Other industries	10.5	10.6
Consumer	16.4	14.8
Foreign-excluding MUAH and Krungsri	114.3	112.0
Residential(1)	99.3	76.6
Card(2)	103.6	96.1
MUAH(2)	62.4	55.4
Krungsri (2)(3)		9.2
Total	¥ 907.7	¥ 914.6

Notes:

(1) TDRs for the Commercial and Residential segments include accruing loans with concessions granted, and do not include nonaccrual loans with concessions granted.
(2) TDRs for the Card, MUAH and Krungsri segments include accrual and nonaccrual loans. Included in the outstanding recorded investment balances as of March 31, 2014 and September 30, 2014 are nonaccrual TDRs as follows: ¥51.8 billion and ¥48.1 billion Card; ¥23.7 billion and ¥25.3 billion MUAH; and nil and ¥1.4 billion Krungsri, respectively.
(3) For the Krungsri segment, acquired loans were recorded at their fair values as of the acquisition date, and there have been no indications that allowance for credit loss is necessary for these loans for the fiscal year ended March 31, 2014. Therefore, as of March 31, 2014, no TDRs are stated in the above table.

Total TDRs were ¥914.6 billion as of September 30, 2014, an increase of ¥6.9 billion from ¥907.7 billion as of March 31, 2014. The increase in total TDRs was mainly due to a ¥34.9 billion increase in the Commercial segment, which included a ¥24.7 billion increase in the domestic manufacturing category and a ¥9.9 billion increase in the wholesale and retail category. The increase in the domestic manufacturing category was primarily due to the concession made to the loans outstanding to two large borrowers in the machinery and electronics equipment industries totaling ¥24.6 billion as their condition deteriorated. The increase in the domestic wholesale and retail category mainly resulted from concessions made to the loans outstanding to four large borrowers totaling ¥8.2 billion as their credit condition worsened. TDRs in the Residential segment decreased ¥22.7 billion primarily as a result of repayments mainly due to the stable corporate environment contributing to higher income for our borrowers. TDRs in the Card and MUAH segments decreased ¥7.5billion and ¥7.0 billion, respectively, mainly due to the repayments of loans classified as TDRs pursuant to their respective restructured terms.

In the above table, TDRs for the Commercial and Residential segments include accruing loans with concessions granted, and do not include nonaccrual loans with concessions granted, whereas TDRs for the Card, MUAH and Krungsri segments include accrual and nonaccrual loans.

The primary type of concessions we granted to loans in the Commercial and Residential segments during the six months ended September 30, 2014 was extensions of the stated maturity dates. During the same period, reductions in the stated rates were the primary type of concessions we granted to loans in the Card and Krungsri segments, and payment deferrals were the primary type of concessions we granted to loans in the MUAH segment.

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Impaired loans and impairment allowance

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

The following tables show information about impaired loans by class as of March 31, 2014 and September 30, 2014:

	As of March 31, 2014				
	Recorded Loan Balance				
	Requiring an Allowance for Credit Losses	Not Requiring an Allowance for Credit Losses(1)	Total(2)	Unpaid Principal Balance	Related Allowance for Credit Losses
	(in billions)				
Commercial					
Domestic	¥ 1,006.3	¥ 257.2	¥ 1,263.5	¥ 1,312.3	¥ 544.3
Manufacturing	368.9	55.0	423.9	431.7	181.4
Construction	30.5	13.3	43.8	45.3	18.7
Real estate	141.2	63.7	204.9	212.4	52.8
Services	102.0	27.3	129.3	139.3	54.5
Wholesale and retail	249.0	58.6	307.6	317.6	169.5
Banks and other financial institutions	8.3	0.1	8.4	8.4	7.0
Communication and information services	25.4	11.5	36.9	39.3	16.5
Other industries	36.8	9.6	46.4	47.9	26.9
Consumer	44.2	18.1	62.3	70.4	17.0
Foreign-excluding MUAH and Krungsri	193.3	2.4	195.7	195.9	96.2
Loans acquired with deteriorated credit quality	18.8	0.2	19.0	32.1	6.1
Residential	203.6	11.6	215.2	255.7	70.4
Card	102.9	0.7	103.6	115.8	29.2
MUAH	39.6	24.4	64.0	71.2	4.1
Krungsri(3)					
Total(4)	¥ 1,564.5	¥ 296.5	¥ 1,861.0	¥ 1,983.0	¥ 750.3

	As of September 30, 2014				
	Recorded Loan Balance				
	Requiring an Allowance for Credit Losses	Not Requiring an Allowance for Credit Losses(1)	Total(2)	Unpaid Principal Balance	Related Allowance for Credit Losses
	(in billions)				
Commercial					
Domestic	¥ 861.9	¥ 295.2	¥ 1,157.1	¥ 1,205.8	¥ 429.4
Manufacturing	325.7	103.4	429.1	438.9	149.7
Construction	27.0	12.8	39.8	41.1	14.5
Real estate	113.8	52.5	166.3	175.3	42.4
Services	90.6	27.0	117.6	124.5	42.7
Wholesale and retail	216.4	59.2	275.6	284.6	133.2
Banks and other financial institutions	6.4	0.5	6.9	7.3	5.3
Communication and information services	24.6	11.4	36.0	38.2	15.4
Other industries	22.4	8.7	31.1	32.5	13.7
Consumer	35.0	19.7	54.7	63.4	12.5
Foreign-excluding MUAH and Krungsri	163.8	2.3	166.1	166.2	79.0
Loans acquired with deteriorated credit quality	13.5		13.5	26.2	3.7
Residential	168.1	9.9	178.0	214.4	55.9
Card	95.4	0.7	96.1	108.6	27.3
MUAH	50.2	12.6	62.8	69.1	6.4
Krungsri	17.2	6.1	23.3	34.0	4.2
Total(4)	¥ 1,370.1	¥ 326.8	¥ 1,696.9	¥ 1,824.3	¥ 605.9

Notes:

(1) These loans do not require an allowance for credit losses because the fair values of the impaired loans equal or exceed the recorded investments in the loans.

(2) Included in impaired loans as of March 31, 2014 and September 30, 2014 are accrual TDRs as follows: ¥642.4 billion and ¥677.3 billion Commercial; ¥99.4 billion and ¥76.6 billion Residential; ¥51.8 billion and ¥48.0 billion Card; ¥38.7 billion and ¥30.1 billion MUAH; and nil and ¥6.1 billion Krungsri, respectively.

(3) As of March 31, 2014, for the Krungsri segment, acquired loans were recorded at their fair values as of the acquisition date, and there have been no indications that allowance for credit loss is necessary for these loans for the fiscal year ended March 31, 2014. Therefore, as of March 31, 2014, no impaired loans were stated in the above table.

(4) In addition to impaired loans presented in the above table, there were loans held for sale that were impaired of nil and ¥10.1 billion as of March 31, 2014 and September 30, 2014, respectively.

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The following table shows information regarding the average recorded loan balance and recognized interest income on impaired loans for the six months ended September 30, 2013 and 2014:

	Six months ended September 30, 2013		2014	
	Average Recorded Loan Balance	Recognized Interest Income	Average Recorded Loan Balance	Recognized Interest Income
	(in billions)			
Commercial				
Domestic	¥ 1,407.9	¥ 12.5	¥ 1,210.3	¥ 11.0
Manufacturing	433.9	3.7	426.5	3.7
Construction	49.8	0.5	41.8	0.4
Real estate	239.7	1.9	185.6	1.6
Services	146.3	1.5	123.5	1.3
Wholesale and retail	355.6	3.2	291.6	2.5
Banks and other financial institutions	11.9	0.1	7.6	0.1
Communication and information services	48.1	0.5	36.5	0.4
Other industries	51.2	0.5	38.7	0.4
Consumer	71.4	0.6	58.5	0.6
Foreign-excluding MUAH and Krungsri	189.4	1.5	181.2	1.5
Loans acquired with deteriorated credit quality	35.7	1.5	16.2	0.7
Residential	288.8	2.9	196.6	2.3
Card	118.9	2.8	99.9	2.2
MUAH	60.4	1.2	61.0	1.3
Krungsri			11.7	0.3
Total	¥ 2,101.1	¥ 22.4	¥ 1,776.9	¥ 19.3

Credit quality indicator

The following table sets forth credit quality indicators of loans by class as of March 31, 2014 and September 30, 2014:

As of March 31, 2014:	Normal	Close Watch	Likely to become Bankrupt or Legally/Virtually Bankrupt	Total(1)
	(in billions)			
Commercial				
Domestic	¥ 50,608.9	¥ 3,549.1	¥ 737.7	¥ 54,895.7
Manufacturing	10,032.9	1,329.4	167.8	11,530.1
Construction	786.6	163.3	30.1	980.0
Real estate	9,747.1	716.3	141.8	10,605.2
Services	2,279.4	328.1	72.1	2,679.6
Wholesale and retail	7,582.6	651.7	211.7	8,446.0
Banks and other financial institutions	3,959.3	18.5	7.2	3,985.0
Communication and information services	1,349.2	68.8	25.0	1,443.0
Other industries	13,274.0	182.7	36.1	13,492.8
Consumer	1,597.8	90.3	45.9	1,734.0

Foreign-excluding MUAH and Krungsri	28,399.2	1,132.1	84.8	29,616.1
Loans acquired with deteriorated credit quality	32.4	33.1	10.2	75.7
Total	¥ 79,040.5	¥ 4,714.3	¥ 832.7	¥ 84,587.5

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	Accrual	Nonaccrual (in billions)	Total[1]
Residential	¥ 14,864.9	¥ 113.4	¥ 14,978.3
Card	¥ 535.5	¥ 73.1	¥ 608.6

	Credit Quality Based on the Number of Delinquencies		Credit Quality Based on Internal Credit Ratings			
	Accrual	Nonaccrual	Pass	Special Mention (in billions)	Classified	Total[1][2]
MUAH	¥ 3,003.8	¥ 35.0	¥ 3,947.0	¥ 98.6	¥ 95.2	¥ 7,179.6

	Normal	Special Mention	Substandard or Doubtful or Doubtful of Loss (in billions)	Total[1]
Krungsri	¥ 2,923.1	¥ 101.2	¥ 51.6	¥ 3,075.9

As of September 30, 2014:	Normal	Close Watch	Likely to become Bankrupt or Legally/Virtually Bankrupt (in billions)	Total[1]
Commercial				
Domestic	¥50,384.4	¥3,017.9	¥ 592.4	¥ 53,994.7
Manufacturing	10,609.6	1,065.6	147.8	11,823.0
Construction	883.3	86.9	24.0	994.2
Real estate	9,821.4	685.8	100.9	10,608.1
Services	2,331.7	254.1	59.1	2,644.9
Wholesale and retail	7,454.3	610.8	169.9	8,235.0
Banks and other financial institutions	4,159.0	12.6	5.8	4,177.4
Communication and information services	1,443.8	59.0	24.4	1,527.2
Other industries	12,040.3	162.7	20.6	12,223.6
Consumer	1,641.0	80.4	39.9	1,761.3
Foreign-excluding MUAH and Krungsri	30,677.4	953.3	58.4	31,689.1
Loans acquired with deteriorated credit quality	24.5	29.3	7.6	61.4
Total	¥81,086.3	¥4,000.5	¥ 658.4	¥ 85,745.2

	Accrual	Nonaccrual (in billions)	Total[1]
Residential	¥ 14,408.5	¥ 100.2	¥ 14,508.7
Card	¥ 510.9	¥ 69.4	¥ 580.3

	Credit Quality Based on the Number of Delinquencies		Credit Quality Based on Internal Credit Ratings			
	Accrual	Nonaccrual	Pass	Special Mention (in billions)	Classified	Total[1][2]
MUAH	¥ 3,086.7	¥ 29.3	¥ 4,008.9	¥ 93.4	¥ 85.4	¥ 7,303.7

	Normal	Total[1]

		Special Mention	Substandard or Doubtful or Doubtful of Loss	
		(in billions)		
Krungsri	¥ 2,918.4	¥ 100.8	¥ 64.5	¥ 3,083.7

Notes:

(1) Total loans in the above table do not include loans held for sale.

(2) Total loans of MUAH do not include Federal Deposit Insurance Corporation, or FDIC covered loans and small business loans which are not individually rated totaling ¥60.0 billion and ¥61.4 billion as of March 31, 2014 and September 30, 2014, respectively. We will be reimbursed for a substantial portion of any future losses on FDIC covered loans under the terms of the FDIC loss share agreements.

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

The primary credit quality indicator for loans within all classes of the Commercial segment is the internal credit rating assigned to each borrower based on our internal borrower ratings of 1 through 15 with the rating of 1 assigned to a borrower with the highest quality of credit. When assigning a credit rating to a borrower, we evaluate the borrower s expected debt-service capability based on various information, including financial and operating information of the borrower as well as information on the industry in which the borrower operates, and the borrower s business profile, management and compliance system. In evaluating a borrower s debt-service capability, we also conduct an assessment of the level of earnings and an analysis of the borrower s net worth. Based on the internal borrower rating, loans within the Commercial segment are categorized as Normal (internal borrower ratings of 1 through 9), Close Watch (internal borrower ratings of 10 through 12), and Likely to become Bankrupt or Legally/Virtually Bankrupt (internal borrower ratings of 13 through 15).

Loans to borrowers categorized as Normal represent those that are not deemed to have collectibility issues. Loans to borrowers categorized as Close Watch represent those that require close monitoring as the borrower has begun to exhibit elements of potential concern with respect to its business performance and financial condition, the borrower has begun to exhibit elements of serious concern with respect to its business performance and financial condition, including business problems requiring long-term solutions, or the borrower s loans are TDRs or loans contractually past due 90 days or more for special reasons. Loans to borrowers categorized as Likely to become Bankrupt or Legally/Virtually Bankrupt represent those that have a higher probability of default than those categorized as Close Watch due to serious debt repayment problems with poor progress in achieving restructuring plans, the borrower being considered virtually bankrupt with no prospects for an improvement in business operations, or the borrower being legally bankrupt with no prospects for continued business operations because of non-payment, suspension of business, voluntary liquidation or filing for legal liquidation.

For more information on our credit and borrower ratings, see Item 11. Quantitative and Qualitative Disclosures about Credit, Market and Other Risk Credit Risk Management of our annual report on Form 20-F for the fiscal year ended March 31, 2014.

The accrual status is a primary credit quality indicator for loans within the Residential segment, the Card segment, and consumer loans within the MUAH segment. The accrual status of these loans is determined based on the number of delinquent payments.

Commercial loans within the MUAH segment are categorized as either pass or criticized based on the internal credit rating assigned to each borrower. Criticized credits are those that are internally risk graded as special mention, substandard or doubtful. Special mention credits are potentially weak, as the borrower has begun to exhibit deteriorating trends, which, if not corrected, may jeopardize repayment of the loan and result in further downgrade. Adversely classified credits are those that are internally risk graded as substandard or doubtful. Substandard credits have well-defined weaknesses, which, if not corrected, could jeopardize the full satisfaction of the debt. A credit classified as doubtful has critical weaknesses that make full collection improbable on the basis of currently existing facts and conditions.

Loans within the Krungsri segment are categorized as Normal, Special Mention, and Substandard, which is further divided into Substandard, Doubtful and Doubtful of Loss, primarily based on their delinquency status. Loans categorized as Special Mention generally represent those that have overdue principal or interest payments for a

cumulative period exceeding one month commencing from the contractual due date. Loans categorized as Substandard, Doubtful or Doubtful of Loss generally represent those that have overdue principal or interest payments for a cumulative period exceeding three months, commencing from the contractual due date.

For the Commercial, Residential and Card segments, credit quality indicators as of March 31, 2014 and September 30, 2014 are based on information as of March 31, 2014 and September 30, 2014, respectively. For the MUAH and Krungsri segments, credit quality indicators as of March 31, 2014 and September 30, 2014 are generally based on information as of December 31, 2013 and June 30, 2014, respectively.

The ratio of loans classified as Close Watch or below to total loans in the Commercial segment decreased 1.2 percentage points to 5.4% as of September 30, 2014 from 6.6% as of March 31, 2014. The decrease reflected a decrease in loans rated Close Watch or below and an increase in total loans in the segment. Loans classified as Close Watch or below decreased for all categories in the segment, particularly for the domestic manufacturing category and the foreign-excluding MUAH and Krungsri category. The decrease in the domestic manufacturing category was primarily due to improvements in the financial performance and prospects of a number of large borrowers in light of stable corporate performance supported by higher stock prices and the depreciation of the Japanese yen against the U.S. dollar. The decrease in the foreign excluding MUAH and Krungsri category was mainly attributable to improved conditions of borrowers of loans booked at BTMU s branches in the United States and Asia. The increase in total loans in the Commercial segment was mainly due to an increase in foreign loans.

The ratio of loans classified as Nonaccrual to total loans in the Residential segment decreased 0.1 percentage points to 0.7% as of September 30, 2014 from 0.8% as of March 31, 2014. This was mainly due to a decrease of ¥13.2 billion in nonaccrual loans in the segment primarily as a result of the transfer to accrual status of loans to borrowers whose repayment ability improved.

The ratio of loans classified as Nonaccrual to total loans in the Card segment was 12.0% as of March 31, 2014 and September 30, 2014.

The ratio of loans classified as Special mention or below and Nonaccrual to total loans in the MUAH segment decreased 0.4 percentage points to 2.8% as of September 30, 2014 from 3.2% as of March 31, 2014. The decrease was primarily as a result of an overall improvement in the credit quality of the loan portfolio due to continued improvements in U.S. economic conditions.

The ratio of loans classified as Special mention or below to total loans in the Krungsri segment increased 0.4 percentage points to 5.4% as of September 30, 2014 from 5.0% as of March 31, 2014. The increase was primarily due to increases in loans classified as Doubtful or Doubtful of Loss mainly because the credit quality of the consumer loan portfolio worsened as Thailand s economic growth slowed.

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Past due analysis

Aging of past due loans by class as of March 31, 2014 and September 30, 2014 are shown below:

As of March 31, 2014:	1-3 months Past Due	Greater Than 3 months	Total Past Due	Current	Total Loans[1][2]	Recorded Investment>90 Days and Accruing
				(in billions)		
Commercial						
Domestic	¥ 26.2	¥ 53.6	¥ 79.8	¥ 54,815.9	¥ 54,895.7	¥ 6.5
Manufacturing	5.3	7.2	12.5	11,517.6	11,530.1	
Construction	0.7	0.6	1.3	978.7	980.0	0.0
Real estate	4.9	9.6	14.5	10,590.7	10,605.2	2.2
Services	4.3	2.8	7.1	2,672.5	2,679.6	0.0
Wholesale and retail	4.7	22.8	27.5	8,418.5	8,446.0	0.0
Banks and other financial institutions	0.0	0.1	0.1	3,984.9	3,985.0	
Communication and information services	0.7	1.4	2.1	1,440.9	1,443.0	
Other industries	0.6	1.6	2.2	13,490.6	13,492.8	
Consumer	5.0	7.5	12.5	1,721.5	1,734.0	4.3
Foreign-excluding MUAH and Krungsri	3.3	7.1	10.4	29,605.7	29,616.1	0.4
Residential	85.5	54.5	140.0	14,823.0	14,963.0	40.5
Card	21.6	33.4	55.0	540.9	595.9	
MUAH	30.1	14.3	44.4	7,078.6	7,123.0	0.5
Krungsri	66.9	22.1	89.0	2,936.2	3,025.2	
Total	¥ 233.6	¥ 185.0	¥ 418.6	¥ 109,800.3	¥ 110,218.9	¥ 47.9

As of September 30, 2014:	1-3 months Past Due	Greater Than 3 months	Total Past Due	Current	Total Loans[1][2]	Recorded Investment>90 Days and Accruing
				(in billions)		
Commercial						
Domestic	¥ 14.5	¥ 30.0	¥ 44.5	¥ 53,950.2	¥ 53,994.7	¥ 6.4
Manufacturing	1.2	4.5	5.7	11,817.3	11,823.0	0.1
Construction	0.4	0.7	1.1	993.1	994.2	
Real estate	3.8	6.8	10.6	10,597.5	10,608.1	1.6
Services	1.0	2.9	3.9	2,641.0	2,644.9	0.1
Wholesale and retail	2.8	4.8	7.6	8,227.4	8,235.0	0.1
Banks and other financial institutions		0.5	0.5	4,176.9	4,177.4	
Communication and information services	0.7	1.4	2.1	1,525.1	1,527.2	0.0
Other industries	0.5	0.6	1.1	12,222.5	12,223.6	0.0
Consumer	4.1	7.8	11.9	1,749.4	1,761.3	4.5
Foreign-excluding MUAH and Krungsri	3.4	4.9	8.3	31,680.8	31,689.1	0.4
Residential	86.9	52.5	139.4	14,354.6	14,494.0	39.9
Card	19.5	32.5	52.0	516.0	568.0	
MUAH	27.2	11.7	38.9	7,246.8	7,285.7	1.1

Krungsri	69.5	40.8	110.3	2,933.8	3,044.1	
Total	¥ 221.0	¥ 172.4	¥ 393.4	¥ 110,682.2	¥ 111,075.6	¥ 47.8

Notes:

(1) Total loans in the above table do not include loans held for sale and loans acquired with deteriorated credit quality.

(2) Total loans of MUAH do not include ¥1.6 billion and ¥0.2 billion of FDIC covered loans as of March 31, 2014 and September 30, 2014, respectively, which are not subject to the guidance on loans and debt securities acquired with deteriorated credit quality.

Total past due loans as of September 30, 2014 were ¥393.4 billion, a decrease of ¥25.2 billion from ¥418.6 billion as of March 31, 2014. This reflected an overall improvement in the credit quality of the Commercial, Residential, Card and MUAH segments, more than offsetting the increase in past due loans in the Krungsri segment.

Investment Portfolio

Our investment securities primarily consist of Japanese government bonds, corporate bonds and marketable equity securities. Japanese government bonds are mostly classified as available-for-sale securities. Our investment in Japanese government bonds is a part of our asset and liability management policy with respect to investing the amount of yen-denominated funds exceeding our net loans. The percentage of our holding of available-for-sale Japanese government bonds to the total investment securities decreased to 72.5% as of September 30, 2014 from 75.2% as of March 31, 2014. We also hold Japanese government bonds that are classified as held-to-maturity securities, which accounted for 1.5% of the total investment securities as of September 30, 2014.

Historically, we have held equity securities of some of our customers primarily for strategic purposes, in particular, to maintain long-term relationships with these customers. We continue to focus on reducing our investment in equity securities for such purposes in order to reduce the price fluctuation risk in our equity portfolio from a risk management perspective and to respond to applicable regulatory requirements as well as increasing market expectation for us to reduce our equity portfolio. In the six months ended September 30, 2014, our investment in marketable equity securities increased mainly due to increases in their fair value as well as purchases of ETFs in an effort to diversify our investment securities portfolio, which exceeded the reduction in our investment in equity securities. As of March 31, 2014 and September 30, 2014, the aggregate book value of our marketable equity securities under Japanese GAAP satisfied the requirements of the legislation prohibiting banks from holding equity securities in excess of their Tier 1 capital.

Investment securities increased to ¥55.37 trillion as of September 30, 2014 from ¥55.33 trillion as of March 31, 2014, mainly due to an increase of ¥0.75 trillion in held-to-maturity securities, partially offset by a decrease of ¥0.72 trillion in available-for-sale securities. The increase in held-to-maturity securities mainly resulted from the Japanese government bonds purchased by our commercial banking subsidiaries to manage the interest rate fluctuation risk primarily relating to core deposits. On the other hand, the decrease in available-for-sale securities mainly resulted from the Japanese government bonds sold by our banking subsidiaries to reduce the risk of a sudden and drastic increase in short-term interest rates. As a result, our holding of available-for-sale Japanese government bonds decreased ¥1.43 trillion. Marketable equity securities increased ¥0.74 trillion mainly resulting from increases in their fair values, reflecting the increase in stock prices towards the end of the six months ended September 30, 2014 and purchases of ETFs.

Investment securities other than available-for-sale or held-to-maturity securities, which are nonmarketable equity securities presented on our consolidated balance sheet as other investment securities, were primarily carried at cost of ¥0.75 trillion as of September 30, 2014 and ¥0.74 trillion as of March 31, 2014, respectively, because their fair values were not readily determinable.

The average balance of investment securities for the six months ended September 30, 2014 were ¥51.5 trillion, a decrease of ¥3.8 trillion from ¥55.3 trillion for the same period of the previous fiscal year.

For the six months ended September 30, 2014, losses resulting from impairment of available-for-sale securities were ¥1.5 billion, a decrease of ¥0.04 billion compared to the six months ended September 30, 2013.

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The following table shows information regarding the amortized cost, net unrealized gains (losses), and fair value of our available-for-sale and held-to-maturity securities as of March 31, 2014 and September 30, 2014:

	As of March 31, 2014			As of September 30, 2014		
	Amortized cost	Fair value	Net unrealized gains (losses)	Amortized cost	Fair value	Net unrealized gains (losses)
	(in billions)					
Available-for-sale securities:						
Debt securities:						
Japanese government and Japanese government agency bonds	¥ 41,388.6	¥ 41,589.0	¥ 200.4	¥ 39,923.9	¥ 40,157.7	¥ 233.8
Japanese prefectural and municipal bonds	195.1	203.1	8.0	186.2	194.3	8.1
Foreign governments and official institutions bonds	1,272.2	1,271.4	(0.8)	1,579.0	1,589.1	10.1
Corporate bonds	1,523.0	1,561.2	38.2	1,354.5	1,387.9	33.4
Mortgage-backed securities	1,220.4	1,180.8	(39.6)	1,058.0	1,044.5	(13.5)
Asset-backed securities[1]	1,060.8	1,058.0	(2.8)	1,050.4	1,047.1	(3.3)
Other debt securities	184.5	184.9	0.4	167.7	169.4	1.7
Marketable equity securities	2,457.0	4,837.3	2,380.3	2,608.4	5,579.4	2,971.0
Total available-for-sale securities	¥ 49,301.6	¥ 51,885.7	¥ 2,584.1	¥ 47,928.1	¥ 51,169.4	¥ 3,241.3
Held-to-maturity debt securities[2]	¥ 2,707.0	¥ 2,735.1	¥ 28.1	¥ 3,456.8	¥ 3,498.5	¥ 41.7

Notes:

(1) AAA and AA-rated products account for approximately two-thirds of our asset-backed securities.
(2) See Note 3 to our unaudited condensed consolidated financial statements included elsewhere in this Report for more details.

Net unrealized gains on available-for-sale securities increased ¥657.2 billion to ¥3,241.3 billion as of September 30, 2014, from ¥2,584.1 billion as of March 31, 2014. This increase was mainly due to an increase of ¥590.7 billion in unrealized gains on marketable equity securities, which reflected the general increase in Japanese stock prices towards the end of September 2014.

The amortized cost of held-to-maturity securities as of September 30, 2014 increased ¥749.8 billion compared to the balance as of March 31, 2014. The increase was mainly due to the increased holdings of Japanese government bonds in our commercial banking subsidiaries to manage the interest rate fluctuation risk primarily relating to core deposits.

The following table shows information relating to our investment securities other than available-for-sale or held-to-maturity securities as of March 31, 2014 and September 30, 2014:

	March 31, 2014	September 30, 2014
	(in billions)	
Other investment securities:		
Nonmarketable equity securities:		

Unlisted preferred securities(1)	¥ 583.2	¥596.4
Others(2)	128.2	123.1
Investment securities held by investment companies and brokers and dealers(3)	26.2	28.1
Total	¥ 737.6	¥747.6

Notes:

(1) These securities are mainly issued by public companies, including preferred stocks issued by Morgan Stanley, preferred securities issued by our non-consolidated funding vehicles, and other unlisted preferred securities issued by several Japanese public companies. Those securities are primarily carried at cost.

(2) These securities are equity securities issued by unlisted companies other than unlisted preferred securities. Those securities are primarily carried at cost.
(3) These investment securities are held by certain subsidiaries subject to specialized industry accounting principles for investment companies and brokers and dealers, and are measured at fair value.

Cash and Due from Banks

Cash and due from banks fluctuate significantly from day to day depending upon financial market conditions. Cash and due from banks as of September 30, 2014 were ¥3.41 trillion, a decrease of ¥0.28 trillion from ¥3.69 trillion as of March 31, 2014. The decrease was primarily due to a decrease in due from banks held at the domestic and foreign branches of our commercial banking subsidiaries, partially offset by an increase in due from banks held at the domestic branches of our trust banking subsidiaries.

Interest-earning Deposits in Other Banks

Interest-earning deposits in other banks fluctuate significantly from day to day depending upon financial market conditions. Interest-earning deposits in other banks increased ¥8.03 trillion to ¥28.53 trillion as of September 30, 2014 from ¥20.50 trillion as of March 31, 2014. This increase was mainly due to an increase in deposits with the Bank of Japan by our banking subsidiaries. The average interest-earning deposits in other banks for the six months ended September 30, 2014 were ¥25.67 trillion, an increase of ¥11.96 trillion from ¥13.71 trillion for the same period of the previous fiscal year.

Call Loans, Funds Sold, and Receivables under Resale Agreements

Call loans, funds sold, and receivables under resale agreements decreased ¥1.30 trillion to ¥6.92 trillion as of September 30, 2014 from ¥8.22 trillion as of March 31, 2014. This decrease was mainly due to a ¥1.08 trillion decrease in receivables under resale agreements resulting from a reduced volume of resale transactions in our overseas securities subsidiaries, as well as a ¥0.22 trillion decrease in call loans denominated in Japanese yen with external counterparties in our trust banking subsidiaries at the end of the six months ended September 30, 2014. The average balance of call loans, funds sold, and receivables under resale agreements for the six months ended September 30, 2014 was ¥9.72 trillion, an increase of ¥1.48 trillion from ¥8.24 trillion for the same period of the previous fiscal year.

Trading Account Assets

Trading account assets decreased ¥1.51 trillion to ¥39.14 trillion as of September 30, 2014 from ¥40.65 trillion as of March 31, 2014. This decrease reflected a decrease of ¥3.16 trillion in trading securities, offset in part by an increase of ¥1.65 trillion in trading derivative assets. The decrease in trading securities reflected a decrease in Japanese government bonds in our securities subsidiaries in response to lower demand for repurchase transactions, and a decrease in foreign bonds denominated in U.S. dollars in our commercial banking subsidiaries to reduce the risk of losses in case of a sudden increase in interest rates in the United States in anticipation of the termination of the quantitative monetary easing program by the FRB. The increase in trading derivative assets was mainly attributable to an increase in the fair value of a net receive position in interest rate swap contracts entered into by our commercial banking subsidiaries as part of their risk management activity, taking advantage of lower interest rates in Japan. The average balance of trading account assets for the six months ended September 30, 2014 were ¥27.14 trillion, an increase of ¥0.31 trillion from ¥26.83 trillion for the same period of the previous fiscal year.

Deferred Tax Asset

Deferred tax assets decreased ¥0.29 trillion to ¥0.07 trillion as of September 30, 2014 from ¥0.36 trillion as of March 31, 2014. This decrease was primarily as a result of the offset against deferred tax liabilities within the same tax jurisdiction. Deferred tax liabilities increased primarily due to an increase in net unrealized gains on investment securities.

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Other Assets

Other assets increased ¥0.41 trillion to ¥8.43 trillion as of September 30, 2014 from ¥8.02 trillion as of March 31, 2014. This increase was due to an increase of ¥0.99 trillion in cash collateral pledged for derivatives in our banking subsidiaries and assets related to securities borrowing transactions in our overseas securities subsidiary, as well as an increase of ¥0.18 trillion in investments in equity method investees reflecting higher net income in equity method investees, including Morgan Stanley and ACOM, partially offset by a decrease of ¥0.81 trillion in accounts receivable from sales of securities in the domestic offices of our commercial banking subsidiaries.

Total Liabilities

As of September 30, 2014, total liabilities were ¥246.50 trillion, an increase of ¥5.59 trillion from ¥240.91 trillion as of March 31, 2014. This was primarily due to an increase of ¥3.45 trillion in long-term debt, an increase of ¥2.21 trillion in trading account liabilities, an increase of ¥1.53 trillion in payables under securities lending transactions in our trust banking subsidiaries, and an increase of ¥1.12 trillion in domestic and foreign interest-bearing deposits, partially offset by a decrease of ¥3.29 trillion in payables under repurchase agreements.

Deposits

Deposits are our primary source of funds. The total balance of deposits increased ¥1.12 trillion to ¥163.64 trillion as of September 30, 2014 from ¥162.52 trillion as of March 31, 2014. The total average balance of deposits increased ¥10.44 trillion to ¥159.99 trillion for the six months ended September 30, 2014 from ¥149.55 trillion for the same period of the previous fiscal year.

The balance of domestic deposits increased ¥0.64 trillion to ¥122.15 trillion as of September 30, 2014 from ¥121.51 trillion as of March 31, 2014, and the balance of foreign deposits increased ¥0.48 trillion to ¥41.49 trillion as of September 30, 2014 from ¥41.01 trillion as of March 31, 2014. The increase in domestic deposits was primarily due to an increase in domestic ordinary deposits in our banking subsidiaries and an increase in domestic interest-bearing deposits maintained in corporate accounts, particularly negotiable certificates of deposit, with our trust banking subsidiaries. The increase in foreign deposits was primarily due to an increase in interest-bearing deposits in the foreign offices of our banking subsidiaries, partially offset by a decrease in interest-bearing deposits in MUB.

Short-term Borrowings

We use short-term borrowings as a funding source and in our management of interest rate risk. For management of interest rate risk, short-term borrowings are used in asset and liability management operations to match interest rate risk exposure resulting from loans and other interest-earning assets and to manage funding costs of various financial instruments at an appropriate level, based on our forecast of future interest rate levels. Short-term borrowings consist of call money, funds purchased, payables under repurchase agreements, payables under securities lending transactions, due to trust accounts, and other short-term borrowings.

Short-term borrowings decreased ¥1.04 trillion to ¥41.02 trillion as of September 30, 2014 from ¥42.06 trillion as of March 31, 2014. This decrease was mainly due to a ¥3.30 trillion decrease in payables under repurchase agreements resulting from a decrease in repurchase transactions entered into by our commercial banking subsidiaries, reflecting a decrease in their holdings of debt securities. This decrease was partially offset by an increase of ¥1.53 trillion in payables under securities lending transactions in our trust banking subsidiaries seeking an efficient and profitable funding strategy.

Trading Account Liabilities

Trading account liabilities increased ¥2.21 trillion to ¥14.19 trillion as of September 30, 2014 from ¥11.98 trillion as of March 31, 2014. The increase was due to an increase in the negative fair value of the currency swaps (to pay Japanese yen and receive U.S. dollars) in our commercial banking subsidiaries reflecting the rapid depreciation of the Japanese yen against the U.S. dollar towards the end of September 2014.

Long-term Debts

Long-term debt increased ¥3.45 trillion to ¥17.95 trillion as of September 30, 2014 from ¥14.50 trillion as of March 31, 2014. This increase was mainly due to an increase in loans from the Bank of Japan to our banking subsidiaries, and the issuance of bonds by our banking and securities subsidiaries. The average balance of long-term debt for the six months ended September 30, 2014 was ¥15.31 trillion, an increase of ¥3.01 trillion from ¥12.30 trillion for the same period of the previous fiscal year.

Sources of Funding and Liquidity

Our primary source of liquidity is from a large balance of deposits, mainly ordinary deposits, certificates of deposit and time deposits. Time deposits have historically shown a high rollover rate among our corporate customers and individual depositors. The average deposit balance increased from ¥149.55 trillion for the six months ended September 30, 2013 to ¥159.99 trillion for the six months ended September 30, 2014. These deposits provide us with a sizable source of stable and low-cost funds. Our average deposits, combined with average total equity of ¥12.46 trillion, funded 65.3% of our average total assets of ¥264.00 trillion during the six months ended September 30, 2014. Our deposits exceeded our loans, net of allowance for credit losses, by ¥53.39 trillion as of September 30, 2014, compared to ¥53.34 trillion as of March 31, 2014. As part of our asset and liability management policy, a significant portion of the amount of yen-denominated funds exceeding our net loans has been invested in Japanese government bonds or deposited with the Bank of Japan in recent periods.

The remaining funding was primarily provided by short-term borrowings and long-term senior and subordinated debt. Short-term borrowings consist of call money and funds purchased, payables under repurchase agreements, payables under securities lending transactions, due to trust account, and other short-term borrowings. From time to time, we have issued long-term instruments such as straight bonds with maturities between three to ten years. The balance of our short-term borrowings as of September 30, 2014 was ¥41.02 trillion, and the average short-term borrowing balance for the six months ended September 30, 2014 was ¥42.62 trillion. The balance of our long-term debt as of September 30, 2014 was ¥17.95 trillion, and the average long-term debt balance for the six months ended September 30, 2014 was ¥15.31 trillion. Liquidity may also be provided by the sale of financial assets, including available-for-sale securities, trading account securities and loans. Additional liquidity may be provided by the maturity of loans.

We manage liquidity separately at certain of our foreign and domestic non-bank and banking subsidiaries because they are subject to separate regulatory requirements, pursue different business models and have distinctive liquidity risk profiles. We manage our group-wide liquidity on a consolidated basis based on the tests and analyses conducted at the subsidiary level. Liquidity risk management measures at the subsidiary level include the following:

Domestic banking subsidiaries Our major domestic banking subsidiaries, BTMU and MUTB, set liquidity and funding limits designed to maintain their respective requirements for funding from market sources below pre-determined levels for certain periods (e.g., one-day, two-week and one-month). The major domestic banking subsidiaries also monitor the balance of buffer assets they respectively hold, including Japanese government bonds and U.S. Treasury bonds, which can be used for cash funding even in periods of stress. In addition, the major domestic banking subsidiaries regularly perform liquidity stress testing designed to evaluate the impact of systemic market stress conditions and institution-specific stress events, including credit rating downgrades, on their liquidity positions;

Foreign banking subsidiaries Our major foreign banking subsidiaries, MUAH and Krungsri, monitor various liquidity metrics, including total available liquidity, the net non-core funding dependence ratio, and minimum liquidity assets, as a tool to maintain a sufficient amount of liquidity and diversity of funding sources to allow the major foreign banking subsidiaries to meet expected obligations in both stable and adverse conditions. In addition, the major foreign banking subsidiaries regularly conduct stress testing, which incorporates both bank-specific and systemic market scenarios that would adversely affect its liquidity position, to facilitate the identification of appropriate remedial measures to help ensure that it maintains adequate liquidity in adverse conditions;

Securities subsidiaries Our securities subsidiaries implement liquidity and funding limits designed to maintain their requirements for funding from market sources below pre-determined levels for specified periods. In addition, the securities subsidiaries regularly conduct analyses designed to assess the period for which they can continue to meet their respective liquidity requirements by selling or pledging assets they respectively hold under scenarios where they are unable to access any additional sources of financing in the market; and

Non-bank subsidiaries Our non-bank subsidiaries, including Mitsubishi UFJ NICOS, regularly conduct cash flow analyses designed to assess their ability to generate sufficient liquidity for specified periods, considering the cash and cash equivalents as well as deposits they respectively hold, and their respective operating income and expenses under scenarios where they are no longer able to obtain funding from markets through issuance of commercial paper, bonds or other instruments. The non-bank subsidiaries also conduct analyses to ensure sufficient liquidity and funding are available from our banking subsidiaries and other financial institutions outside of our group of companies.

We collect and evaluate the results of the stress tests individually performed by our major subsidiaries to ensure our ability to meet our liquidity requirements on a consolidated basis in stress scenarios.

We manage our funding sources using buffer assets, primarily Japanese government bonds, for cash funding. As of September 30, 2014, we held ¥40.16 trillion of available-for-sale Japanese government and Japanese government agency bonds. Our major domestic commercial banking subsidiaries use liquidity-supplying assets, primarily commitment lines for minor currencies funding. In addition, the major banking subsidiaries use a liquidity gap, or the excess of cash inflows over cash outflows, for cash funding.

In December 2014, Moody s announced that it downgraded the long-term credit ratings of BTMU and MUTB by one-notch from Aa3 to A1. These downgrades followed the downgrade of the rating assigned to the Government of Japan from Aa3 to A1. Moody s Japan also downgraded the long-term credit rating of MUSHD by one-notch from A2 to A3. Subsequently, Fitch announced that it changed the Government of Japan s credit rating outlook from stable to negative. Although these credit rating changes have not resulted, and are not currently expected to result in, a material adverse impact on us, a further downgrade of the credit ratings of our major subsidiaries could result in higher funding costs and other consequences.

For further information, see Item 3.D. Key Information Risk Factors Risks Related to Our Business A further downgrade of our credit ratings could trigger additional collateral obligations under our derivative contracts and increase our funding costs in our annual report on Form 20-F for the fiscal year ended March 31, 2014.

In January 2013, the Basel Committee on Banking Supervision introduced supplemental measurements to support its Principles for Sound Liquidity Risk Management and Supervision. These measurements include liquidity coverage ratio, or LCR, and net stable funding ratio, or NSFR, and are designed to promote the short-term resilience of the liquidity risk profile of banks. The Committee announced final LCR rules in January 2014 and final NSFR rules in October 2014.

The LCR is a measure to determine whether a bank has a sufficient amount of high-quality liquid assets to survive in a 30-day financial stress scenario, including sizable deposit outflows, inability to issue new bonds or access the interbank market, stoppage of the collateralized funding market, need for additional collateral in connection with derivative transactions, and significant outflows of cash under commitment lines to customers. In Japan, once a bank or bank holding company fails to meet the minimum LCR of 100%, it is required to

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immediately report to the FSA. If the FSA deems the financial condition of the bank or bank holding company serious, the FSA may issue a business improvement order. The LCR requirements begin to apply to banks and bank holding companies in Japan in March 2015, with the minimum ratio applicable in 2015 set at 60% and increasing annually by 10 percentage points to 100% by 2019. Banks and bank holding companies are also required to disclose their LCR ratios starting in June 2015.

The NSFR is a measure to determine whether a bank has sustainable and long-term liabilities and capital for its assets and activities. The Basel Committee on Banking Supervision issued the final standard of NSFR in October 2014. In Japan, details of the NSFR requirements are currently under discussion.

In September 2013, the Basel Committee on Banking Supervision and the International Organization of Securities Commissions released the final framework for margin requirements for non-centrally cleared derivatives. The new framework will require high quality liquid assets to be posted as margin on non-centrally cleared derivative trades, and is expected, among other things, to adversely affect our liquidity position. The margin requirement will be phased in over a four-year period, beginning in December 2015 with the largest, most active and most systemically important derivatives market participants, including us.

Total Equity

The following table presents a summary of our total equity as of March 31, 2014 and September 30, 2014:

	March 31, 2014	September 30, 2014
	(in billions, except percentages)	
Capital stock	¥ 2,089.2	¥ 2,090.2
Capital surplus	6,363.4	5,973.9
Retained earnings	2,397.2	3,099.1
Retained earnings appropriated for legal reserve	239.6	239.6
Unappropriated retained earnings	2,157.6	2,859.5
Net unrealized gains on investment securities, net of tax	1,272.7	1,695.4
Accumulated other comprehensive income, net of taxes, other than net unrealized gains on investment securities	85.0	111.7
Treasury stock, at cost	(2.5)	(2.5)
Total Mitsubishi UFJ Financial Group shareholders equity	¥ 12,205.0	¥ 12,967.8
Noncontrolling interests	546.4	542.7
Total equity	¥ 12,751.4	¥ 13,510.5
Ratio of total equity to total assets	5.03%	5.20%

Shareholders equity as of September 30, 2014 was ¥12,967.8 billion, an increase of ¥762.8 billion from ¥12,205.0 billion as of March 31, 2014.

Capital surplus as of September 30, 2014 was ¥5,973.9 billion, a decrease of ¥389.5 billion from ¥6,363.4 billion as of March 31, 2014. This decrease was mainly due to the acquisition and cancellation of the outstanding shares of preferred stock. See Recent Developments.

Retained earnings as of September 30, 2014 were ¥3,099.1 billion, an increase of ¥701.9 billion from ¥2,397.2 billion as of March 31, 2014, reflecting the net income of our banking and securities subsidiaries for the six months ended September 30, 2014. We raised our semi-annual interim dividend to ¥9.0 per share of common stock for the six months ended September 30, 2014, and are currently planning to pay a year-end dividend of ¥9.0 per share of common stock for the six months ending March 31, 2015.

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Net unrealized gains on investment securities, net of tax, as of September 30, 2014 were ¥1,695.4 billion, an increase of ¥422.7 billion from ¥1,272.7 billion as of March 31, 2014. The increase was mainly due to favorable price movements in the equity market in Japan towards the end of September 2014, with the Japanese yen depreciating against the U.S. dollar in light of varying monetary policies of the central banks.

Total equity increased ¥759.1 billion to ¥13,510.5 billion as of September 30, 2014 from ¥12,751.4 billion as of March 31, 2014. The ratio of total equity to total assets increased 0.17 percentage points to 5.20% as of September 30, 2014 from 5.03% as of March 31, 2014. The increase in total equity as of September 30, 2014 was principally attributable to an increase in unappropriated retained earnings of ¥701.9 billion, reflecting ¥838.3 billion of net income attributable to Mitsubishi UFJ Financial Group, partially offset by dividends of ¥136.4 billion.

Due to our holdings of a large amount of marketable equity securities and the volatility of the equity markets in Japan, changes in the fair value of marketable equity securities have significantly affected our total equity in recent years. The following table presents information relating to the accumulated net unrealized gains, net of taxes, in respect of available-for-sale investment securities as of March 31, 2014 and September 30, 2014:

	March 31, 2014	September 30, 2014
	(in billions, except percentages)	
Accumulated net unrealized gains on investment securities	¥ 1,272.7	¥ 1,695.4
Accumulated net unrealized gains to total equity	9.98%	12.55%

Capital Adequacy

We are subject to various regulatory capital requirements promulgated by the regulatory authorities of the countries in which we operate. Failure to meet minimum capital requirements can result in mandatory actions being taken by regulators that could have a direct material effect on our results of operations and financial condition. Moreover, if our capital ratios are perceived to be low, our counterparties may avoid entering into transactions with us, which in turn could negatively affect our business and operations.

We continually monitor our risk-adjusted capital ratio closely and manage our operations in consideration of the capital ratio requirements. These ratios are affected not only by fluctuations in the value of our assets, including our credit risk assets such as loans and equity securities, the risk weights of which depend on the borrowers or issuers internal ratings, marketable securities and deferred tax assets, but also by fluctuations in the value of the Japanese yen against the U.S. dollar and other foreign currencies and by general price levels of Japanese equity securities.

Capital Requirements for Banking Institutions in Japan

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

Under Basel III, Tier 1 capital includes 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
- accumulated other comprehensive income (progressively phased into the capital ratio calculation over several years).

Regulatory adjustments including certain intangible fixed assets, such as goodwill, defined benefit pension fund net assets (prepaid pension costs), and other adjustments 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 meets Tier II requirements under the former Basel II standards,
- allowances for credit losses, and
- noncontrolling interests in subsidiaries Tier 2 capital instruments.

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

In determining capital ratios under the FSA guidelines reflecting Basel III, we and our banking subsidiaries used the Advanced Internal Ratings-Based approach, or the AIRB approach, to calculate capital requirements for credit risk as of September 30, 2014. The Standardized Approach is used for some subsidiaries that are considered to be immaterial to the overall MUFG capital requirements, and MUAH has adopted a phased rollout of the internal ratings-based approach. Market risk is reflected in the risk-weighted assets by applying the Internal Models Approach to calculate general market risk and the Standardized Measurement Method to calculate specific risk. Under the Internal Models Approach, we principally use a historical simulation model to calculate value-at-risk, or VaR, amounts by estimating the profit and loss on our portfolio by applying actual fluctuations in historical market rates and prices over a fixed period. Under the FSA guidelines reflecting Basel III, we reflect operational risk in the risk-weighted assets by applying the Standardized Approach as of March 31, 2011 and the Advanced Measurement Approach from March 31, 2012. The Basel Committee on Banking Supervision has issued proposals to revise the current market risk framework, including stricter measures relating to some of our investment securities portfolio. Under the current proposals, certain financial instruments that we hold, including investment securities, could become subject to stricter trading book capital requirements.

We have been granted approval by the FSA to exclude the majority of our investment in Morgan Stanley from being subject to double gearing adjustments. The approval was granted for a 10-year period, but the approval amount will be phased out by 20% each year starting from March 31, 2019. As of September 30, 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 0.6%.

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

Certain Basel III provisions were adopted by the FSA with transitional measures and became effective March 31, 2013. Various Basel III measures are being phased in from the calendar year 2013, including those

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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, or FSB, identified us as a G-SIB in its most recent annual report published in November 2014, and indicated that, as a G-SIB, we will 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 stricter capital requirements will be implemented in phases between January 1, 2016 and December 31, 2018 and will become fully effective on January 1, 2019.

In November 2014, the FSB issued for public consultation policy proposals consisting of a set of principles and a detailed term sheet on the adequacy of loss-absorbing and recapitalization capacity for G-SIBs. The proposals have been developed by the FSB in consultation with the Basel Committee on Banking Supervision and will, once finalized, form a new minimum standard of total loss-absorbing capacity, or TLAC. The new TLAC standard is designed to provide home and host authorities with confidence that G-SIBs have sufficient capacity to absorb losses, both before and during resolution, and enable resolution authorities to implement a resolution strategy that minimizes any impact on financial stability and ensures the continuity of critical economic functions. The G-SIBs will be required to meet this new standard by as early as January 2019.

In November 2014, the FSB published documents that were delivered to the G20 Leaders at the Brisbane Summit, including a letter from the FSB Chair to the G20 Leaders that reported on the progress in the financial reforms and highlighted major issues. In this letter, the Chair of the FSB, among other things, reported that the priority measures designed to address the causes of the global crisis had been substantially completed, encouraged the G20 Leaders to endorse the proposals to end Too Big To Fail in the banking sector, and indicated a shift in focus towards addressing new and constantly evolving risks and vulnerabilities, such as shadow banking, many of which could arise from outside the traditional financial system.

In November 2014, the Basel Committee on Banking Supervision released Reducing excessive variability in banks regulatory capital ratios, a report prepared for the G20 Leaders at the Brisbane Summit. The report set forth the Committee s proposals in three areas designed to improve consistency and comparability in bank capital ratios and restore confidence in risk-weighted capital ratios. Specifically, the proposed policy measures included (1) revising the standardized approaches and using the revised standardized approaches as the basis for a capital floor, (2) strengthening the disclosure requirements related to risk weights, and (3) enhancing the monitoring of risk-weighted asset variability through hypothetical portfolio exercises. The report also set forth a roadmap for revising approaches for measuring credit risk, market risk and operational risk. The Committee is expected to finalize the revisions of the standardized approaches, capital floors, and credit risk and operational risk internal models by the end of 2015 following the public consultation process. The Committee has published consultation papers relating to these topics except the revisions of credit risk internal models.

For additional discussion of the calculation of our capital ratios, see Note 21 to our consolidated financial statements included in our Annual Report on Form 20-F for the fiscal year ended March 31, 2014.

Mitsubishi UFJ Financial Group Ratios

The table below presents our consolidated total capital components, risk-weighted assets and risk-adjusted capital ratios in accordance with Basel III as of March 31, 2014 and September 30, 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 percentages in the table below are rounded down. For further information, see Note 21 to our consolidated financial statements included in our Annual Report on Form 20-F for the fiscal year ended March 31, 2014.

	March 31, 2014 (in billions, except percentages)	September 30, 2014 (in billions, except percentages)	Minimum capital ratios required
Capital components:			
Common Equity Tier 1	¥ 11,153.0	¥ 11,435.8	
Additional Tier 1	1,188.8	1,290.3	
Tier 1 capital	12,341.9	12,726.1	
Tier 2 capital	3,052.5	3,313.1	
Total capital	¥ 15,394.3	¥ 16,039.2	
Risk-weighted assets	¥ 99,084.3	¥ 104,160.2	
Capital ratios:			
Common Equity Tier 1	11.25%	10.97%	4.00%
Tier 1 capital	12.45	12.21	5.50
Total capital	15.53	15.39	8.00

As of September 30, 2014, management believed that we were in compliance with all capital adequacy requirements to which we were subject.

Our capital ratios as of September 30, 2014 declined as compared to March 31, 2014. Our risk-weighted assets increased between March 31, 2014 and September 30, 2014, mainly as a result of floor adjustments, which are adjustments made in accordance with the formulae prescribed under applicable regulatory capital standards, including those reflecting improvements in parameters for the calculation of credit risks and improvements in the quality of our credit portfolio. Our consolidated regulatory capital amounts, including our Common Equity Tier 1 capital, increased between March 31, 2014 and September 30, 2014, due to an increase in retained earnings, reflecting higher net income.

Capital Ratios of Our Major Banking Subsidiaries in Japan

The table below presents the risk-adjusted capital ratios of BTMU and MUTB in accordance with Basel III as of March 31, 2014 and September 30, 2014. Underlying figures are calculated in accordance with Japanese banking regulations based on information derived from each bank s consolidated and non-consolidated financial statements prepared in accordance with Japanese GAAP, as required by the FSA. The percentages in the table below are rounded down. For further information, see Note 21 to our consolidated financial statements included in our Annual Report on Form 20-F for the fiscal year ended March 31, 2014.

	March 31, 2014	September 30, 2014	Minimum capital ratios required
Consolidated capital ratios:			
BTMU			
Common Equity Tier 1 capital	11.05%	10.72%	4.00%
Tier 1 capital	12.21	11.95	5.50
Total capital	15.57	15.41	8.00
MUTB			
Common Equity Tier 1 capital	14.21	14.98	4.00
Tier 1 capital	14.76	15.54	5.50
Total capital	18.38	19.72	8.00
Stand-alone capital ratios:			
BTMU			
Common Equity Tier 1 capital	11.88	11.57	4.00
Tier 1 capital	13.74	13.30	5.50
Total capital	17.52	17.12	8.00
MUTB			
Common Equity Tier 1 capital	13.72	14.29	4.00
Tier 1 capital	14.37	14.95	5.50
Total capital	18.51	19.61	8.00

As of September 30, 2014, management believes that our banking subsidiaries were in compliance with all capital adequacy requirements to which they were subject.

Capital Ratios of Banking Subsidiaries in the United States

The table below presents the risk-adjusted capital ratios of MUAH and MUB, both subsidiaries of BTMU, calculated in accordance with applicable U.S. banking regulations as of December 31, 2013 and June 30, 2014:

	December 31, 2013(1)	June 30, 2014(2)	Minimum capital ratios required	Ratio OCC requires to be well capitalized
MUAH:				
Common Equity Tier 1 capital (to risk-weighted assets)		12.58%	4.0%	
Tier 1 capital (to risk-weighted assets)	12.41%	12.62	5.5	
Tier 1 capital (to quarterly average assets)(3)	11.27	11.35	4.0	
Total capital (to risk-weighted assets)	14.61	14.57	8.0	
MUB:				
Common Equity Tier 1 capital (to risk-weighted assets)		13.04%	4.0%	
Tier 1 capital (to risk-weighted assets)	12.94%	13.04	5.5	6.0%
Tier 1 capital (to quarterly average assets)(3)	11.13	11.21	4.0	5.0
Total capital (to risk-weighted assets)	14.91	14.79	8.0	10.0

Note:

(1) Under U.S. Basel I
(2) Under U.S. Basel III

(3) Excludes certain intangible assets.

Management believes that, as of June 30, 2014, MUAH and MUB met all capital adequacy requirements to which they were subject and the capital requirements of well-capitalized institutions.

MUAH timely filed its annual capital plan under the Federal Reserve s Comprehensive Capital Analysis and Review, or CCAR, program in January 2014. The CCAR evaluates capital planning process and assesses

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capital adequacy levels under various stress scenarios to determine if bank holding companies have sufficient capital to continue its operations. In March 2014, MUAH disclosed the results of the stress test and was subsequently informed by the Federal Reserve that it did not object to the MUAH s capital plan.

MUAH and MUB are required to maintain minimum capital ratios in accordance with rules issued by the U.S. Federal banking agencies. In July 2013, the U.S. Federal banking agencies issued final rules to implement the Basel Committee on Banking Supervision capital guidance for U.S. baking organizations, or U.S. Basel III. These 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 supersede the U.S. Federal banking agencies general risk-based capital rules generally referred to as Basel I, advanced approaches rules generally referred to as Basel II, that are applicable to certain large banking organizations, and leverage rules, and are subject to certain transition provisions.

Capital Adequacy Ratio of MUMSS

As of March 31, 2014 and September 30, 2014, MUMSS capital accounts less certain fixed assets of ¥377.3 billion and ¥371.7 billion on a stand-alone basis represented 291.5% and 272.5% of the total amounts equivalent to market, counterparty credit and operations risks, respectively, and MUMSS capital accounts less certain fixed assets of ¥400.6 billion and ¥398.9 billion on a consolidated basis represented 293.7% and 275.4% of the total amounts equivalent to market, counterparty credit and operations risks, respectively, as calculated pursuant to the Financial Instruments and Exchange Act of Japan. A capital ratio of less than 140% will call for additional regulatory reporting, a capital ratio of less than 120% may result in an order to change the method of business, and a capital ratio of less than 100% may lead to a suspension of all or part of the business for a period of time and cancellation of a registration.

Off-Balance Sheet Arrangements

In the normal course of business, we engage in several types of off-balance sheet arrangements to meet the financing needs of customers, including various types of guarantees, credit commitments and commercial letters of credit. The contractual amounts of these guarantees and other off-balance sheet instruments represent the amounts at risk if the contracts were to be fully drawn upon as a result of a subsequent default by our customer and a decline in the value of the underlying collateral. Since many of these commitments expire without being drawn upon, the total contractual or notional amounts of these commitments do not necessarily represent our future cash requirements. See Note 14 to our unaudited condensed consolidated financial statements included elsewhere in this Report for the details of the contractual or notional amounts of such commitments.

Some of our off-balance sheet arrangements are related to activities of special purpose entities, most of which are VIEs. See Note 16 to our unaudited condensed consolidated financial statements included elsewhere in this Report for the details of the maximum exposures to non-consolidated VIEs.

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Market Risk

VaR for Trading Activities. The VaR for our total trading activities in the six months ended September 30, 2014 is presented in the table below. The total amount of VaR and the VaR of each risk category as of September 30, 2014 were lower than those as of March 31, 2014, except U.S. dollar interest rate risk.

	VaR for Trading Activities (April 1, 2014 September 30, 2014)				
Risk category	**Average**	**Maximum(1)**	**Minimum(1)**	**September 30, 2014**	**March 31, 2014**
			(in billions)		
MUFG	¥ 20.00	¥ 23.02	¥ 16.02	¥ 16.02	¥ 18.09
Interest rate	17.68	23.79	14.74	15.28	14.98
Yen	6.52	10.12	4.87	5.74	6.16
U.S. Dollars	5.83	8.40	4.33	6.14	5.05
Foreign exchange	4.59	6.74	1.88	1.88	3.46
Equities	2.58	3.75	1.47	1.56	2.90
Commodities	0.50	1.27	0.00	0.02	1.25
Less diversification effect	(5.35)			(2.72)	(4.50)

Note:

(1) The maximum and minimum VaR overall and for various risk categories were taken from different days. A simple summation of VaR by risk category is not equal to total VaR due to the effect of diversification

The average daily VaR by quarter in the six months ended September 30, 2014 was as follows:

Quarter	**Average daily VaR (in billions)**
April June 2014	¥ 20.03
July September 2014	19.98

Quantitative market risks fluctuated throughout the April September 2014 period, reflecting the reaction of trading activities to market volatility. Market conditions were often volatile during the six months ended September 30, 2014, with positive trading-related revenue recorded for 122 of 131 trading days during the period. The amount of trading-related revenue per day was kept within a stable range, with 53 days of positive revenue and no days of negative revenue exceeding ¥1 billion.

Backtesting. In order to verify the accuracy of our VaR measurement model, we conduct backtesting by comparing VaR against hypothetical profits and losses based on a one-day holding period. In the 250 trading days ended September 30, 2014, there were no exceptions in which the measured losses exceeded VaR. We also conduct additional backtesting in which VaR is compared with actual realized and unrealized profits and losses taking into account the profits and losses from actual intra-day trading in our portfolio. In addition, we use other methods, including testing VaR against hypothetical profits and losses under changing various parameters such as confidence intervals and observation periods used in the model.

Stress Testing. We have adopted an HS-VaR model, which calculates potential changes in the market value of our portfolio as a statistically possible amount of losses that could be incurred due to market fluctuations within a certain period (or holding period, of 10 business days) based on historical market volatility for a certain period (or observation period, of 701 business days, or approximately three years). Actual losses may exceed the value at risk obtained by the application of the model in the event, for example, that the market fluctuates to a degree not accounted for in the observation period, or that the correlations among various risk factors, including interest rates and foreign currency exchange rates, deviate from those assumed in the model.

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In order to complement these weaknesses of the HS-VaR model and measure potential losses that the model is not designed to capture, we conduct stress testing. For example, we measure on a quarterly basis potential losses that could be incurred in our portfolio by applying various stress scenarios, including the 10-year most extreme movement in each of the risk factors as well as actual past market movement observed beyond the 10 year historical observation period. Through daily stress testing, we estimate maximum potential losses in each market on the current trading portfolio based on the worst ten-day historical volatility recorded during the VaR observation period of 701 days. As of September 30, 2014, we held a total trading activity position of ¥10.7 billion of estimated maximum potential losses as compared to ¥9.7 billion as of March 31, 2014. In addition, MUFG and major subsidiaries conduct stress testing, as appropriate, by applying various stress scenarios, including those which take into account estimates regarding future market volatility, in order to better identify risks and manage our portfolio in a more stable and appropriate manner. Since October 2011, MUFG and major subsidiaries have also been measuring stressed VaR relating to their trading activities based on a one-year observation period with the highest VaR at least in the immediately preceding ten years.

VaR for Non-Trading Activities. The aggregate VaR for our total non-trading activities as of September 30, 2014, excluding market risks related to our strategic equity portfolio and measured using the same standards as trading activities, was ¥403.1 billion, a ¥71.0 billion increase from March 31, 2014. In the six months ended September 30, 2014, risk related to interest rate increased ¥96.5 billion, and risk related to equities decreased ¥3.8 billion.

Based on a simple summation of figures across market risk categories, interest rate risks accounted for approximately 70% of our total non-trading activity market risks, which consist of interest rate risk, foreign exchange rate risk, and equities risk. In the six months ended September 30, 2014, the average daily interest rate VaR totaled ¥357.8 billion, with the highest recorded VaR being ¥409.1 billion and the lowest being ¥305.7 billion.

The average daily interest rate VaR by quarter in the six months ended September 30, 2014 was as follows:

Quarter	**Average daily VaR (in billions)**
April June 2014	¥ 339.33
July September 2014	375.89

Comparing the proportion of each currency s interest rate VaR to the total interest VaR as of September 30, 2014 against that as of March 31, 2014, there were a two percentage point decrease in Japanese yen from 49% to 47% and a 14 percentage point decrease in U.S. dollar from 36% to 22%.

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