

MITSUBISHI UFJ FINANCIAL GROUP INC

Form 20-F/A

February 28, 2006

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As filed with the Securities and Exchange Commission on February 28, 2006

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

WASHINGTON, D.C. 20549

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**FORM 20-F/A**  
**Amendment No. 1**

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“ REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF  
THE SECURITIES EXCHANGE ACT OF 1934

OR

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended March 31, 2005

OR

“ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934

For the transition period to

OR

**“ SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934**

Date of event requiring this shell company report

Commission file number 1-10277

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**KABUSHIKI KAISHA MITSUBISHI UFJ FINANCIAL GROUP**

(Exact name of Registrant as specified in its charter)

**mitsubishi ufj financial group, inc.**

(Translation of Registrant's name into English)

**Japan**

(Jurisdiction of incorporation or organization)

**7-1, Marunouchi 2-chome**

**Chiyoda-ku, Tokyo 100-8330**

**Japan**

(Address of principal executive offices)

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

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

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

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

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

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

At March 31, 2005, (1) 6,545,353 shares of common stock (including 6,802 shares of common stock held by the registrant and its consolidated subsidiaries as treasury stock), (2) 40,700 shares of class 1 preferred stock (3) 100,000 shares of class 3 preferred stock were issued.

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

Yes  No

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

Item 17  Item 18

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

Yes  No

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**Table of Contents****Explanatory Note**

We are filing this Form 20-F/A to correct the following inadvertent errors found in our Form 20-F for the fiscal year ended March 31, 2005 previously filed on August 25, 2005:

- In Note 6 to the consolidated financial statements, the details of loans by domicile and type of industry of borrower at March 31, 2004 and 2005 have been corrected from the amounts previously reported as follows:

	2004		2005	
	As previously reported	As restated	As previously reported	As restated
	(in millions)			
Domestic:				
Banks and other financial institutions	¥ 3,834,178	¥ 3,745,586	¥ 3,774,847	¥ 3,691,908
Other industries	6,169,456	6,169,456	6,700,336	6,783,275
Consumer	7,951,205	8,039,797	8,162,062	8,162,062
Foreign:				
Banks and other financial institutions	1,043,904	1,043,904	1,212,082	917,409
Commercial and industrial	7,239,896	7,239,896	8,392,489	8,687,162

- In Note 11 to the consolidated financial statements, the following items at March 31, 2005 have been corrected from the amounts previously reported as follows:

- Assets mortgaged, pledged, or otherwise subject to lien:

	2005	
	As previously reported	As restated
	(in millions)	
Trading account securities	¥ 2,601,493	¥ 2,244,194
Investment securities	5,921,242	6,054,432
Loans	5,193,420	5,060,230

- Type of liabilities the above pledged assets relate to:

	2005	
	As previously reported	As restated



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3. In the parenthetic note to the consolidated balance sheet, the following items at March 31, 2005 have been corrected from the amounts previously reported as follows:

	2005	
	As previously reported	As restated
	(in millions)	
Trading account assets pledged that secured parties are permitted to sell or repledge	¥ 2,646,533	¥ 2,289,234
Securities available for sale pledged that secured parties are permitted to sell or repledge	2,316,604	2,330,160

4. In Note 25 to the consolidated financial statements, the following items at March 31, 2004 and 2005 have been corrected from the amounts previously reported as follows:

- (1) Contractual amounts of obligations under guarantees:

Maximum potential/ Contractual or Notional amount	Amount by expiration period											
	Less than 1 year		1-2 years		2-3 years		3-5 years		Over 5 years			
	As previously reported	As restated	As previously reported	As restated	As previously reported	As restated	As previously reported	As restated	As previously reported	As restated		
(in billions)												
<b>March 31, 2004:</b>												
Standby letters of credit and financial guarantees	¥ 2,747	¥ 2,747	¥ 1,074	¥ 1,371	¥ 201	¥ 123	¥ 164	¥ 80	¥ 260	¥ 135	¥ 1,048	¥ 1,038
Performance guarantees	1,213	1,213	662	677	199	191	128	125	139	135	85	85
<b>March 31, 2005:</b>												
Standby letters of credit and financial guarantees	¥ 3,913	¥ 2,641	¥ 965	¥ 1,284	¥ 661	¥ 126	¥ 262	¥ 102	¥ 690	¥ 248	¥ 1,335	¥ 881
Performance guarantees	1,374	1,374	271	780	564	214	194	116	214	186	131	78

- (2) Commitment amounts of resale and repurchase agreements:

	2004		2005	
	As previously reported	As restated	As previously reported	As restated
	(in billions)			
Resale and repurchase agreements	¥ 165	¥ 186	¥ 372	¥

5. In Selected Statistical Data VI. Short-Term Borrowings, the following items for the fiscal year ended March 31, 2005 have been corrected from the amounts previously reported as follows:

	2005	
	As previously reported	As restated
	(in millions)	
Due to trust account:		
Average balance during the fiscal year	¥ 1,349,383	¥ 1,349,118
Maximum balance outstanding at any month-end during the fiscal year	1,411,320	1,411,055
Balance at end of fiscal year	1,231,315	1,231,050

As described in Note 29 to our consolidated financial statements, effective April 1, 2005, the MTFG Group changed the classification of its business segments. The segment presentation for the fiscal years ended March 31, 2003, 2004 and 2005 included in the Note 29 have been reclassified. In addition, certain reclassifications have been made in the consolidated financial statements, Notes 4 and 31 to the consolidated financial statements.

As a result of the corrections and reclassifications described above, the relevant figures in Item 5 and Selected Statistical Data have also been corrected or reclassified.

In addition, certain figures of cash dividends per share in Item 3.A. Selected Financial Data have been corrected.

With the exceptions of the foregoing corrections and reclassifications, no other changes have been made to the Form 20-F for the fiscal year ended March 31, 2005.



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**Item 3. Key Information.**

**A. Selected Financial Data**

On April 2, 2001, we were formed as a holding company for The Bank of Tokyo-Mitsubishi, Ltd., or Bank of Tokyo-Mitsubishi, The Mitsubishi Trust and Banking Corporation, or Mitsubishi Trust Bank, and Nippon Trust Bank Limited, or Nippon Trust Bank. Nippon Trust Bank was formerly a majority-owned subsidiary of Bank of Tokyo-Mitsubishi and merged into Mitsubishi Trust Bank in October 2001. The business combination between Bank of Tokyo-Mitsubishi and Mitsubishi Trust Bank was accounted for under the pooling-of-interests method and, accordingly, the selected statement of operations and balance sheet data shown below for the periods ended before the combination set forth the combined results of Bank of Tokyo-Mitsubishi, including Nippon Trust Bank, and Mitsubishi Trust Bank as if the combination had been in effect for all the periods presented.

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

Upon the acquisition of additional common shares of ACOM CO., LTD., or ACOM, in April 2004, we applied the equity method of accounting to its investments in ACOM in a manner consistent with the accounting for step-by-step acquisition of a subsidiary. Accordingly, certain financial data for fiscal years ended on and before March 31, 2004 has been retroactively adjusted.

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

	Fiscal years ended March 31,				
	2001	2002	2003	2004	2005
(in millions, except per share data and number of shares)					
<b>Statement of operations data:</b>					
Interest income	¥ 2,278,168	¥ 2,013,571	¥ 1,582,493	¥ 1,421,754	¥ 1,442,623
Interest expense	1,309,454	938,274	539,270	426,514	471,231
Net interest income	968,714	1,075,297	1,043,223	995,240	971,392
Provision (credit) for credit losses	783,855	598,412	437,972	(114,109)	109,502
Net interest income after provision (credit) for credit losses	184,859	476,885	605,251	1,109,349	861,890
Non-interest income	853,492	359,696	840,634	1,308,095	995,090
Non-interest expense	1,021,708	1,161,294	1,182,406	1,236,040	1,135,591
Income (loss) from continuing operations before income tax expense (benefit) and cumulative effect of a change in accounting principle	16,643	(324,713)	263,479	1,181,404	721,389
Income tax expense (benefit)	47,594	(99,729)	69,872	357,817	305,257
Income (loss) from continuing operations before cumulative effect of a change in accounting principle	(30,951)	(224,984)	193,607	823,587	416,132
Income (loss) from discontinued operations net	(27,084)	1,235	10,370	(585)	
Cumulative effect of a change in accounting principle, net of tax <sup>(1)</sup>		5,867	(532)		(977)
Net income (loss)	¥ (58,035)	¥ (217,882)	¥ 203,445	¥ 823,002	¥ 415,155
Net income (loss) available to common shareholders	¥ (66,371)	¥ (222,050)	¥ 190,941	¥ 815,021	¥ 408,318
<b>Amounts per share<sup>(2)</sup>:</b>					
Basic earnings (loss) per common share income (loss) from continuing operations available to common shareholders before cumulative effect of a change in accounting principle	¥ (7,143.20)	¥ (41,255.15)	¥ 32,240.37	¥ 128,443.00	¥ 62,867.28
Basic earnings (loss) per common share net income (loss) available to common shareholders	(12,067.64)	(39,976.55)	33,991.75	128,350.88	62,717.21
Diluted earnings (loss) per common share income (loss) from continuing operations available to common shareholders before cumulative effect of a change in accounting principle	(7,143.20)	(41,255.15)	29,486.78	125,123.73	62,626.69
Diluted earnings (loss) per common share net income (loss) available to common shareholders	(12,067.64)	(39,976.55)	31,164.84	125,033.96	62,476.76
Number of shares used to calculate basic earnings per common share (in thousands)	5,500	5,555	5,617	6,350	6,510
Number of shares used to calculate diluted earnings per common share (in thousands)	5,500	5,555	5,863 <sup>(3)</sup>	6,517 <sup>(3)</sup>	6,516 <sup>(3)</sup>
Cash dividends per share declared during the fiscal year (As restated)					
Common shares	¥ 8,255.25	¥ 4,127.63	¥ 6,000.00	¥ 4,000.00	¥ 6,000.00
	\$ 76.31	\$ 33.21	\$ 50.26	\$ 33.41	\$ 55.46
Preferred shares (Class 1)	¥ 82,500.00	¥ 41,250.00	¥ 123,750.00	¥ 82,500.00	¥ 82,500.00
	\$ 763.17	\$ 331.99	\$ 1,024.65	\$ 725.09	\$ 772.49
Preferred shares (Class 2)	¥ 16,200.00	¥ 8,100.00	¥ 24,300.00	¥ 16,200.00	¥ 8,100.00
	\$ 149.10	\$ 64.99	\$ 201.20	\$ 142.38	\$ 74.88

	At March 31,				
	2001	2002	2003	2004	2005
	(in millions)				
<b>Balance sheet data:</b>					
Total assets	¥ 93,472,202	¥ 94,360,925	¥ 96,537,404	¥ 103,699,099	¥ 108,422,100
Loans, net of allowance for credit losses	47,953,919	48,494,545	47,105,433	47,637,729	50,330,832
Total liabilities	90,287,654	91,738,617	93,978,776	99,854,128	104,049,003
Deposits	60,105,742	63,659,501	67,303,678	70,024,252	71,294,863
Long-term debt	4,963,455	5,183,841	5,159,132	5,659,877	5,981,747
Shareholders' equity	3,184,548	2,622,308	2,558,628	3,844,971	4,373,097
Capital stock <sup>(4)</sup>	956,664	973,156	1,084,708	1,084,708	1,084,708

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	Fiscal years ended March 31,				
	2001	2002	2003	2004	2005
	(in millions, except percentages)				
<b>Other financial data:</b>	<b>(unaudited)</b>	<b>(unaudited)</b>	<b>(unaudited)</b>	<b>(unaudited)</b>	<b>(unaudited)</b>
Average balances:					
Interest-earning assets	¥ 83,192,062	¥ 85,027,796	¥ 86,246,966	¥ 90,850,630	¥ 99,485,278
Interest-bearing liabilities	75,645,416	78,683,185	79,658,352	84,975,055	92,365,823
Total assets	89,322,862	92,365,532	95,478,978	102,827,850	110,829,406
Shareholders' equity	3,445,630	3,035,140	2,432,279	3,289,783	3,880,044
	<b>(unaudited)</b>	<b>(unaudited)</b>	<b>(unaudited)</b>	<b>(unaudited)</b>	<b>(unaudited)</b>
<b>Return on equity and assets:</b>					
Net income (loss) available to common shareholders as a percentage of total average assets	(0.07)%	(0.24)%	0.20%	0.79%	0.37%
Net income (loss) available to common shareholders as a percentage of average shareholders' equity	(1.93)%	(7.32)%	7.85%	24.77%	10.52%
Dividends per common share as a percentage of basic earnings per common share	(5)	(5)	17.65%	3.12%	9.57%
Average shareholders' equity as a percentage of total average assets	3.86%	3.29%	2.55%	3.20%	3.50%
Net interest income as a percentage of total average interest-earning assets	1.16%	1.26%	1.21%	1.10%	0.98%
<b>Credit quality data:</b>					
Allowance for credit losses	¥ 1,716,984	¥ 1,735,180	¥ 1,360,136	¥ 888,127	¥ 740,706
Allowance for credit losses as a percentage of loans	3.46%	3.45%	2.81%	1.83%	1.45%
Nonaccrual and restructured loans, and accruing loans contractually past due 90 days or more	¥ 4,272,794	¥ 4,164,982	¥ 2,753,026	¥ 1,731,083	¥ 1,286,670
Nonaccrual and restructured loans, and accruing loans contractually past due 90 days or more as a percentage of loans	8.60%	8.29%	5.68%	3.57%	2.52%
Allowance for credit losses as a percentage of nonaccrual and restructured loans, and accruing loans contractually past due 90 days or more	40.18%	41.66%	49.41%	51.30%	57.57%
Net loan charge-offs	¥ 598,362	¥ 603,404	¥ 814,811	¥ 337,124	¥ 260,927
	<b>(unaudited)</b>	<b>(unaudited)</b>	<b>(unaudited)</b>	<b>(unaudited)</b>	<b>(unaudited)</b>
Net loan charge-offs as a percentage of average loans	1.21%	1.23%	1.64%	0.69%	0.51%
Average interest rate spread	1.01%	1.18%	1.15%	1.06%	0.94%
Risk-adjusted capital ratio calculated under Japanese GAAP <sup>(6)</sup>	10.15%	10.30%	10.84%	12.95%	11.76%

- (1) Effective April 1, 2001, we adopted Statement of Financial Accounting Standards, or SFAS, No. 133 Accounting for Derivative Instruments and Hedging Activities, as amended by SFAS No. 137 and SFAS No. 138. On April 1, 2002, we adopted SFAS No. 142, Goodwill and Other Intangible Assets. Effective April 1, 2004, we adopted Financial Accounting Standards Board Interpretation No. 46 (revised December 2003), Consolidation of Variable Interest Entities, an interpretation of ARB No. 51.
- (2) Amounts have been adjusted to reflect the stock-for-stock exchange creating Mitsubishi Tokyo Financial Group, Inc. for the fiscal year ended March 31, 2001.
- (3) Includes the common shares potentially issuable pursuant to the 3% exchangeable guaranteed notes due 2002 and Class 2 preferred stock. The 3% exchangeable guaranteed notes due 2002 were redeemed in November 2002.
- (4) Amounts include common stock and convertible Class 2 preferred stock. Redeemable Class 1 and Class 3 preferred stock are excluded.
- (5) Percentages against basic loss per common share have not been presented because such information is not meaningful.
- (6) Risk-adjusted capital ratios have been calculated in accordance with Japanese banking regulations, based on information derived from our consolidated financial statements prepared in accordance with Japanese GAAP. Ratio for the fiscal year ended March 31, 2001 represents combined risk-adjusted capital ratios of Bank of Tokyo-Mitsubishi and Mitsubishi Trust Bank before any combination-related adjustments.

**Table of Contents****Exchange Rate Information**

The tables below set forth, for each period indicated, the noon buying rate in New York City for cable transfers in Japanese yen as certified for customs purposes by the Federal Reserve Bank of New York, expressed in Japanese yen per \$1.00. On August 22, 2005, the noon buying rate was \$1.00 equals ¥109.75 and the inverse noon buying rate was ¥100 equals \$0.91.

	Year 2005						
	February	March	April	May	June	July	August <sup>(1)</sup>
High	¥ 105.84	107.49	108.67	108.17	110.91	113.42	112.12
Low	103.70	103.87	104.64	104.41	106.64	110.47	109.37

(1) Period from August 1 to August 22.

	Fiscal year ended March 31,				
	2001	2002	2003	2004	2005
Average (of month-end rates)	¥ 111.65	¥ 125.64	¥ 121.10	¥ 112.75	¥ 107.28

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**Item 5. Operating and Financial Review and Prospects.**

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

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**A. Operating Results**

**Introduction**

We are a holding company for Bank of Tokyo-Mitsubishi, Mitsubishi Trust Bank, and Mitsubishi Securities. Through our subsidiaries and affiliated companies, we engage in a broad range of financial operations, including commercial banking, investment banking, trust banking and asset management services, securities businesses, and provide related services to individual and corporate customers.

**Table of Contents****Key Financial Figures**

The following are some key figures in accordance with US GAAP relating to our business. As discussed in Recent Developments Strategic Business and Capital Alliance with ACOM below, our results of operations for the fiscal year ended March 31, 2003 and 2004 have been retroactively adjusted.

	Fiscal year ended March 31,		
	2003	2004	2005
	(in billions)		
Net interest income	¥ 1,043.3	¥ 995.3	¥ 971.4
Provision (credit) for credit losses	438.0	(114.1)	109.5
Non-interest income	840.6	1,308.1	995.1
Non-interest expense	1,182.4	1,236.1	1,135.6
Net income	203.4	823.0	415.2
Total assets (at end of period)	96,537.4	103,699.1	108,422.1

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

Net interest income is a function of:

the amount of interest-earning assets,

the general level of interest rates,

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

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

Non-interest income consists of:

fees and commissions, including

trust fees,

fees on funds transfer and service charges for collections,

fees and commissions on international business,

fees and commissions on credit card business,

service charges on deposits,

fees and commissions on securities business,

fees on real estate business, and

other fees and commissions;

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

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

investment securities gains (losses) net, which primarily include net gains on sales of marketable securities, particularly marketable equity securities;

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

other non-interest income.

Provision (credit) for credit losses are charged to operations to maintain the allowance for credit losses at a level deemed appropriate by management. Although in recent periods, we generally recorded a provision for credit losses, we recorded a reversal of allowance for credit losses in the fiscal year ended March 31, 2004.



**Table of Contents****Core Business Areas**

Effective April 1, 2004, we implemented a new integrated business group system, which currently integrates the operations of Bank of Tokyo-Mitsubishi, Mitsubishi Trust Bank and Mitsubishi Securities in the following three areas: Retail, Corporate and Trust Assets. These three businesses serve as the core sources of our revenue. Operations that are not covered under the integrated business group system are classified under Treasury, UNBC and other.

Our business segment information is not consistent with our financial statements prepared in accordance with US GAAP. The following chart illustrates the relative contributions to operating profit for the fiscal year ended March 31, 2005 of the three core business areas and the other business areas based on our segment information:

**Business Trends and Challenges**

*Reduction of nonperforming loans.* We have been actively working on disposing nonperforming loans. We met the guideline for the disposal of nonperforming loans, which was based on a Japanese regulation established under the program for financial revival announced by the Japanese government in October 2002. Under the program, the Financial Services Agency stated that it would strive to normalize the problems with nonperforming loans by March 31, 2005, by reducing major Japanese banks' ratio of nonperforming loans to total loans by about half. The following table sets forth a summary of our nonaccrual and restructured loans, and accruing loans that are contractually past due 90 days or more as to principal or interest payments, and allowance for credit losses at March 31, 2003, 2004 and 2005:

	At March 31,		
	2003	2004	2005
	(in billions, except percentages)		
Nonaccrual loans	¥ 1,413.6	¥ 1,083.1	¥ 822.4
Restructured loans	1,319.0	632.4	454.2
Accruing loans contractually past due 90 days or more	20.4	15.6	10.1
Nonaccrual and restructured loans, and accruing loans contractually past due 90 days or more as a percentage of loans	5.68%	3.57%	2.52%
Allowance for credit losses	¥ 1,360.1	¥ 888.1	¥ 740.7
Allowance for credit losses as a percentage of loans	2.81%	1.83%	1.45%
Allowance for credit losses as a percentage of nonaccrual and restructured loans and accruing loans contractually past due 90 days or more	49.41%	51.30%	57.57%

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In the future, we may suffer additional losses due to new nonperforming loans, and our allowance for credit losses may be insufficient to cover future loan losses.

*Broader range of products.* The reduction of barriers since the late 1990s among the banking, securities and insurance businesses has enabled us to engage in businesses such as sales of annuity and investment trusts to retail banking customers, which we were not permitted to conduct before. We have been seeking, and will continue to seek, to increase our fees and commissions by taking advantage of the reduction of barriers and other deregulatory trends.

*Greater competition.* We face strong competition in all of our principal areas of operation as a result of the relaxation of regulations relating to Japanese financial institutions. Deregulation has eliminated barriers between different types of Japanese financial institutions, which are now able to compete directly against one another. Deregulation and market factors have also facilitated the entry of various large foreign financial institutions into the Japanese domestic market. Greater competition may prevent us from increasing our level of fee income in the future.

*External economic conditions.* The financial services industry and the global financial markets are influenced by many unpredictable factors, including economic conditions, monetary policy, international political events, liquidity in global markets and regulatory developments. Our operations are significantly affected by external factors, such as the level and volatility of interest rates, currency exchange rates, stock and real estate markets and other economic and market conditions. In addition, we hold a significant number of shares in some of our customers for strategic purposes, in particular to maintain long-term relationships. These shareholdings expose us to risk of losses resulting from a decline in market prices of the shares. Accordingly, our results of operations may vary significantly from period to period because of unpredictable events, including unexpected failures of large corporate borrowers, defaults in emerging markets and market volatility.

## **Recent Developments**

### *Management Integration of Mitsubishi Tokyo Financial Group and the UFJ Group*

*Signing of Basic Agreement.* On August 12, 2004, we, UFJ Holdings, Bank of Tokyo-Mitsubishi, UFJ Bank, Mitsubishi Trust Bank, UFJ Trust Bank, Mitsubishi Securities and UFJ Tsubasa Securities concluded a basic agreement with regard to the management integration of the holding companies, banks, trust banks and securities companies of the two groups.

*Preferred Stock Investment into UFJ Bank.* On September 17, 2004, we purchased 3.5 billion non-voting class E preferred shares issued by UFJ Bank for ¥700 billion. This capital injection to UFJ Bank is part of our proposed management integration with the UFJ group. The investment is based on the assumption that the management integration of the two groups will proceed, and is intended to maximize the benefits of the management integration.

*Signing of Integration Agreement.* On February 18, 2005, we, UFJ Holdings, Bank of Tokyo-Mitsubishi, UFJ Bank, Mitsubishi Trust Bank, UFJ Trust Bank, Mitsubishi Securities and UFJ Tsubasa Securities entered into an integration agreement, which sets forth various terms of the management integration, including the merger ratios, company names and other material terms. The merger ratios with respect to the common stock set forth in the integration agreement are as follows:

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Holding companies: 0.62 shares of our common stock for each share of UFJ Holdings common stock;

Banks: 0.62 shares of Bank of Tokyo-Mitsubishi common stock for each share of UFJ Bank common stock;

Trust banks: 0.62 shares of Mitsubishi Trust Bank common stock for each share of UFJ Trust Bank common stock; and

Securities companies: 0.42 shares of Mitsubishi Securities common stock for each share of UFJ Tsubasa Securities common stock.

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On April 20, 2005, the parties to the integration agreement amended several technical provisions in the integration agreement to make the terms consistent with the merger agreements entered into on April 20, 2005 between the holding companies, banks, trust banks and securities companies.

***Announcement of Integration Strategy.*** On February 18, 2005, we and UFJ Holdings also announced some details about implementing the combined group's integration strategy. In particular, we and UFJ Holdings announced the following cost saving measures:

A group-wide reduction and reassignment of roughly 10,000 employees by streamlining back office operations mainly in the head office, including a reduction of staff by approximately 6,000 and a reassignment of approximately 4,000 to strategic business areas and marketing sections by the end of the fiscal year ending March 31, 2009.

Integration of systems relating to treasury activities and overseas activities by the closing of the merger, and integration of the domestic settlement and information systems by the end of the fiscal year ending March 31, 2008.

Consolidation of approximately 170 retail branches and 100 corporate branches in Japan, and approximately 30 overseas branches by the end of the fiscal year ending March 31, 2009.

Integration of head office functions and overlapping subsidiaries.

In implementing the integration strategy, we anticipate that integration-related costs will exceed cost synergies for the first one to two years following the merger until the cost saving effects begin to materialize. In addition, we expect that the combined entity's revenues will decrease for the first one to two years after the merger as the combined entity adjusts loan exposures to certain borrowers.

***Signing of Merger Agreement.*** On April 20, 2005, we and UFJ Holdings entered into a merger agreement setting forth the final terms of the merger, including the detailed terms of our shares to be issued to UFJ Holdings shareholders and other proposed amendments to our articles of incorporation upon the merger, as well as the details of the shareholders meetings at which the merger agreement and related matters necessary to complete the merger were to be approved.

***Approval of Merger Agreement at General Shareholders Meeting.*** On June 29, 2005, the merger agreement between us and UFJ Holdings, Inc. was approved at the general shareholders meetings of Mitsubishi Tokyo Financial Group, Inc. and UFJ Holdings. The general shareholders meetings of Bank of Tokyo-Mitsubishi, UFJ Bank, Mitsubishi Trust Bank, UFJ Trust Bank, Mitsubishi Securities and UFJ Tsubasa Securities, which were also held in late June 2005, also approved the merger agreements of the respective banks, trust banks and securities companies.

***Effect of the Merger.*** Pursuant to the merger agreement, Mitsubishi Tokyo Financial Group, Inc. and UFJ Holdings will combine their businesses by consummating a statutory merger under the Commercial Code of Japan, with Mitsubishi Tokyo Financial Group, Inc. being the surviving entity. As a result of the merger, UFJ Holdings shareholders of record as of the date one day prior to the date of the merger, other than us (if we hold UFJ Holdings common stock on that date), will become entitled to receive 0.62 shares of Mitsubishi Tokyo Financial Group, Inc. common stock in exchange for each share of UFJ Holdings common stock. Concurrently, the surviving entity will be renamed Mitsubishi UFJ Financial Group, Inc. and use the abbreviation MUFG.

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Additionally, holders of UFJ Holdings preferred stock will receive shares of our preferred stock as follows:

Holders of class II preferred shares of UFJ Holdings: an equal number of shares of newly issued Mitsubishi Tokyo Financial Group, Inc. class 8 preferred shares

Holders of class IV preferred shares of UFJ Holdings: an equal number of shares of newly issued Mitsubishi Tokyo Financial Group, Inc. class 9 preferred shares

Holders of class V preferred shares of UFJ Holdings: an equal number of shares of newly issued Mitsubishi Tokyo Financial Group, Inc. class 10 preferred shares

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Holders of class VI preferred shares of UFJ Holdings: an equal number of shares of newly issued Mitsubishi Tokyo Financial Group, Inc. class 11 preferred shares

Holders of class VII preferred shares of UFJ Holdings: an equal number of shares of newly issued Mitsubishi Tokyo Financial Group, Inc. class 12 preferred shares

Based on the number of shares of UFJ Holdings capital stock issued as of March 31, 2005, we expect to allocate an aggregate of 3,199,734 shares of common stock, representing a 48.89% increase in our issued shares as of March 31, 2005, to shareholders of UFJ Holdings in connection with the merger. All shares that will be issued to UFJ Holdings shareholders in connection with the merger will be newly issued on the effective date of the merger.

***Postponement of Bank Merger.*** The merger between Bank of Tokyo-Mitsubishi and UFJ Bank has been postponed to January 1, 2006 in order to enable additional testing of the two banks' systems intended to minimize risks arising from the merger. The postponement may lead to future changes in our plan to complete all systems integration group-wide by March 31, 2007. Additional delays or other difficulties in integrating the systems of the two banks may result in additional costs or cause delays in achieving targeted cost savings and other merger synergies.

The mergers between the holding companies, trust banks and securities companies of the two groups are still expected to occur on October 1, 2005.

### ***Introduction of Integrated Business Groups***

Effective April 1, 2004, we implemented a new integrated business group system, which currently integrates the operations of Bank of Tokyo-Mitsubishi, Mitsubishi Trust Bank and Mitsubishi Securities in the following three areas: Retail, Corporate, and Trust Assets. See Business Segment Analysis.

### ***Redemption of Class 1 Preferred Shares***

On October 1, 2004, we redeemed 40,700 shares of the 81,400 issued shares of our class 1 preferred shares at ¥3 million per share. Further, on April 1, 2005, we redeemed all of the remaining outstanding shares of the class 1 preferred shares, comprising 40,700 shares.

### ***Issuance of Class 3 Preferred Shares***

On February 17, 2005, we issued 100,000 shares of class 3 preferred shares at ¥2.5 million per share, the aggregate amount of the issue price being ¥250 billion. The preferred shares were issued to Meiji Yasuda Life Insurance Company, Tokio Marine & Nichido Fire Insurance Co., Ltd. and Nippon Life Insurance Company. The preferred shares do not have voting rights at any general meetings of shareholders, unless otherwise provided by applicable laws and regulations. Preferred dividends are set at ¥60,000 per share annually, except that the dividends for the fiscal year ended March 31, 2005 were ¥7,069 per share.

We used the proceeds from the issuance of our preferred shares for our capital injection to Bank of Tokyo-Mitsubishi on February 21, 2005, in which we received preferred shares of Bank of Tokyo-Mitsubishi.

*Issuance of Non-dilutive Preferred Securities*

On August 24, 2005, MTFG Capital Finance, a special purpose company established in the Cayman Islands, issued ¥165 billion in non-cumulative perpetual preferred securities in a private placement to institutional investors. These preferred securities are non-dilutive and cannot be converted into our common shares. The proceeds will be provided to Bank of Tokyo-Mitsubishi in order to strengthen its capital base. The issuance of the preferred securities will increase our Tier I capital as well as that of Bank of Tokyo-Mitsubishi under the BIS capital adequacy requirements, thereby enhancing the flexibility of our capital management.

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### ***Mitsubishi Securities becomes a Directly-Held Subsidiary***

On July 1, 2005, Mitsubishi Tokyo Financial Group, Inc. made Mitsubishi Securities a directly-held subsidiary by acquiring all of the shares of Mitsubishi Securities common stock held by Bank of Tokyo-Mitsubishi and Mitsubishi Trust Bank. As a result of the transaction, Mitsubishi Tokyo Financial Group, Inc. holds Mitsubishi Securities common stock representing 57.43% of the voting rights as of July 1, 2005.

### ***Strategic Business and Capital Alliance with ACOM***

In March 2004, we reached an agreement with ACOM Co., Ltd., or ACOM, a consumer finance company in Japan, with respect to a strategic business alliance in retail financial services and a capital alliance. The main elements of the business alliance are undertaken by ACOM and Bank of Tokyo-Mitsubishi. As part of the capital alliance, in April 2004, we acquired an additional 12.9% of the common shares of ACOM, resulting in an aggregate ownership interest of 15.1% in ACOM. Prior to the acquisition, we held 2.2% of the common shares of ACOM and accounted for the investment as available for-sale securities. As a result of our additional investment and a change in our relationship with ACOM, including an increase in our representation on ACOM's board of directors, we had the ability to exercise significant influence over the operations of ACOM and applied the equity method to the investment in the fiscal year ended March 31, 2005. The equity method was applied in a manner consistent with the accounting for a step-by-step acquisition of a subsidiary in accordance with Accounting Principles Board, or APB, Opinion No. 18, The Equity Method of Accounting for Investments in Common Stock. Accordingly, the accompanying financial statements for the fiscal years ended March 31, 2003 and 2004 have been retroactively adjusted to reflect the adoption of the equity method. For more information, see note 2 to our consolidated financial statements.

### ***Basic Agreement Regarding the Combination of Operations and Reorganization to Strengthen the Consumer Finance Business***

On October 29, 2004, we, Bank of Tokyo-Mitsubishi, and our subsidiaries DC Card Co., Ltd. and Tokyo-Mitsubishi Cash One Ltd., or Cash One, reached a basic agreement with ACOM to integrate and reorganize the business operations of our consumer finance business. Cash One will integrate its business operations with DC Card's processing centers, call centers and guarantee divisions during the first half of the fiscal year ending March 31, 2006. On January 31, 2005, ACOM acquired shares in DC Card and Cash One. After the acquisition of the shares, ACOM owns approximately 55% and we own approximately 45% of the common shares of Cash One, which has changed its name to DC Cash One Ltd.

### ***Transfer of Shareholdings in Diamond Computer Service***

During the fiscal year ended March 31, 2005, Mitsubishi Tokyo Financial Group, Inc. acquired 100% of Diamond Computer Service Co., Ltd., or DCS, a former equity method investee of Bank of Tokyo-Mitsubishi which provides data processing and IT development services, through a share exchange. 26,205 shares of our common stock were issued in exchange for all of the outstanding shares of DCS's common stock based on the exchange ratio of 0.00135 shares of our common stock for each share of DCS's common stock. Following the completion of the exchange offer, in accordance with a business alliance between DCS and Mitsubishi Research Institute, Inc., or MRI, a research and consulting company headquartered in Tokyo, Japan, we sold 60% of our shares of DCS to MRI. As a result, DCS became an equity method investee at March 31, 2005.

### ***Planned Merger of Mitsubishi Asset Management and UFJ Partners Asset Management***



On July 1, 2005, Mitsubishi Asset Management Co., Ltd. and UFJ Partners Asset Management Co., Ltd. signed a merger agreement, which was subsequently approved at the general meeting of shareholders of the respective companies on July 25, 2005.

Mitsubishi Asset Management was created on October 1, 2004 by the merger of Tokyo-Mitsubishi Asset Management Ltd. and Mitsubishi Trust Asset Management Co., Ltd., and we own 92.8% of Mitsubishi Asset

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Management. The merger of Mitsubishi Asset Management and UFJ Partners Asset Management is scheduled to be completed on October 1, 2005. The name of the new asset management company will be Mitsubishi UFJ Asset Management Co., Ltd.

### ***Business Revitalization Plan of Mitsubishi Motors***

On January 28, 2005, Mitsubishi Motors Corporation announced a new business revitalization plan through the fiscal year ending March 31, 2008. The new revitalization plan includes measures for stabilizing Mitsubishi Motors' operations and improving its financial position over the medium-and long-term. In connection with the revitalization plan, and at the request of Mitsubishi Motors, Bank of Tokyo-Mitsubishi, Mitsubishi Heavy Industries, Ltd. and Mitsubishi Corporation participated in a capital enhancement of ¥274 billion by purchasing newly issued common and preferred shares of Mitsubishi Motors on March 10, 2005. As a result, Bank of Tokyo-Mitsubishi subscribed to common and preferred shares of Mitsubishi Motors for an aggregate amount of ¥154 billion, of which ¥54 billion consisted of a debt-for-equity swap. In addition, on March 22, 2005, Mitsubishi Trust Bank purchased, in a debt-for-equity swap, newly issued preferred shares of Mitsubishi Motors for an aggregate amount of ¥10.2 billion.

### ***Suspension of Consolidated Corporate-Tax System***

In February 2005, our application to suspend the consolidated corporate-tax system, which has been adopted since the fiscal year ended March 31, 2003, was approved by the Japanese tax authorities. We filed, for the fiscal year ended March 31, 2005, our tax returns under the consolidated corporate-tax system, which allows companies to base tax payments on the combined profits or losses of a parent company and its wholly-owned domestic subsidiaries. Due to the suspension of the consolidated corporate-tax system, deferred income taxes for the fiscal year ended March 31, 2005 are calculated separately based on temporary differences and future taxable income at each company as of March 31, 2005.

### ***Transfer to the Japanese Government of the Substitutional Portion of Employee Pension Fund Liabilities***

As discussed under "Accounting Changes" below, the substitutional portion of employee pension fund liabilities of Bank of Tokyo-Mitsubishi were transferred to the Japanese government in March 2005. Since the transfer was completed after the measurement date in the fiscal year ended March 31, 2005, the impact of the transfer, an increase in pre-tax income of ¥36.1 billion, will be reflected to our consolidated financial statements for the fiscal year ending March 31, 2006.

### ***Strengthening of Corporate Governance in the United States***

We have decided to strengthen our corporate governance function in the United States by appointing a managing officer with responsibility for corporate governance in the United States as of June 29, 2005. This managing officer will be resident in the United States and will oversee governance-related matters with respect to our U.S. consolidated subsidiaries, including risk management, and legal and other compliance issues. In conjunction with this appointment, we have also established a Corporate Governance Division for the United States to carry out support functions for the managing officer.

*Purchase of 50% of Bank of Tokyo-Mitsubishi s Head Office and Nihonbashi Annex*

On July 21, 2005, Bank of Tokyo-Mitsubishi announced that it reached an agreement to purchase from Mitsubishi Estate Co., Ltd., or Mitsubishi Estate, the equivalent of 50% of the land and building of each of Bank of Tokyo-Mitsubishi s head office and Nihonbashi annex. These assets are currently jointly owned by Bank of Tokyo-Mitsubishi and Mitsubishi Estate. The purchase is scheduled to take place on August 31, 2005 and the total purchase price will be ¥111.3 billion. For further information, see note 8 to our consolidated financial statements.

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### **Business Environment**

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

General economic conditions;

Interest rates;

Currency exchange rates; and

Stock and real estate prices.

### ***Economic Environment in Japan***

In the Japanese economy, exports and capital expenditures rose due to increased overseas demand in the early part of the current period. Private consumption also steadily increased as consumer confidence improved. Nevertheless, a certain degree of uncertainty prevailed over the Japanese economy from the latter part of the fiscal year ended March 31, 2005 and deflation continued.

With respect to interest rates, the Bank of Japan continued its current easy monetary policy and kept short-term interest rates at near zero percent. On the other hand, the yield on ten-year Japanese government bonds which was approximately 1.4% in April 2004, rose temporarily to approximately 1.9% in June and July 2004, before declining to approximately 1.3% in March 2005. As of mid-August 2005, the yield was around 1.4%. The following chart shows the interest rate trends in Japan since January 2000:

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The Japanese stock markets were relatively stable during the fiscal year ended March 31 2005. The Nikkei Stock Average, which is an average of 225 blue chip stocks listed on the Tokyo Stock Exchange, declined from ¥11,715.39 at March 31, 2004 to ¥11,668.95 at March 31, 2005. Conversely, the Tokyo Stock Price Index, or TOPIX, a composite index of all stocks listed on the First Section of the Tokyo Stock Exchange, rose from 1,179.23 at March 31, 2004 to 1,182.18 at March 31, 2005. As of mid-August 2005, the Nikkei Stock Average was around ¥12,000, and TOPIX was around 1,200.

In the foreign exchange markets, although the yen initially depreciated against the U.S. dollar mainly due to the rise in the U.S. federal funds rate, the exchange rate subsequently stabilized and remained within a narrow range. See Item 3.A. Key Information Selected Financial Data Exchange Rate Information for the historical noon buying rates of the Federal Reserve Bank of New York.

Land prices in Japan continued to decline during the fiscal year ended March 31, 2005, but the extent of the decline was smaller than the previous fiscal year. Based on the average government-set official land prices as of January 1, 2005, nationwide residential land prices declined 4.6%, compared to a 5.7% decline in the previous fiscal year, and nationwide land prices for commercial properties declined 5.6%, compared to a 7.4% decline in the previous fiscal year.

The number of corporate bankruptcy filings in Japan during the fiscal year ended March 31, 2005 was approximately 13,000 representing an 16% decline compared with the previous fiscal year.

## ***International Financial Markets***

With respect to the financial and economic environment for the fiscal year ended March 31, 2005, overseas economies moved toward recovery in the early part of this period, particularly in the United States where the recovery was driven by large-scale tax cuts, and in China where domestic demand continued to expand. In the latter part of the fiscal year, however, a certain degree of uncertainty prevailed in overseas economies as the positive effects of the tax cuts in the United States began to wane, as China began to restrain investments and as crude oil prices rose sharply.

In the United States, the 10-year U.S. treasury note, a benchmark for long-term interest rates, started at around 3.8% in April 2004 and rose to around 4.5% in March 2005. As of mid-July 2005, the yield was around 4.2%. The target for the federal funds rate has been steadily increased since the end of the previous fiscal year, rising from 1.0% in April 2004 to 3.5% as of August 2005.

In the EU, the European Central Bank's policy rate remained at 2% during the fiscal year ended March 31, 2005 and has remained unchanged as of July 2005.

## **Critical Accounting Estimates**

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

accounting policies. The following is a summary of the critical accounting estimates.

*Allowance for Credit Losses*

The allowance for credit losses represents management's estimate of probable losses in our loan portfolio. The evaluation process involves a number of estimates and judgments. The allowance is based on two principles of accounting: (1) Statement of Financial Accounting Standards, or SFAS, No. 5, Accounting for Contingencies, which requires that losses be accrued when they are probable of occurring and can be estimated;

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and (2) SFAS No. 114, Accounting by Creditors for Impairment of a Loan and SFAS No. 118, Accounting by Creditors for Impairment of a Loan Income Recognition and Disclosures, which require that losses be accrued based on the difference between the present value of expected future cash flows discounted at the loan's effective interest rate, the fair value of collateral or the loan's value that is observable in the secondary market and the loan balance.

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

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

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

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

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

Our actual losses could be more or less than the estimates. The unallocated allowance captures losses that are attributable to various economic events, industry or geographic sectors whose impact on the portfolio have occurred but have yet to be recognized in the allocated allowance. For further information regarding our allowance for credit losses, see Item 5.B. Liquidity and Capital Resources Financial Condition Allowance for Credit Losses, Nonperforming and Past Due Loans.

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

To the extent that actual losses differ from management's estimates, additional provisions for credit losses may be required that would adversely impact our operating results and financial condition in future periods.



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

US GAAP requires the recognition in earnings of an impairment loss on investment securities for a decline in fair value that is other than temporary. Determinations of whether a decline is other than temporary often involves estimating the outcome of future events. Management judgment is required in determining whether factors exist that indicate that an impairment loss has been incurred at the balance sheet date. These judgments are based on subjective as well as objective factors. We conduct a review semi-annually to identify and evaluate investment securities that have indications of possible impairment.

*Debt and marketable equity securities.* In determining whether a decline in fair value is other than temporary for a particular security, indicators of an other-than-temporary decline for both debt and marketable equity securities include the extent of decline in fair value below cost and the length of time that the decline has continued. If a decline in fair value is 20% or more or a decline in fair value has continued for six months or more, we generally deem such decline as an indicator of other-than-temporary decline. We also consider the financial condition and near-term prospects of issuers primarily based on the credit standing of the issuers as determined by its credit rating system.

Prior to the fiscal year ended March 31, 2004, we did not take the lengths of time that a decline continued into consideration with respect to debt securities because a substantial majority of our investments in debt securities are in high-grade fixed-rate bonds, including sovereign bonds such as U.S. treasury bonds and we generally had the intent to hold such investments for a period longer than that inherent in cyclical short-term market price fluctuations due to market interest rate and foreign exchange rate changes. However, in light of the recent decline in the bond market, which made it difficult for us to hold debt securities for a period longer than that necessary for recovery, during the fiscal year ended March 31, 2004, we determined that the length of period that a decline in fair value continued should be considered in identifying other-than-temporary decline in fair value of debt securities. The aggregate amount of unrealized losses at March 31, 2005 that we determined to be temporary was ¥42,496 million.

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

*Non-marketable equity securities.* We consider the credit standing of issuers and the extent of decline in net assets of issuers to determine whether the decline is other than temporary. When we determine that the decline is other than temporary, non-marketable equity securities are written down to our share of the amount of the issuer's net assets, which approximates fair value.

The markets for equity securities and debt securities are inherently volatile, and the values of both types of securities have fluctuated significantly in recent years. Accordingly, our assessment of potential impairment involves risks and uncertainties depending on the market condition. If we later conclude that a decline is other than temporary, the impairment loss may significantly affect our operating results and financial condition in future periods.

### ***Valuation of Deferred Tax Assets***

A valuation allowance for deferred tax assets is recognized if, based on the weight of available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. All available evidence, both positive and negative, is considered to determine

whether, based on the weight of that evidence, a valuation allowance is needed. Future realization of the tax benefit of existing deductible temporary differences or carryforwards ultimately depends on the existence of sufficient taxable income in future periods.

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In determining a valuation allowance, we perform a review of future taxable income (exclusive of reversing temporary differences and carryforwards) and future reversals of existing taxable temporary differences. Due to losses in recent years and continuing weak economic conditions, the determination of the valuation allowance involves difficult judgments to estimate future taxable income.

At March 31, 2005, we had operating loss carryforwards of ¥1,274.7 billion. Based on our estimates of future taxable income, we recognized a valuation allowance for a portion of the operating loss carryforwards.

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

## ***Accounting for Goodwill***

US GAAP requires us to test goodwill for impairment at least annually using a two-step process that begins with an estimation of the fair value of a reporting unit of its business, which is to be compared with the carrying amount of the unit, to identify potential impairment of goodwill. The fair value of a reporting unit is defined as the amount at which the unit as a whole could be bought or sold in a current transaction between willing parties. Since an observable quoted market price for units is not always available, the estimate of fair value is based on the best information available, including prices for comparable units and the results of using other valuation techniques including the present value technique, which requires an estimate of future cash flows and other assumptions. If the carrying amount of a reporting unit exceeds its estimated fair value, the second step of the goodwill impairment test is performed to measure the amount of impairment loss. This test requires comparison of the implied fair value of the unit's goodwill with the carrying amount of that goodwill. The estimate of the implied fair value of the reporting unit's goodwill requires us to allocate the fair value of a reporting unit to all of the assets and liabilities of that unit, including unrecognized intangible assets, if any, since the implied fair value is determined as the excess of the fair value of a reporting unit over the net amounts assigned to its assets and liabilities in the allocation. Accordingly, the second step of the impairment test also requires an estimate of the fair value of individual assets and liabilities, including any unrecognized intangible assets that belong to that unit.

At March 31, 2005, we had goodwill of ¥85.8 billion. In connection with our merger with UFJ Holdings, we expect to record a significant amount of additional goodwill.

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

We have defined benefit retirement plans, including lump-sum severance indemnities and pension plans, which cover substantially all of our employees. Severance indemnities and pension costs are calculated based upon a number of actuarial assumptions, including discount rates, expected long-term rates of return on our plan assets and rates of increase in future compensation levels. In accordance with US GAAP, actual results that differ from the assumptions are accumulated and amortized over future periods, and affect our recognized net periodic pension costs and accrued severance indemnities and pension obligations in future periods. We had an unrecognized net actuarial loss for domestic severance indemnities and pension plans of ¥337.0 billion at March 31, 2005. Differences in actual experience or changes in assumptions may affect our financial condition and operating results in future periods.

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

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

**Table of Contents****Valuation of Financial Instruments with No Available Market Prices**

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

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

	<b>At March 31,</b>	
	<b>2004</b>	<b>2005</b>
	<b>(in billions)</b>	
<b>Financial assets:</b>		
Trading account assets, excluding derivatives	¥ 5,732	¥ 5,268
Investment securities	25,328	25,386
Derivative financial instruments, net	153	34
<b>Financial liabilities:</b>		
Trading account liabilities, excluding derivatives	153	7
Obligations to return securities received as collateral	2,351	3,015

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

**Accounting Changes**

*Variable Interest Entities* In January 2003, the Financial Accounting Standards Board, or FASB, issued FASB Interpretation, or FIN, No. 46, Consolidation of Variable Interest Entities, an interpretation of ARB No. 51. FIN No. 46 addresses consolidation by business enterprises of variable interest entities, or VIEs. The consolidation requirements of FIN No. 46 apply immediately to VIEs created after January 31, 2003. We have applied, as required, FIN No. 46 to all VIEs created after January 31, 2003. The consolidation requirements apply to older entities in the first fiscal year or interim period beginning after June 15, 2003, which has been amended by the FASB as described below.

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In December 2003, the FASB issued FIN No. 46 (revised December 2003), Consolidation of Variable Interest Entities, an interpretation of ARB No. 51, or FIN No. 46R. FIN No. 46R modifies FIN No. 46 in certain respects including the scope exception, the definition of VIEs, and other factors that would affect the determination of VIEs and primary beneficiaries that must consolidate VIEs. FIN No. 46R, as written, applies to VIEs created before February 1, 2003 no later than the end of the first reporting period that ends after March 15, 2004, and to all special purpose entities no later than the first reporting period that ends after December 15, 2003.

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Subsequent to the issuance of FIN No. 46R, the Chief Accountant of the U.S. Securities and Exchange Commission, or SEC, stated the SEC staff's position in a letter to the American Institute of Certified Public Accountants, or AICPA, dated March 3, 2004, that the SEC staff does not object to the conclusion that FIN No. 46R should not be required to be applied at a date earlier than the original FIN No. 46 and that foreign private issuers would be required to apply FIN No. 46R at various dates depending on the entity's year-end and the frequency of interim reporting. In accordance with the letter, we adopted FIN No. 46R on April 1, 2004, except for its variable interests in certain investment companies, for which the effective date of FIN No. 46 R is deferred. Under FIN No. 46R, any difference between the net amount added to the balance sheet and the amount of any previously recognized interest in the VIE is to be recognized as a cumulative effect of a change in accounting principle. The cumulative effect of the change in accounting principle was to decrease net income by ¥977 million. See Note 26 for further discussion of VIEs in which we hold variable interests.

*Certain Financial Instruments with Characteristics of both Liabilities and Equity* In May 2003, the FASB issued SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity. SFAS No. 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. SFAS No. 150 is effective at the beginning of the first interim period beginning after June 15, 2003, which is our fiscal year ended March 31, 2005. On November 7, 2003, FASB Staff Position No. 150-3, Effective Date, Disclosures, and Transition for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests under FASB Statement No. 150, Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity, delayed the effective date of certain provisions of SFAS No. 150 for certain mandatorily redeemable noncontrolling interests. The adoption of SFAS No. 150 did not have a material impact on our financial position and results of operations.

*Disclosure about Pension and Other Postretirement Benefit* In December 2003, the FASB issued SFAS No. 132 (revised 2003), Employers Disclosures about Pensions and Other Postretirement Benefits, an amendment of FASB Statements No. 87, 88, and 106, or SFAS No. 132R, which replaces existing FASB disclosure requirements for pensions. SFAS No. 132R requires disclosure of more details about plan assets, benefit obligations, cash flows, benefit costs and other relevant information. SFAS No. 132R is generally effective for the fiscal years ending after December 15, 2003, and for interim periods beginning after December 15, 2003. See Note 17 for our condensed consolidated financial statements for the required disclosure.

*Impairment of Securities Investments* In November 2003, the FASB Emerging Issues Task Force (the EITF) reached a consensus on Issue No. 03-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments, or EITF 03-1. EITF 03-1 requires certain additional quantitative and qualitative disclosures in addition to the disclosures already required by SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities. The new disclosure requirements are applied to financial statements for the fiscal years ending after December 15, 2003. See Note 5 for the required disclosures. In March 2004, the EITF also reached a consensus on additional accounting guidance for other-than-temporary impairments, which requires an evaluation and recognition of other-than-temporary impairment by a three-step impairment test. The guidance should be applied for reporting periods beginning after June 15, 2004. On September 30, 2004, FASB Staff Position EITF Issue 03-1-1, The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments delayed the effective date for the measurement and recognition guidance contained in paragraphs 10 through 20 of EITF 03-1. The FASB will be issuing implementation guidance related to this topic. Once issued, we will evaluate the effect of the measurement and recognition provision of EITF 03-1.

*Goodwill and Other Intangible Assets* Effective April 1, 2002, we adopted SFAS No. 142, Goodwill and Other Intangible Assets. SFAS No. 142 requires that goodwill, formerly amortized over its useful life, no longer be amortized but rather tested for impairment at least annually. Further, SFAS No. 142 requires that intangible assets that have finite useful lives will continue to be amortized over their useful lives while intangible assets with indefinite lives will no longer be amortized and are subject to impairment testing at least annually.

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We performed the required transitional impairment tests of goodwill and intangible assets with indefinite lives upon adoption of SFAS No. 142. The initial adoption resulted in a cumulative adjustment charge to earnings of ¥532 million.

*Derivative Instruments and Hedging Activities* In April 2003, the FASB issued SFAS No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities. SFAS No. 149 amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133. In particular, SFAS No. 149 (1) clarifies under what circumstances a contract with an initial net investment meets the characteristics of a derivative, (2) clarifies when a derivative contains a financing component that warrants special reporting in the statement of cash flows, (3) amends the definition of underlyings, one of three characteristics of derivatives, to include the occurrence or non-occurrence of a specified event such as scheduled payments under a contract, and (4) amends certain other existing pronouncements, in particular, those related to the scope of instruments that are subject to the requirements of SFAS No. 133. SFAS No. 149 is generally effective for contracts entered into or modified after June 30, 2003. The adoption of SFAS No. 149 did not have a material impact on our financial position or results of operations.

*Transfer to the Japanese Government of the Substitutional Portion of Employee Pension Fund Liabilities* In January 2003, the EITF reached a consensus on Issue No. 03-2, Accounting for the Transfer to the Japanese Government of the Substitutional Portion of Employee Pension Fund Liabilities, or EITF 03-2, which was ratified by the FASB in February 2003. EITF 03-2 addresses accounting for a transfer to the Japanese government of a substitutional portion of an employee pension fund and requires employers to account for the entire separation process of the substitutional portion from an entire plan upon completion of the transfer to the government of the substitutional portion of the benefit obligation and related plan assets as the culmination of a series of steps in a single settlement transaction. It also requires that the difference between the fair value of the obligation and the assets required to be transferred to the government, if any, should be accounted for as a subsidy from the government, separately from gain or loss on settlement of the substitutional portion of the obligation, upon completion of the transfer.

In June 2003, Bank of Tokyo-Mitsubishi submitted to the government an application to transfer the obligation to pay benefits for future employee service related to the substitutional portion and the application was approved in August 2003. In August 2004, Bank of Tokyo-Mitsubishi made another application for transfer to the government of the remaining substitutional portion and the application was approved in November 2004. Substitutional obligation and related plan assets were transferred to a government agency in March 2005 and Bank of Tokyo-Mitsubishi was released from paying the substitutional portion of the benefits to its employees. The completion of the transfer to the Japanese Government of the substitutional portion of the employee pension plan constituted a settlement of such plan. However, since there remains a defined benefit plan and the settlement occurred subsequent to December 31, 2004 (the measurement date of such plan), the impact of the transfer / settlement of a pre-tax income of ¥36.1 billion will be recognized in the fiscal year ending March 31, 2006. See Note 17 to our consolidated financial statements for the required disclosure.

## **Recently Issued Accounting Pronouncements**

*Accounting for Certain Loans and Debt Securities Acquired in a Transfer* In December 2003, the AICPA issued Statement of Position 03-3, Accounting for Certain Loans or Debt Securities Acquired in a Transfer, or SOP 03-3 which supersedes AICPA Practice Bulletin 6, Amortization of Discounts on Certain Acquired Loans and addresses accounting for differences between contractual cash flows and cash flows expected to be collected from an investor's initial investment in loans or debt securities acquired in a transfer if those differences are attributable, at least, in part, to credit quality. SOP 03-3 requires acquired impaired loans for which it is probable that the investor will be unable to collect all contractually required payments receivable to be recorded at the present value of amounts expected to be received and prohibits carrying over or creation of valuation allowances in the initial accounting for these loans SOP 03-3 also limits accretable yield to the excess of the investor's



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estimate of undiscounted cash flows over the investor's initial investment in the loan and prohibits the recognition of the non-accretable difference. Subsequent increases in cash flows expected to be collected generally should be recognized prospectively through adjustment of the loan's yield over its remaining life while any decreases in such cash flows should be recognized as impairments. SOP 03-3 also provides guidance with regard to presentation and disclosures. SOP 03-3 is effective for loans acquired in fiscal years beginning after December 15, 2004. We have not completed the study of what effect SOP 03-3 will have on our financial position and results of operations.

*Share-Based Payment* In December 2004, the FASB issued SFAS No. 123 (revised 2004), *Share-Based Payment*, or SFAS No. 123R. SFAS No. 123R replaces SFAS No. 123, *Accounting for Stock-Based Compensation*, and supersedes Accounting Principles Board Opinion, or APB, No. 25, *Accounting for Stock Issued to Employees*. SFAS No. 123 preferred a fair-value-based method of accounting for share-based payment transactions with employees, but it permitted the option of continuing to apply the guidance of using intrinsic-value-based measurement method in APB No. 25, as long as the footnotes to the financial statements disclosed what net income would have been had the preferable fair-value-based method been used. SFAS No. 123R establishes fair value as the measurement objective in accounting for share-based payment arrangements and requires a fair-value-based measurement method in accounting for share-based payment transactions with employees. As a result, the cost resulting from all share-based payment transactions shall be recognized in the financial statements. SFAS No. 123R is effective as of the beginning of the interim or annual reporting periods beginning after June 15, 2005. See Note 1 to our consolidated financial statements for the pro forma information as if the fair value based method had been applied to all awards in accordance with SFAS No.123.

*Exchanges of Nonmonetary Assets* In December 2004, the FASB issued SFAS No. 153, *Exchanges of Nonmonetary Assets*, an amendment of APB Opinion No. 29. The guidance in APB No. 29, *Accounting for Nonmonetary Transactions*, is based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. The guidance in APB No. 29, however, included certain exceptions to that principle. SFAS No. 153 amends APB No. 29 to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS No. 153 is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005, with earlier adoption permitted. We have not completed the study of what effect SFAS No. 153 will have on our financial position and results of operations.

*Accounting Changes and Error Corrections* In May 2005, the FASB issued SFAS No. 154, *Accounting Changes and Error Corrections* a replacement of APB Opinion No. 20 and FASB Statement No. 3. SFAS No. 154 replaces APB No. 20, *Accounting Changes*, and SFAS No. 3, *Reporting Accounting Changes in Interim Financial Statements*, and changes the requirements for the accounting for and reporting of a change in accounting principle. This Statement applies to all voluntary changes in accounting principle. It also applies to changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005, with earlier adoption permitted. Accordingly, we can not reasonably estimate the ultimate impact of SFAS No. 154.

*Accounting for Conditional Asset Retirement Obligations* In March 2005, the FASB issued FIN No. 47, *Accounting for Conditional Asset Retirement Obligations* an interpretation of FASB Statement No. 143. This Interpretation clarifies that the term *conditional asset retirement obligation* as used in SFAS No. 143, *Accounting for Asset Retirement Obligations*, refers to a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. The obligation to perform the asset retirement activity is unconditional even though uncertainty exists about the timing and (or) method of settlement. SFAS No. 143 acknowledges that in some cases, sufficient information may not be available to reasonably estimate the fair value of an asset

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retirement obligation. This Interpretation also clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. This Interpretation is effective no later than the end of fiscal years ending after December 15, 2005. We have not completed the study of what effect FIN No. 47 will have on our financial position and results of operations.

**Results of Operations**

The following table sets forth a summary of our results of operations for the fiscal years ended March 31, 2003, 2004 and 2005. As discussed in Recent Developments Strategic Business and Capital Alliance with ACOM above, our results of operations for the fiscal year ended March 2003 and 2004 have been retroactively adjusted.

	Fiscal years ended March 31,		
	2003	2004	2005
		(in billions)	
Interest income	¥ 1,582.5	¥ 1,421.8	¥ 1,442.6
Interest expense	539.2	426.5	471.2
Net interest income	1,043.3	995.3	971.4
Provision (credit) for credit losses	438.0	(114.1)	109.5
Non-interest income	840.6	1,308.1	995.1
Non-interest expense	1,182.4	1,236.1	1,135.6
Income from continuing operations before income tax expense and cumulative effect of a change in accounting principle	263.5	1,181.4	721.4
Income tax expense	69.9	357.8	305.3
Income from continuing operations before cumulative effect of a change in accounting principle	193.6	823.6	416.1
Income (loss) from discontinued operations net	10.3	(0.6)	
Cumulative effect of a change in accounting principle, net of tax	(0.5)		(0.9)
Net income (loss)	¥ 203.4	¥ 823.0	¥ 415.2

We reported ¥415.2 billion of net income for the fiscal year ended March 31, 2005, compared to ¥823.0 billion of net income for the fiscal year ended March 31, 2004. Our basic earnings per common share (net income available to common shareholders) for the fiscal year ended March 31, 2005 was ¥62,717.21 compared to an earnings per share of ¥128,350.88 for the fiscal year ended March 31, 2004. Income from continuing operations before income tax expense and cumulative effect of a change in accounting principle for the fiscal year ended March 31, 2005 was ¥721.4 billion, compared with ¥1,181.4 billion for the fiscal year ended March 31, 2004. The changes in our operating results were primarily attributable to the following:

Non-interest income decreased ¥313.0 billion from ¥1,308.1 billion for the fiscal year ended March 31, 2004 to ¥995.1 billion for the fiscal year ended March 31, 2005. This decrease was primarily attributable to a decrease of ¥460.9 billion in net foreign exchange gains, from a gain of ¥413.9 billion for the fiscal year ended March 31, 2004 to a loss of ¥47.0 billion for the fiscal year ended March

31, 2005. This decrease in foreign exchange gains was due to the depreciation of the yen against foreign currencies in the fiscal year ended March 31, 2005, compared to an appreciation of the yen in the fiscal year ended March 31, 2004. All transaction gains or losses on translation of monetary liabilities denominated in foreign currencies are included in current earnings. However, the transaction gains or losses on translation of securities available for sale, such as bonds denominated in foreign currencies, are not included in current earnings but are reflected in other changes in equity from nonowner sources. As we maintain monetary liabilities denominated in foreign currencies for our asset liability management, net foreign exchange gains (losses) fluctuate with the appreciation (depreciation) of the yen. This decrease in foreign exchange gains was partially offset by the increase in fees and commissions of ¥76.5 billion and an increase in net investment securities gains of ¥79.4 billion compared to the fiscal year ended March 31, 2004.

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For the fiscal year ended March 31, 2005, provision for credit losses of ¥109.5 billion was recorded. In contrast, for the fiscal year ended March 31, 2004, a reversal of allowance for credit losses of ¥114.1 billion was recorded. Although the reversals of allowance for credit losses were recorded for both March 31, 2004 and 2005 due to improvements in our loan portfolio as evidenced by the reduction in our nonperforming loans, for the fiscal year ended March 31, 2005, additional provisions were recognized as downgrades of several borrowers to which we extended relatively large amounts of loans were greater than the reversals recognized.

**Net Interest Income**

Net interest income is a function of:

the amount of interest-earning assets;

the general level of interest rates;

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

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

Our net interest income for the fiscal years ended March 31, 2003, 2004 and 2005 were not materially affected by gains or losses resulting from derivative financial instruments used for hedging purposes.

The following is a summary of the interest rate spread for the fiscal years ended March 31, 2003, 2004 and 2005:

	Fiscal years ended March 31,					
	2003		2004		2005	
	Average balance	Average rate	Average balance	Average rate	Average balance	Average rate
	(in billions, except percentages)					
Interest-earning assets:						
Domestic	¥ 62,605.1	1.19%	¥ 67,524.8	1.06%	¥ 76,426.1	0.96%
Foreign	23,641.9	3.55	23,325.8	3.03	23,059.2	3.06
Total	¥ 86,247.0	1.83%	¥ 90,850.6	1.56%	¥ 99,485.3	1.45%
Financed by:						
Interest-bearing funds:						

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Domestic	¥ 64,827.9	0.34%	¥ 70,151.1	0.31%	¥ 77,195.3	0.30%
Foreign	14,830.5	2.13	14,823.9	1.41	15,170.5	1.58
	<u>                    </u>		<u>                    </u>		<u>                    </u>	
Total	79,658.4	0.68	84,975.0	0.50	92,365.8	0.51
Non-interest-bearing funds	6,588.6		5,875.6		7,119.5	
	<u>                    </u>		<u>                    </u>		<u>                    </u>	
Total	¥ 86,247.0	0.62%	¥ 90,850.6	0.46%	¥ 99,485.3	0.47%
	<u>                    </u>		<u>                    </u>		<u>                    </u>	
Spread on:						
Interest-bearing funds		1.15%		1.06%		0.94%
Total funds		1.21%		1.10%		0.98%

*Fiscal Year Ended March 31, 2005 Compared to Fiscal Year Ended March 31, 2004*

Net interest income for the fiscal year ended March 31, 2005 was ¥971.4 billion, a decrease of ¥23.9 billion, or 2.4%, from ¥995.3 billion for the fiscal year ended March 31, 2004. This decrease was due primarily to the decline in the average interest rate on domestic interest earning assets and the increase in average rate of foreign interest-bearing funds. In addition, a decrease in the average balance of foreign investment securities which earn relatively higher yields, contributed to the decrease in net interest income.

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The average interest rate spread decreased 12 basis points from 1.06% for the fiscal year ended March 31, 2004 to 0.94% for the fiscal year ended March 31, 2005. This decrease was due primarily to the increase in average rate of foreign interest-bearing funds, reflecting the rise in interest rates on foreign deposits as interest rates in foreign markets such as the United States rose, and also due to the decline in average rate of domestic investment securities and domestic loans. The decline in average rate of domestic investment securities was mainly due to the increase in our holdings of Japanese government bonds, as the interest rates on Japanese government bonds are generally lower compared to other domestic investment securities reflecting the low risk. The decline in average rate of domestic loans was mainly due to the reduction of loans with relatively high interest rates, and due to increased competition in lending to large corporations and in retail housing loans, which negatively affected the interest rate spread of our loans.

Net interest income as a percentage of average total funds decreased 12 basis points from 1.10% for the fiscal year ended March 31, 2004 to 0.98% for the fiscal year ended March 31, 2005.

Average interest-earning assets for the fiscal year ended March 31, 2005 were ¥99,485.3 billion, an increase of ¥8,634.7 billion, or 9.5%, from ¥90,850.6 billion for the fiscal year ended March 31, 2004. The increase was primarily attributable to an increase of ¥6,988.5 billion in domestic investment securities, which reflected an increase in our holdings of Japanese government bonds, and an increase of ¥2,052.5 billion in domestic loans. The increase in domestic loans was primarily due to an increase in loans to industries such as manufacturing, real estate, wholesale and retail, and other industries, reflecting the consolidation of certain VIEs in accordance with FIN No. 46R. These increases were partially offset by a decrease of ¥690.0 billion in foreign investment securities reflecting the decrease in our holdings of US treasury bonds.

Average interest-bearing liabilities for the fiscal year ended March 31, 2005 were ¥92,365.8 billion, an increase of ¥7,390.8 billion, or 8.7%, from ¥84,975.0 billion for the fiscal year ended March 31, 2004. The increase in average interest-bearing liabilities primarily reflected an increase of ¥5,874.0 billion in domestic other short-term borrowings and trading account liabilities, reflecting an increase of funding from the Bank of Japan in connection with our daily money market operations, and an increase in commercial paper issued by VIEs consolidated in accordance with FIN No. 46R.

### *Fiscal Year Ended March 31, 2004 Compared to Fiscal Year Ended March 31, 2003*

Net interest income for the fiscal year ended March 31, 2004 was ¥995.3 billion, a decrease of ¥48.0 billion, or 4.6%, from ¥1,043.3 billion for the fiscal year ended March 31, 2003. This decrease was due primarily to a decline in the average interest rate spread. In addition, a decrease in average foreign loans, which earn relatively higher yields, contributed to the decrease in net interest income.

The average interest rate spread decreased 9 basis points from 1.15% for the fiscal year ended March 31, 2003 to 1.06% for the fiscal year ended March 31, 2004. The average rate of both the foreign interest-earning assets and foreign interest-bearing liabilities declined during the fiscal year ended March 31, 2004, primarily due to the decline in short-term interest rates in most foreign markets. Since the average balance of foreign interest-earning assets for the fiscal year ended March 31, 2004 was about 1.6 times larger than the average balance of foreign interest-bearing liabilities for the same period, the decline in the average rate had a negative effect on our net interest income.

Net interest income as a percentage of average total interest-earning assets decreased 11 basis points from 1.21% for the fiscal year ended March 31, 2003 to 1.10% for the fiscal year ended March 31, 2004.

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The increase in average interest-earning assets for the fiscal year ended March 31, 2004 was primarily attributable to increases in average trading account assets, average investment securities and average call loans, funds sold, and receivables under resale agreements and securities borrowing transactions, which yield relatively low rate of interest income. These increases were partially offset by decreases in average interest-earning

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deposits and average loans, which yield relatively high rate of interest income. The shift in investment from relatively high yielding assets to low yielding assets more than offset an increase in average interest-earning assets and had a negative impact on interest income.

The increase in average interest-bearing liabilities for the fiscal year ended March 31, 2004 primarily reflected an increase in average call money, funds purchased, and payables under repurchase agreements and securities lending transactions, average deposits and average other short-term borrowings and trading account liabilities.

### **Provision (Credit) for Credit Losses**

Provision (credit) for credit losses are charged to operations to maintain the allowance for credit losses at a level deemed appropriate by management. For a description of the approach and methodology used to establish the allowance for credit losses, see Item 5.B. Liquidity and Capital Resources Financial Condition Allowance for Credit Losses, Nonperforming and Past Due Loans.

#### *Fiscal Year Ended March 31, 2005 Compared to Fiscal Year Ended March 31, 2004*

For the fiscal year ended March 31, 2005, provision for credit losses of ¥109.5 billion was recorded. In contrast, for the fiscal year ended March 31, 2004, a reversal of allowance for credit losses of ¥114.1 billion was recorded. Although the reversals of allowance for credit losses were recorded for both March 31, 2004 and 2005 due to improvements in our loan portfolio as evidenced by the reduction in our nonperforming loans, for the fiscal year ended March 31, 2005, additional provisions were recognized as downgrades of several borrowers to which we extended relatively large amounts of loans were greater than the reversals recognized.

For a further discussion of allowance for credit losses, see Item 5.B. Liquidity and Capital Resources Financial Condition Allowance for Credit Losses, Nonperforming and Past Due Loans.

#### *Fiscal Year Ended March 31, 2004 Compared to Fiscal Year Ended March 31, 2003*

A reversal of allowance for credit losses of ¥114.1 billion was recorded for the fiscal year ended March 31, 2004, compared with a provision for credit losses of ¥438.0 billion for the fiscal year ended March 31, 2003. This change was due mainly to a decrease in our specific allowance as a result of our reduction of nonperforming loans and a decrease in our formula allowance reflecting a decline in loans classified as special mention or substandard.



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The following table is a summary of our non-interest income for the fiscal years ended March 31, 2003, 2004 and 2005:

	Fiscal years ended March 31,		
	2003	2004	2005
	(in billions)		
Fees and commissions:			
Trust fees	¥ 103.8	¥ 90.0	¥ 102.8
Fees on funds transfer and service charges for collections	58.1	59.8	60.2
Fees and commissions on international business	54.5	53.8	51.9
Fees and commissions on credit card business	57.1	60.5	61.7
Service charges on deposits	34.6	36.2	37.1
Fees and commissions on securities business	68.0	99.0	126.4
Fees on real estate business	20.0	20.5	31.4
Other fees and commissions	124.7	152.9	177.7
<b>Total</b>	<b>520.8</b>	<b>572.7</b>	<b>649.2</b>
Foreign exchange gains (losses) net	25.6	413.9	(47.0)
Trading account profits net	267.6	103.9	62.0
Investment securities gains (losses) net	(22.7)	118.6	198.0
Equity in earnings (losses) of equity method investees	(9.8)	5.2	26.3
Refund of the local taxes by the Tokyo Metropolitan Government		42.0	
Other non-interest income	59.1	51.8	106.6
<b>Total non-interest income</b>	<b>¥ 840.6</b>	<b>¥ 1,308.1</b>	<b>¥ 995.1</b>

Net foreign exchange gains (losses) primarily include net gains (losses) on currency derivative instruments entered into for trading purposes and transaction gains (losses) on the translation into Japanese yen of monetary assets and liabilities denominated in foreign currencies. The transaction gains (losses) on the translation into Japanese yen fluctuate from period to period depending upon the spot rates at the end of each fiscal year. This is primarily because the transaction gains (losses) on translation of securities available for sale, such as bonds denominated in foreign currencies, are not included in current earnings, but are reflected in other changes in equity from nonowner sources, while in principle all transaction gains (losses) on translation of monetary liabilities denominated in foreign currencies are included in current earnings.

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

Net investment securities gains (losses) primarily include net gains on sales of marketable securities, particularly marketable equity 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.

*Fiscal Year Ended March 31, 2005 Compared to Fiscal Year Ended March 31, 2004*

Non-interest income for the fiscal year ended March 31, 2005 was ¥995.1 billion, a decrease of ¥313.0 billion, or 23.9%, from ¥1,308.1 billion for the fiscal year ended March 31, 2004. This decrease was primarily attributable to a decrease in net foreign exchange gains of ¥460.9 billion and a decrease in net trading account

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profits of ¥41.9 billion. These decreases were partially offset by an increase in net investment securities gains of ¥79.4 billion and an increase in fees and commissions of ¥76.5 billion.

Fees and commissions for the fiscal year ended March 31, 2005 increased ¥76.5 billion from the previous fiscal year. This increase primarily reflected an increase in fees and commissions on securities business as well as other fees and commissions. Fees and commissions on securities business increased ¥27.4 billion from the previous fiscal year primarily due to an increase in commissions in brokerage, underwriting and distribution at Mitsubishi Securities, which were in line with the increased trading volume of the Japanese stock markets during the same period and the increase in fees related to securitization business at Mitsubishi Securities. Other fees and commissions increased ¥24.8 billion from the previous fiscal year, as fees related to the sales of investment and insurance products to retail customers, and fees in investment banking businesses, such as arrangement of syndicated loans increased at our subsidiary banks.

Net foreign exchange losses for the fiscal year ended March 31, 2005 were ¥47.0 billion, compared to net foreign exchange gains of ¥413.9 billion for the fiscal year ended March 31, 2004. The decrease in foreign exchange gains was due to the depreciation of the yen against foreign currencies in the fiscal year ended March 31, 2005, compared to an appreciation of the yen in the fiscal year ended March 31, 2004. This decrease in net foreign exchange gains primarily reflected a decrease in transaction gains on translation of monetary liabilities denominated in foreign currencies. All transaction gains or losses on translation of monetary liabilities denominated in foreign currencies are included in current earnings. However, the transaction gains or losses on translation of securities available for sale, such as bonds denominated in foreign currencies, are not included in current earnings but are reflected in other changes in equity from nonowner sources. As we maintain monetary liabilities denominated in foreign currencies for our asset liability management, net foreign exchange gains (losses) fluctuate with the appreciation (depreciation) of the yen.

Net trading account profits for the fiscal year ended March 31, 2005 were ¥62.0 billion, a decrease of ¥41.9 billion, or 40.3%, from ¥103.9 billion for the fiscal year ended March 31, 2004. The net trading account profits for the fiscal years ended March 31, 2004 and 2005 consisted of the following:

	<b>Fiscal years ended March 31,</b>	
	<b>2004</b>	<b>2005</b>
	(in billions)	
Net profits (losses) on derivative instruments, primarily interest-rate futures, swaps and options	¥ (2.0)	¥ 6.4
Net profits on trading securities	105.9	55.6
<b>Net trading account profits</b>	<b>¥ 103.9</b>	<b>¥ 62.0</b>

The decrease in net profits on trading securities primarily reflected the decrease in profits of trading in debt and equity securities at Mitsubishi Securities compared to the previous fiscal year.

Net investment securities gains for the fiscal year ended March 31, 2005 were ¥198.0 billion, an increase of ¥79.4 billion, from a gain of ¥118.6 billion for the fiscal year ended March 31, 2004. Major components of net investment securities gains for the fiscal years ended March 31, 2004 and 2005 are summarized below:

	Fiscal years ended March 31,	
	2004	2005
	(in billions)	
Net gains on sales of marketable equity securities	¥ 371.2	¥ 246.0
Impairment losses on marketable equity securities	(15.4)	(17.9)
Other	(237.2)	(30.1)
Net investment securities gains	¥ 118.6	¥ 198.0

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The increase in net investment securities gains for the fiscal year ended March 31, 2005 mainly reflected a decrease in losses on debt securities compared to the previous fiscal year, which in turn was primarily a result of smaller impairment losses on Japanese government bonds, as long-term interest rates in Japan remained relatively low and stable compared to the previous fiscal year. This improvement was partially offset by the decrease in net gains on sales of marketable equity securities and impairment losses on equity securities which are not classified as marketable equity securities, such as preferred stocks.

We had a ¥21.1 billion increase in equity in earnings of equity method investees mainly due to our increased shareholdings in ACOM, which also reported improved results for the fiscal year ended March 31, 2005.

Other non-interest income increased by ¥54.8 billion reflecting, among other items, a ¥10.1 billion gain on the sale of a merchant card portfolio at UnionBanCal Corporation and ¥10.0 billion in net gains on sales of premises and equipment.

*Fiscal Year Ended March 31, 2004 Compared to Fiscal Year Ended March 31, 2003*

Non-interest income for the fiscal year ended March 31, 2004 was ¥1,308.1 billion, an increase of ¥467.5 billion, or 55.6%, from ¥840.6 billion for the fiscal year ended March 31, 2003. This increase was primarily attributable to an increase in net foreign exchange gains of ¥388.3 billion and an increase in net investment securities gains of ¥141.3 billion. These gains were partially offset by a decrease in net trading account profits of ¥163.7 billion.

Fees and commissions for the fiscal year ended March 31, 2004 increased ¥51.9 billion from the previous fiscal year. This increase primarily reflected an increase in fees and commissions on securities business, of which ¥26.5 billion was due to an increase in fees earned by Mitsubishi Securities. This increase was mainly because only seven months of fees and commissions generated by Mitsubishi Securities were recorded for the previous fiscal year, while its fees and commissions for twelve months were recorded for the fiscal year ended March 31, 2004. In addition, fees and commissions on securities business in Mitsubishi Securities increased for the fiscal year ended March 31, 2004, primarily due to an increase in equity-related commissions, which was in line with increased trading volume of the Japanese stock markets in general during the same period. Other factors contributing to the increase in other fees and commissions included expanding fee businesses such as agency fees earned on the sale of annuities to individual customers at branches of our subsidiary banks which act as sales agents for insurance companies, and fees from investment banking activities in our subsidiary banks. These increases were partially offset by a decrease in trust fees of ¥13.8 billion, which resulted primarily due to a decrease in fee income earned on loan trust.

Net trading account profits for the fiscal year ended March 31, 2004 were ¥103.9 billion, a decrease of ¥163.7 billion, or 61.2%, from ¥267.6 billion for the fiscal year ended March 31, 2003. The net trading account profits for the fiscal years ended March 31, 2003 and 2004 consisted of the following:

	<b>Fiscal years ended March 31,</b>	
	<b>2003</b>	<b>2004</b>
	(in billions)	
Net profits (losses) on derivative instruments, primarily interest-rate futures, swaps and options	¥ 254.9	¥ (2.0)
Net profits on trading securities	12.7	105.9

Net trading account profits	¥ 267.6	¥ 103.9
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Profits (losses) on derivative instruments were largely affected by the impact of the rise in Japanese long-term interest rates on interest rate swaps principally held for risk management purposes. Although such contracts were entered into for risk management purposes, a majority of them did not meet the conditions to qualify for hedge accounting under US GAAP and thus were accounted for as trading positions.

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For the fiscal year ended March 31, 2004, we generally maintained net receive-fix and pay-variable positions in our interest rate swap portfolios for the purpose of managing interest rate risks on domestic deposits, and our interest rate swap positions resulted in losses in value in a rising Japanese long-term interest rate environment during the fiscal year ended March 31, 2004. The decrease in net profits on derivative instruments of ¥256.9 billion was partially offset by an increase in net profits on trading securities of ¥93.2 billion, primarily reflecting improved performance of trading in debt and equity securities at Mitsubishi Securities supported by high interest rate volatility and improvements in the Japanese stock markets during the fiscal year ended March 31, 2004.

Net foreign exchange gains for the fiscal year ended March 31, 2004 were ¥413.9 billion, an increase of ¥388.3 billion from ¥25.6 billion for the fiscal year ended March 31, 2003. The increase in net foreign exchange gains primarily reflected an increase in transaction gains on translation of monetary liabilities denominated in foreign currencies due to the appreciation of the yen. All transaction gains or losses on translation of monetary liabilities denominated in foreign currencies are included in current earnings. However, the transaction gains or losses on translation of securities available for sale, such as bonds denominated in foreign currencies, are not included in current earnings but are reflected in other changes in equity from nonowner sources.

Net investment securities gains for the fiscal year ended March 31, 2004 were ¥118.6 billion, an increase of ¥141.3 billion, from a loss of ¥22.7 billion for the fiscal year ended March 31, 2003. Major components of net investment securities gains for the fiscal years ended March 31, 2003 and 2004 are summarized below:

	<b>Fiscal years ended March 31,</b>	
	<b>2003</b>	<b>2004</b>
	(in billions)	
Net gains on sales of marketable equity securities	¥ 169.4	¥ 371.2
Impairment losses on marketable equity securities	(352.4)	(15.4)
Other net, principally gains (losses) on debt securities	160.3	(237.2)
<b>Net investment securities gains (losses)</b>	<b>¥ (22.7)</b>	<b>¥ 118.6</b>

The increase in net investment securities gains during the fiscal year ended March 31, 2004 reflected the improvement in the Japanese stock market, as net gains on sales of marketable equity securities increased and impairment losses on marketable equity securities decreased compared to the previous fiscal year. These gains were partially offset by losses on debt securities, which were mainly due to impairment losses on Japanese government bonds, reflecting the rise in long-term interest rates in Japan.

Non-interest income also increased due to the refund of the local taxes by the Tokyo Metropolitan Government of ¥42.0 billion in October 2003.

***Non-Interest Expense***

The following table shows a summary of our non-interest expense for the fiscal years ended March 31, 2003, 2004 and 2005:

	Fiscal years ended March 31,		
	2003	2004	2005
	(in billions)		
Salaries and employee benefits	¥ 498.5	¥ 506.7	¥ 476.3
Occupancy expenses net	121.0	120.5	116.9
Fees and commission expenses	77.2	80.3	87.2
Amortization of intangible assets	46.5	63.6	69.5
Insurance premiums, including deposit insurance	48.3	54.4	57.0
Minority interest in income of consolidated subsidiaries	2.9	42.4	37.6
Communications	22.0	27.6	27.9
Other non-interest expenses	366.0	340.6	263.2
<b>Total non-interest expense</b>	<b>¥ 1,182.4</b>	<b>¥ 1,236.1</b>	<b>¥ 1,135.6</b>



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*Fiscal Year Ended March 31, 2005 Compared to Fiscal Year Ended March 31, 2004*

Non-interest expense for the fiscal year ended March 31, 2005 was ¥1,135.6 billion, a decrease of ¥100.5 billion from the previous fiscal year. This decrease was primarily due to a ¥77.4 billion decrease in other non-interest expenses, principally reflecting a decrease in the provision for off-balance-sheet credit instruments caused by the decrease in off-balance-sheet exposure.

In addition, a decrease of ¥30.4 billion in salaries and employee benefits contributed to the decrease in non-interest expense. The decrease in salaries and employee benefits was primarily due to a decrease in the net periodic pension cost. The reduction in the net periodic pension cost was primarily the result of lower amortization charges, reflecting a decrease in the unrecognized net actuarial loss at the beginning of the fiscal year ended March 31, 2004 and 2005. The increase in the expected rates of return on plan assets also contributed to the decrease in the net periodic pension cost.

*Fiscal Year Ended March 31, 2004 Compared to Fiscal Year Ended March 31, 2003*

Non-interest expense for the fiscal year ended March 31, 2004 was ¥1,236.1 billion, an increase of ¥53.7 billion from the previous fiscal year. This increase was primarily attributable to an increase in minority interest in income of consolidated subsidiaries of ¥39.5 billion. The increases in salaries and employee benefits, amortization of intangible assets and insurance premiums, including deposit insurance, also caused the increase in non-interest expense compared to the previous fiscal year.

Salaries and employee benefits increased primarily due to an increase of ¥14.4 billion in salaries and employee benefits in Mitsubishi Securities, as only seven months of salaries and employee benefits of Mitsubishi Securities were recorded for the previous fiscal year, while its salaries and employee benefits for twelve months were recorded for the fiscal year ended March 31, 2004.

Amortization of intangible assets increased primarily due to an increase in the capitalized cost of software as we continued to invest in new information systems, such as investment in the new IT system for Bank of Tokyo-Mitsubishi's foreign offices.

Insurance premiums including that for deposit insurance increased, reflecting an increase in our deposits.

Minority interest in income of consolidated subsidiaries increased ¥39.5 billion from ¥2.9 billion for the fiscal year ended March 31, 2003 to ¥42.4 billion for the fiscal year ended March 31, 2004. This increase was primarily attributable to the improvement in the results of operations at Mitsubishi Securities from a net loss for the fiscal year ended March 31, 2003 to positive net income for the fiscal year ended March 31, 2004. A significant recovery in the stock markets during the fiscal year ended March 31, 2004 contributed primarily to the improvement.

These increases were partially offset by a decrease in other non-interest expenses, which was partly due to the fact that other non-interest expenses for the previous fiscal year included a ¥22.5 billion loss resulting from the decrease in net assets in a subsidiary that was accounted for as having been sold in connection with the merger of the four securities companies to form Mitsubishi Securities on September 1, 2002.

*Income Tax Expense*

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

	Fiscal years ended March 31,		
	2003	2004	2005
	(in billions, except percentages)		
Income from continuing operations before income tax expense and cumulative effect of a change in accounting principle	¥ 263.5	¥ 1,181.4	¥ 721.4
Income tax expense	¥ 69.9	¥ 357.8	¥ 305.3
Effective tax rate	26.5%	30.3%	42.3%
Normal effective statutory tax rate	39.9%	39.9%	40.6%

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In September 2002, we applied to the tax authorities for approval to file our national income tax returns based on the consolidated corporate-tax system starting from the fiscal year ended March 31, 2003, and received the approval in March 2003. The consolidated corporate-tax system allows companies to base tax payments on the combined profits or losses of a parent company and its wholly-owned domestic subsidiaries, and requires us to pay, for the fiscal years ended March 31, 2003 and 2004, a surcharge tax of 2.0% of taxable income in addition to the national corporate income tax rate of 30.0% applied to separate tax returns filers. The increase in the normal effective statutory tax rate for the fiscal year ended March 31, 2003, resulted from this surcharge tax. This change in tax rate due to the adoption of the consolidated corporate-tax system resulted in a decrease of ¥37.5 billion in income tax expense for the fiscal year ended March 31, 2003 as a result of an increase in deferred tax assets.

In February 2005, our application to suspend the consolidated corporate-tax system was approved by the Japanese tax authorities. We filed, for the fiscal year ended March 31, 2005, our tax returns under the consolidated corporate-tax system.

In addition, under the new local tax laws which was enacted in March 2003 for the fiscal years beginning after March 31, 2004, new uniform local taxes become effective. These new rules introduce value-added taxes and replace part of the existing local taxes based on income. The new local taxes are computed based on three components: (a) amount of profit, (b) amount of value-added (total payroll, net interest paid or received, net rent paid and income before use of net operating losses) and (c) amount of total paid-in capital. The taxes are computed by adding together the totals of each of the three components which are calculated separately.

The enactment of the new uniform local tax laws mentioned above, which will supersede the current local taxes, including the local taxes levied by Tokyo Metropolitan Government, resulted in a decrease of ¥75.1 billion in income tax expense for the fiscal year ended March 31, 2003 through an increase in deferred tax assets.

Reconciling items between the combined normal effective statutory tax rates and the effective income tax rates for the fiscal years ended March 31, 2003, 2004 and 2005 are summarized as follows:

	Fiscal years ended March 31,		
	2003	2004	2005
Combined normal effective statutory tax rate	39.9%	39.9%	40.6%
Increase (decrease) in taxes resulting from:			
Nondeductible expenses	4.1	0.1	0.4
Dividends from foreign subsidiaries	3.0	0.7	1.1
Foreign tax credit and payments	9.5	0.5	1.6
Higher (lower) tax rates applicable to income of subsidiaries	(0.4)	0.1	(0.8)
Foreign tax assessment (refund)	(3.2)	(0.1)	
Minority interest	0.6	1.2	1.6
Change in valuation allowance	14.7	(12.6)	(2.6)
Expiration of loss carryforwards of subsidiaries	3.3		
Enacted change in tax rates	(28.4)	(0.3)	
Realization of previously unrecognized tax benefits of subsidiaries	(15.7)	(1.2)	(0.1)
Other net	(0.9)	2.0	0.5
Effective income tax rate	26.5%	30.3%	42.3%

The effective income tax rate of 42.3% for the fiscal year ended March 31, 2005 was 1.7 percentage points higher than the normal effective statutory tax rate of 40.6%. The 2.6 percentage point decrease due to the change in valuation allowance was offset by certain increases, including reconciliations related to minority interest, dividends from foreign subsidiaries and foreign tax credit and payments.

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The effective income tax rate of 30.3% for the fiscal year ended March 31, 2004 was 9.6 percentage points lower than the normal effective statutory tax rate of 39.9%. This lower tax rate primarily reflected a decrease in the valuation allowance against deferred tax assets which accounted for 12.6 percentage points of the reconciliation. The valuation allowance decreased ¥184.9 billion from ¥318.7 billion at March 31, 2003, to ¥133.8 billion at March 31, 2004, as a result of achieving taxable income for the fiscal year in excess of the amount previously projected at March 31, 2003 and improved realizability of future tax benefits based on increased expected taxable income in future periods.

## **Business Segment Analysis**

We measure the performance of each of our business segments primarily in terms of operating profit in accordance with the regulatory reporting requirements of the Financial Services Agency. Operating profit and other segment information are not consistent with our financial statements prepared on the basis of US GAAP. For example, operating profit does not reflect items such as a part of provisions (credit) for credit losses, foreign exchange gains (losses) and equity investment securities gains (losses).

Effective April 1, 2004, we implemented a new integrated business group system, which currently integrates the operations of Bank of Tokyo-Mitsubishi and Mitsubishi Trust Bank in the following three areas Retail, Corporate, and Trust Assets. Although this new measure did not change the relevant legal entities, it intended to enhance synergies by promoting more effective and efficient collaboration between our subsidiaries. Under this integrated business group system, the holding company formulates strategy for the group on an integrated basis, which is then executed by the subsidiaries. Through this system, we aim to reduce overlapping of functions within the group, thereby increasing efficiency and realizing the benefits of group resources and scale of operations. Moreover, through greater integration of our shared expertise in banking, trust and securities businesses, we aim to deliver a more diverse but integrated lineup of products and services for our customers.

Effective April 1, 2005, we have changed the classification of our business segments and included UNBC as a part of the Integrated Corporate Banking Business Group. We have also introduced a unified core deposit concept when measuring the performance of each business segment and made minor changes in the management accounting method. The unified core deposit concept takes into account that a portion of the Japanese yen short-term deposits of our customers can be deemed as a long-term source of funding from an interest risk management perspective, and therefore the interest rate spread gained from the long-term funds should be allocated to the relevant business segments.

*Integrated Retail Banking Business Group* Covers all domestic retail businesses, including commercial banking, trust banking and securities businesses. This business group integrates the retail business of Bank of Tokyo-Mitsubishi, Mitsubishi Trust Bank and Mitsubishi Securities as well as retail product development, promotion and marketing in a single management structure. Retail financial products and services are provided through MTFG Plaza, a new, one-stop, comprehensive financial services channel and other domestic branches. Regarding UNBC, as of June 30, 2005, Bank of Tokyo-Mitsubishi owned 61.2% of UnionBanCal Corporation, a public company listed on the New York Stock Exchange. UnionBanCal is a U.S. commercial bank holding company. Union Bank of California, N.A., UnionBanCal's bank subsidiary, is one of the largest commercial banks in California based on total assets and total deposits. UNBC provides a wide range of financial services to consumers, small businesses, middle market companies and major corporations, primarily in California, Oregon and Washington but also nationally and internationally.

*Integrated Corporate Banking Business Group* Covers all domestic and overseas corporate businesses, including commercial banking, investment banking, trust banking and securities businesses as well as UNBC. UNBC consists of Bank of Tokyo-Mitsubishi's subsidiaries in California, UnionBanCal Corporation and Union Bank of California, N.A. Through the integration of these business lines, diverse financial products and services are provided to our corporate clients. The business group has clarified strategic domains, sales channels and methods to match the different growth stages and financial needs of our corporate customers.



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*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 Mitsubishi Trust Bank. The business group provides a full range of services to corporate and other pension funds, including stable and secure pension fund management and administration, advice on pension schemes, and payment of benefits to scheme members. The management and administration services for investment trusts are mainly provided by Mitsubishi Asset Management Co., Ltd. The global custodian services are provided by utilizing the international strengths of Bank of Tokyo-Mitsubishi.

*Treasury* Treasury consist of the treasury business unit at Bank of Tokyo-Mitsubishi, which conducts asset liability management and liquidity management for Bank of Tokyo-Mitsubishi, and the global markets business group at Mitsubishi Trust Bank. Treasury provides various financial operations such as money markets and foreign exchange operations and securities investments.

*Other* Other mainly consists of the corporate center of Mitsubishi Tokyo Financial Group, Inc., Bank of Tokyo-Mitsubishi and Mitsubishi Trust Bank. The elimination of duplicated amounts of net revenue among business segments is also reflected in Other.

The presentation for the fiscal year ended March 31, 2003, 2004 and 2005 has been reclassified to conform to the new basis of segmentation and managerial accounting for the six months ended September 30, 2005.

	Integrated Corporate Banking Business Group				Total	Integrated Trust Assets Business Group	Treasury	Other	Total
	Integrated Retail Banking Business Group	Domestic	Overseas	UNBC					
(in billions)									
Fiscal year ended March 31, 2003									
Net revenue	¥ 355.3	¥ 582.1	¥ 173.3	¥ 269.7	¥ 1,025.1	¥ 37.8	¥ 436.2	¥ (44.3)	¥ 1,810.1
Operating expenses	306.6	255.2	119.2	155.6	530.0	47.9	43.2	77.2	1,004.9
Operating profit (loss)	¥ 48.7	¥ 326.9	¥ 54.1	¥ 114.1	¥ 495.1	¥ (10.1)	¥ 393.0	¥ (121.5)	¥ 805.2
Fiscal year ended March 31, 2004									
Net revenue	¥ 411.6	¥ 656.1	¥ 147.2	¥ 253.5	¥ 1,056.8	¥ 56.7	¥ 342.0	¥ (43.7)	¥ 1,823.4
Operating expenses	312.8	266.2	107.6	150.9	524.7	47.9	42.9	84.2	1,012.5
Operating profit (loss)	¥ 98.8	¥ 389.9	¥ 39.6	¥ 102.6	¥ 532.1	¥ 8.8	¥ 299.1	¥ (127.9)	¥ 810.9
Fiscal year ended March 31, 2005									
Net revenue	¥ 454.8	¥ 684.2	¥ 146.2	¥ 274.9	¥ 1,105.3	¥ 59.9	¥ 285.0	¥ (8.7)	¥ 1,896.3
Operating expenses	323.7	267.6	102.2	158.8	528.6	46.6	38.9	91.3	1,029.1
Operating profit (loss)	¥ 131.1	¥ 416.6	¥ 44.0	¥ 116.1	¥ 576.7	¥ 13.3	¥ 246.1	¥ (100.0)	¥ 867.2

Total net revenue increased ¥72.9 billion, or 4.0%, from ¥1,823.4 billion for the fiscal year ended March 31, 2004 to ¥1,896.3 billion for the fiscal year ended March 31, 2005. This increase was due mainly to an increase of ¥43.2 billion in Integrated Retail Banking Business Group and an increase of ¥28.1 billion in the domestic corporate business of Integrated Corporate Banking Business Group. This increase was partially offset by a decrease of ¥57.0 billion in Treasury.

Total operating expenses increased ¥16.6 billion, or 1.6%, from ¥1,012.5 billion for the fiscal year ended 2004 to ¥1,029.1 billion for the fiscal year ended March 31, 2005. This increase was mainly due to an increase of ¥10.9 billion in the Integrated Retail Banking Business Group and an increase of ¥7.9 billion in UNBC of Integrated Corporate Banking Business Group.

Total operating profit increased ¥56.3 billion, or 6.9%, from ¥810.9 billion for the fiscal year ended March 2004 to ¥867.2 billion for the fiscal year ended March 31, 2005. This increase was due mainly to an increase of ¥32.3 billion in Integrated Retail Banking Business Group and an increase of ¥26.7 billion in the domestic corporate business of Integrated Corporate Banking Business Group. This increase was partially offset by a decrease of ¥53.0 billion in Treasury.



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Net revenue of the Integrated Retail Banking Business Group increased ¥43.2 billion, or 10.5%, from ¥411.6 billion for the fiscal year ended March 31, 2004 to ¥454.8 billion for the fiscal year ended March 31, 2005. Net revenue of the Integrated Retail Banking Business Group mainly consists of revenue from commercial banking operations such as deposits and lending operations, and fees related to the sales of investment products to retail customers, as well as fees of subsidiaries belonging to the Integrated Retail Banking Business Group. The increase in net revenue was mainly due to an increase in net fees, reflecting an increase in fees on sales of annuity and investment trusts, an increase in revenue from deposits, and an increase in revenue from consumer finance.

Operating expenses of the Integrated Retail Banking Business Group increased ¥10.9 billion, or 3.5%, from ¥312.8 billion for the fiscal year ended March 31, 2004 to ¥323.7 billion for the fiscal year ended March 31, 2005. This increase was mainly due to an increase in general expenses due to the expansion of our consumer finance business, and an increase in advertisement and general publicity expenses relating to our sales of investment products to retail customers.

Operating profit of the Integrated Retail Banking Business Group increased ¥32.3 billion, or 32.7%, from ¥98.8 billion for the fiscal year ended March 31, 2004 to ¥131.1 billion for the fiscal year ended March 31, 2005. This increase was mainly due to an increase in net revenue, as explained above.

Net revenue of the Integrated Corporate Banking Business Group increased ¥48.5 billion, or 4.6%, from ¥1,056.8 billion for the fiscal year ended March 31, 2004 to ¥1,105.3 billion for the fiscal year ended March 31, 2005. Net revenue of the Integrated Corporate Banking Business Group mainly consists of revenue from lending and other commercial banking operations, investment banking and trust banking businesses to corporate clients, as well as fees of subsidiaries belonging to the Integrated Corporate Banking Business Group. In addition, net revenue of UNBC is included in net revenue of Integrated Corporate Banking Business Group. The increase in net revenue was due mainly to improved net revenue in domestic businesses and UNBC.

With regard to the domestic businesses, net revenue of ¥684.2 billion, an increase of ¥28.1 billion, was recorded for the fiscal year ended March 31, 2005. This increase was mainly due to an increase in fees in the investment banking business, reflecting an increase in fees from sales of derivative products, an increase in fees from arrangement of syndicated loans, and an increase in fees from real estate securitization transactions. Fees from foreign exchange transactions also increased. These increases were partially offset by a decrease in net interest income, reflecting the decrease in nonperforming loan assets and the decrease in profits of our subsidiaries, mainly reflecting the decrease in trading profits at our securities subsidiary.

With regard to the overseas businesses, net revenue of ¥146.2 billion, a decrease of ¥1.0 billion, was recorded for the fiscal year ended March 31, 2005. This decrease was mainly due to a decrease in interest income from corporate lending to non-Japanese corporate clients, reflecting weak loan demand. This decrease was partially offset by an increase in fees in the investment banking business, reflecting the increase in fees from sales of derivative products and leasing transactions, and an increase in interest income from deposits due to an increase in volume of settlement accounts and the positive effects of a higher interest rate environment in overseas financial markets.

Net revenue of UNBC increased ¥21.4 billion, or 8.4%, from ¥253.5 billion for the fiscal year ended 2004 to ¥274.9 billion for the fiscal year ended March 31, 2005. This increase was due to an increase in non-interest income such as service charges on deposit accounts and an increase in net interest income, which was favorably influenced by higher earning asset volumes and strong deposit growth. Gains on sales of the merchant card portfolio as well as gains on the sale of real property also contributed to the increase in net revenue.

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Operating expenses of the Integrated Corporate Banking Business Group increased ¥3.9 billion, or 0.7%, from ¥524.7 billion for the fiscal year ended March 31, 2004 to ¥528.6 billion for the fiscal year ended March 31,

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2005. This increase was due to an increase of ¥7.9 billion in UNBC and an increase of ¥1.4 billion in domestic businesses reflecting the increase in nonpersonnel expenses, which was partially offset by a decrease of ¥5.4 billion in overseas businesses mainly reflecting the decrease in personnel expenses.

Operating profit of the Integrated Corporate Banking Business Group increased ¥44.6 billion, or 8.4%, from ¥532.1 billion for the fiscal year ended March 31, 2004 to ¥576.7 billion for the fiscal year ended March 31, 2005. This increase was due mainly to the increase in fees in the domestic business and the non-interest income of UNBC in net revenue as stated above.

Net revenue of the Integrated Trust Asset Business Group increased ¥3.2 billion, or 5.6%, from ¥56.7 billion for the fiscal year ended March 31, 2004 to ¥59.9 billion for the fiscal year ended March 31, 2005. Net revenue of the Integrated Trust Assets Business Group mainly consists of fees from asset management and administration services for products such as pension trusts and security trusts. The increase in net revenue was due mainly to an increase in revenue from our asset management services and an increase in administration services. The increase in asset management services primarily reflected increased revenue from sales of newly-introduced investment trust products in our asset management subsidiaries. The increase in administration services primarily reflected an increase in investment trust fee income due to the increase in investment trust assets and the increase in assets under global custody.

Operating expenses of the Integrated Trust Asset Business Group decreased ¥1.3 billion, or 2.7%, from ¥47.9 billion for the fiscal year ended March 31, 2004 to ¥46.6 billion for the fiscal year ended March 31, 2005. This decrease was mainly due to a decrease in expenses in asset management services at the trust bank.

Operating profit of the Integrated Trust Asset Business Group increased ¥4.5 billion, or 51.1%, from ¥8.8 billion for the fiscal year ended March 31, 2004 to ¥13.3 billion for the fiscal year ended March 31, 2005. This increase reflected an increase in operating profit of asset management services and an increase in operating profit of asset administration services.

Net revenue of Treasury decreased ¥57 billion, or 16.7%, from ¥342.0 billion for the fiscal year ended 2004 to ¥285.0 billion for the fiscal year ended March 31, 2005. This decrease was mainly due to a decrease in other income, which primarily reflected a loss in hedging operations on foreign currency interest rate operations. This decrease was partially offset by increases in trading profits on Japanese yen denominated bonds, profits from alternative investments, profits from Japanese yen money market operations and an increase in fees on loan trusts.

Following our merger with UFJ Holdings on October 1, 2005, the integrated business group system currently integrates the operations of Bank of Tokyo-Mitsubishi UFJ, Mitsubishi UFJ Trust Bank and Mitsubishi UFJ Securities.

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The following table sets forth our total revenue, income (loss) from continuing operations before income tax expense (benefit) and cumulative effect of a change in accounting principle and net income (loss) on a geographic basis, based principally on the domicile of activities for the fiscal years ended March 31, 2003, 2004 and 2005:

	Fiscal years ended March 31,		
	2003	2004	2005
	(in billions)		
<b>Total revenue (interest income and non-interest income):</b>			
Domestic	¥ 1,286.9	¥ 1,651.9	¥ 1,610.1
Foreign:			
United States	611.9	575.1	487.9
Europe	256.0	277.2	153.1
Asia/Oceania excluding Japan	150.6	78.1	108.7
Other areas*	117.7	147.5	77.9
<b>Total foreign</b>	<b>1,136.2</b>	<b>1,077.9</b>	<b>827.6</b>
<b>Total</b>	<b>¥ 2,423.1</b>	<b>¥ 2,729.8</b>	<b>¥ 2,437.7</b>
<b>Income (loss) from continuing operations before income tax expense (benefit) and cumulative effect of a change in accounting principle:</b>			
Domestic	¥ (75.5)	¥ 711.1	¥ 289.7
Foreign:			
United States	173.9	166.4	236.7
Europe	52.0	183.1	49.6
Asia/Oceania excluding Japan	61.5	48.2	87.7
Other areas*	51.6	72.6	57.7
<b>Total foreign</b>	<b>339.0</b>	<b>470.3</b>	<b>431.7</b>
<b>Total</b>	<b>¥ 263.5</b>	<b>¥ 1,181.4</b>	<b>¥ 721.4</b>
<b>Net income (loss):</b>			
Domestic	¥ (70.5)	¥ 464.2	¥ 110.0
Foreign:			
United States	143.0	158.3	180.5
Europe	37.3	120.8	24.2
Asia/Oceania excluding Japan	43.3	26.5	61.7
Other areas*	50.3	53.2	38.8
<b>Total foreign</b>	<b>273.9</b>	<b>358.8</b>	<b>305.2</b>

<b>Total</b>	¥ 203.4	¥ 823.0	¥ 415.2
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\* Other areas primarily include Canada, Latin America and the Caribbean.

***Fiscal Year Ended March 31, 2005 Compared to Fiscal Year Ended March 31, 2004***

Domestic net income for the fiscal year ended March 31, 2005 was ¥110.0 billion, compared to ¥464.2 billion for the fiscal year ended March 31, 2004. This decline primarily reflected a decrease in non-interest income due to a decrease in foreign exchange gains and an increase in the provision for credit losses compared to the previous fiscal year.

Foreign net income for the fiscal year ended March 31, 2005 was ¥305.2 billion, compared to ¥358.8 billion for the fiscal year ended March 31, 2004. This decrease primarily reflected a decline in net income in Europe, which was partially offset by increases in the Asia/Oceania region (excluding Japan) and in the United States.

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### ***Fiscal Year Ended March 31, 2004 Compared to Fiscal Year Ended March 31, 2003***

Domestic net income for the fiscal year ended March 31, 2004 was ¥464.2 billion, compared to ¥70.5 billion loss for the fiscal year ended March 31, 2003. This improvement primarily reflected the reversal of allowance for credit losses and the gains in investment securities due to the improvement in domestic stock prices.

Foreign net income for the fiscal year ended March 31, 2004 was ¥358.8 billion, compared to ¥273.9 billion for the fiscal year ended March 31, 2003. This increase primarily reflected the foreign exchange gains due to the appreciation of the Japanese yen against the US dollar and the reversal of allowance for credit losses.

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

#### ***Fiscal Year Ended March 31, 2005 Compared to Fiscal Year Ended March 31, 2004***

The average exchange rate for the fiscal year ended March 31, 2005 was ¥107.55 per \$1.00, compared to the prior fiscal year's average exchange rate of ¥113.07 per \$1.00. The average exchange rate for the conversion of the US dollar financial statements of some of our foreign subsidiaries for the fiscal year ended December 31, 2004 was ¥108.24 per \$1.00, compared to the average exchange rate for the fiscal year ended December 31, 2003 of ¥115.98 per \$1.00.

The change in the average exchange rate of the yen against the US dollar and other foreign currencies resulted in translation losses on total revenue of approximately ¥39 billion, net interest income of approximately ¥18 billion and income before income taxes of approximately ¥15 billion for the fiscal year ended March 31, 2005.

#### ***Fiscal Year Ended March 31, 2004 Compared to Fiscal Year Ended March 31, 2003***

The average exchange rate for the fiscal year ended March 31, 2004 was ¥113.07 per \$1.00, compared to the prior fiscal year's average exchange rate of ¥121.94 per \$1.00. The average exchange rate for the conversion of the U.S. dollar financial statements of some of our foreign subsidiaries for the fiscal year ended December 31, 2003 was ¥115.98 per \$1.00, compared to the average exchange rate for the fiscal year ended December 31, 2002 of ¥125.34 per \$1.00.

The change in the average exchange rate of the yen against the U.S. dollar and other foreign currencies resulted in translation losses on total revenue of approximately ¥48 billion, net interest income of approximately ¥23 billion and income before income taxes of approximately ¥18 billion for the fiscal year ended March 31, 2004.

## **B. Liquidity and Capital Resources**

**Financial Condition**

*Total Assets*

Our total assets at March 31, 2005 were ¥108.42 trillion, representing an increase of ¥4.72 trillion, from ¥103.70 trillion at March 31, 2004. This increase was due primarily to an increase of ¥2.69 trillion in net loans, an increase of ¥1.11 trillion in cash and due from banks, and an increase of ¥1.03 trillion in interest-earning deposits in other banks. This increase was partially offset by a decrease of ¥1.26 trillion in receivables under resale agreements.

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We have allocated a substantial portion of our assets to international activities. As a result, reported amounts are affected by changes in the value of the yen against the US dollar and other foreign currencies. Foreign assets are denominated primarily in US dollars. The following table shows our total assets at March 31, 2004 and 2005 by geographic region based principally on the domicile of the obligors:

	At March 31,	
	2004	2005
	(in trillions)	
Japan	¥ 79.66	¥ 84.41
Foreign:		
United States of America	12.59	12.33
Europe	6.14	5.97
Asia/Oceania excluding Japan	3.01	3.47
Other areas*	2.30	2.24
Total foreign	24.04	24.01
<b>Total</b>	<b>¥ 103.70</b>	<b>¥ 108.42</b>

\* Other areas primarily include Canada, Latin America and the Caribbean.

At March 31, 2005, the noon buying rate of the Federal Reserve Bank of New York was ¥107.22 per \$1.00, as compared with ¥104.18 per \$1.00 at March 31, 2004. The yen equivalent amount of foreign currency denominated assets and liabilities increases as the relevant exchange rate indicating the yen value per one foreign currency unit becomes higher, evidencing a weaker yen, and decreases as the relevant exchange rate indicating the yen value per one foreign currency unit becomes lower, evidencing a stronger yen. The depreciation of the yen against the US dollar and other foreign currencies during the fiscal year ended March 31, 2005 increased the yen value of our total assets by approximately ¥0.48 trillion. See Item 3.A. Key Information Selected Financial Data Exchange Rate Information.



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

The following table sets forth our loans outstanding, before deduction of allowance for credit losses, at March 31, 2004 and 2005, based on classification by industry segment as defined by the Bank of Japan for regulatory reporting purposes, which is not necessarily based on use of proceeds:

	At March 31,	
	2004	2005
	(Restated)	(Restated)
	(in billions)	
Domestic:		
Manufacturing	¥ 6,000.1	¥ 6,475.4
Construction	1,010.4	974.1
Real estate	4,585.3	5,266.5
Services	4,344.8	3,621.7
Wholesale and retail	4,999.0	5,228.3
Banks and other financial institutions	3,745.6	3,691.9
Communication and information services	874.6	784.3
Other industries	6,169.4	6,783.2
Consumer	8,039.8	8,162.1
<b>Total domestic</b>	<b>39,769.0</b>	<b>40,987.5</b>
Foreign:		
Governments and official institutions	183.1	212.7
Banks and other financial institutions	1,043.9	917.4
Commercial and industrial	7,239.9	8,687.2
Other	318.6	285.5
<b>Total foreign</b>	<b>8,785.5</b>	<b>10,102.8</b>
Less unearned income and deferred loan fees net	28.6	18.8
<b>Total</b>	<b>¥ 48,525.9</b>	<b>¥ 51,071.5</b>

Domestic loans within the consumer category in the above table include loans to individuals who utilize loan proceeds to finance their proprietor activities and not for their personal financing needs. During the fiscal year ended March 31, 2004, our credit administration system was upgraded and became able to present a precise breakdown of the balance of such consumer loans by the type of proprietor business. This breakdown at March 31, 2004 and 2005 is presented below in accordance with our classification by industry segment.

Manufacturing	Construction	Real estate	Services	Wholesale and retail	Banks and	Communication and information service	Other industries	Total included in Consumer
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	<b>other financial institutions</b>															
	(in billions)															
March 31, 2004	¥ 28.2	¥	19.3	¥ 738.4	¥	230.7	¥	52.3	¥	1.2	¥	4.1	¥	10.6	¥	1,084.8
March 31, 2005	¥ 23.0	¥	16.2	¥ 543.0	¥	193.4	¥	39.8	¥	1.1	¥	3.7	¥	7.8	¥	828.0

Loans are our primary use of funds. The average loan balance accounted for 53.9% of total interest-earning assets for the fiscal year ended March 31, 2004 and 51.2% for the fiscal year ended March 31, 2005.

At March 31, 2005, our total loans were ¥51.07 trillion, representing an increase of ¥2.54 trillion, or 5.2%, from ¥48.53 trillion at March 31, 2004. Before the deduction of unearned income and deferred loan fees net, our loan balance at March 31, 2005, consisted of ¥40.99 trillion of domestic loans and ¥10.10 trillion of foreign loans while the loan balance at March 31, 2004, consisted of ¥39.77 trillion of domestic loans and ¥8.79 trillion of foreign loans.

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Domestic loans increased ¥1.22 trillion and foreign loans increased ¥1.32 trillion compared to the previous fiscal year. This increase was primarily due to increases in loans to industries such as manufacturing and wholesale and retail, reflecting consolidation of certain VIEs. In accordance with the consolidation requirements of FIN No. 46R, we consolidated several multi-seller finance entities, primarily commercial paper conduits, where we are deemed to be the primary beneficiary. See Note 26 to our consolidated financial statements for further discussion of these VIEs.

Analyzing the change of domestic loans by industry segments, domestic loans increased mainly in manufacturing, real estate, wholesale and retail, other industries and consumer. Besides the effect of VIEs, domestic loans decreased mainly in manufacturing and wholesale and retail. This is mainly due to decrease of nonperforming loans and loans to large enterprises. Increase of loans in real estate was due to increase of non-recourse loans. Consumer loans increased due to promotion of residential mortgage loans. The decrease of loans in services and the increase of loans in other industries were both due to the change in loan balance to several public sector borrowers, to which we had extended relatively large amounts of loans.

As for foreign loans, loans increased due to the effect of VIEs and due to the acquisition of Business Bank of California and Jackson Federal Bank by Union Bank of California, which is our largest foreign subsidiary.

***Allowance for Credit Losses, Nonperforming and Past Due Loans***

The following table shows a summary of the changes in the allowance for credit losses for the fiscal years ended March 31, 2003, 2004 and 2005:

	Fiscal year ended March 31,		
	2003	2004	2005
	(in billions)		
Balance at beginning of fiscal year	¥ 1,735.2	¥ 1,360.1	¥ 888.1
Provision (credit) for credit losses	438.0	(114.1)	109.5
Charge-offs:			
Domestic	(753.8)	(294.2)	(217.5)
Foreign	(139.8)	(83.9)	(80.8)
Total	(893.6)	(378.1)	(298.3)
Recoveries	78.8	41.0	37.4
Net charge-offs	(814.8)	(337.1)	(260.9)
Others*	1.7	(20.8)	4.0
Balance at end of fiscal year	¥ 1,360.1	¥ 888.1	¥ 740.7

\* Others principally include foreign currency translation and discontinued operations adjustments.

For the fiscal year ended March 31, 2005, provision for credit losses of ¥109.5 billion was recorded. In contrast, for the fiscal year ended March 31, 2004, a reversal of allowance for credit losses of ¥114.1 billion was recorded. Although the reversals of allowance for credit losses were recorded for both March 31, 2004 and 2005 due to improvements in our loan portfolio as evidenced by the reduction in our nonperforming loans, for the fiscal year ended March 31, 2005, additional provisions were recognized as downgrades of several borrowers to which we extended relatively large amounts of loans were greater than the reversals recognized.

The ratio of provision for credit losses of ¥109.5 billion is 0.2% to the average loan balance of ¥50.96 trillion and 0.1% to the total interest-earning assets of ¥99.49 trillion.

Charge-offs for the fiscal year ended March 31, 2005 were ¥298.3 billion, a decrease of ¥79.8 billion, or 21.1%, from ¥378.1 billion for the fiscal year ended March 31, 2004.

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Charge-offs has decreased for the last two fiscal years, reflecting the general recovery of businesses in Japan, which has also led to a decrease in bankruptcies.

Analyzing charge-offs by industry segments, though total charge-offs decreased, charge-offs in domestic manufacturing sector increased significantly. This increase was mainly due to debt-for-equity swap with regards to a particular borrower to which we extended a relatively large amount of loans, in order to support its business revitalization plan.

The following table presents comparative data in relation to the principal amount of nonperforming loans sold and additional provision for credit losses (reversal of allowance).

	Principal amount of loans <sup>(1)</sup>	Allowance for credit losses <sup>(2)</sup>	Loans, net of allowance	Additional provision for credit losses (reversal of allowance)
	(in billions)			
For the fiscal year ended March 31, 2003	¥ 653.1	¥ 317.4	¥ 335.7	¥ 40.1
For the fiscal year ended March 31, 2004	315.9	133.2	182.7	(10.2)
For the fiscal year ended March 31, 2005	101.7	40.5	61.2	(15.5)

(1) Represents principal amount after the deduction of charge-offs made before the sales of nonperforming loans.

(2) Represents allowance for credit losses at the latest balance-sheet date.

Through the sale of nonperforming loans to the Resolution and Collection Corporation and to other third parties, additional provisions or gains may arise from factors such as a change in the credit quality of the borrowers or the value of the underlying collateral subsequent to the prior reporting date, and the risk appetite and investment policy of the purchasers. For the fiscal year ended March 31, 2003, we recorded additional provisions of ¥40.1 billion because the unexpected adverse change in borrowers' credit-worthiness was severe. However, as sales of nonperforming loans has decreased in line with our reduction of nonperforming loans, conditions surrounding the sales of loans has improved in recent years. During the fiscal year ended March 31, 2004 and 2005, we realized a gain of ¥10.2 billion and ¥15.5 billion, respectively.

Due to the inherent uncertainty of factors that may affect negotiated prices, which reflect the borrowers' financial condition, and the value of underlying collateral, the results during the reported periods are not necessarily indicative of the results that we may record in the future.

In connection with the sale of loans including performing loans, we recorded a gain of ¥8.7 billion and ¥15.4 billion for the fiscal year ended March 31, 2004 and 2005, respectively.

The following table summarizes the allowance for credit losses by component at March 31, 2003, 2004 and 2005:

	At March 31,		
	2003	2004	2005
	(in billions)		
Allocated allowance:			
Specific specifically identified problem loans	¥ 894.4	¥ 563.6	¥ 461.2
Large groups of smaller balance homogeneous loans	38.0	38.8	37.4
Loans exposed to specific country risk	13.1	6.1	0.1
Formula substandard, special mention and other loans	391.3	261.1	233.4
Unallocated allowance	23.3	18.5	8.6
<b>Total allowance</b>	<b>¥ 1,360.1</b>	<b>¥ 888.1</b>	<b>¥ 740.7</b>

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### *Allowance policy.*

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

### *Change in total allowance and provision for credit losses*

At March 31, 2005, the total allowance for credit losses was ¥740.7 billion, representing 1.45% of our total loan portfolio or 57.57% of our total nonaccrual and restructured loans and accruing loans contractually past due 90 days or more. At March 31, 2004, the total allowance for credit losses was ¥888.1 billion, representing 1.83% of our total loan portfolio or 51.30% of our total nonaccrual and restructured loans and accruing loans contractually past due 90 days or more.

Although we actively disposed of nonperforming loans, we newly recognized nonperforming loans at the same time. In recent years, large borrowers with relatively high allowance ratio had been downgraded and newly recognized as nonperforming loans. As a result, the percentage of nonperforming loans to total loans has decreased, but at the same time, the rate of allowance on nonperforming loans has increased in recent fiscal years.

This decrease in total allowance was mainly due to decrease of total amounts of nonaccrual and restructured loans and accruing loans contractually past due 90 days or more.

During the fiscal years ended March 31, 2003, 2004 and 2005, there were no significant additions to the allowance for credit losses resulting from directives, advice or counsel from governmental or regulatory bodies.

For the fiscal year ended March 31, 2005, provision for credit losses of ¥109.5 billion was recorded. In contrast, for the fiscal year ended March 31, 2004, a reversal of allowance for credit losses of ¥114.1 billion was recorded. Although the reversals of allowance for credit losses were recorded for both March 31, 2004 and 2005 due to improvements in our loan portfolio as evidenced by the reduction in our nonperforming loans, for the fiscal year ended March 31, 2005, additional provisions were recognized as downgrades of several borrowers to which we extended relatively large amounts of loans were greater than the reversals recognized.

### *Allocated allowance for specifically identified problem loans*

The allocated credit loss allowance for specifically identified problem loans represents the allowance against impaired loans called for in SFAS No. 114, Accounting by Creditors for Impairment of a Loan. Impaired loans primarily include nonaccrual loans and restructured loans. We generally discontinue accrual of interest income on loans when substantial doubt exists as to the full and timely collection of either principal or

interest, or when principal or interest is contractually past due one month or more with respect to loans of our domestic banking subsidiaries, including Bank of Tokyo-Mitsubishi and Mitsubishi Trust Bank, and 90 days or more with respect to loans of certain foreign banking subsidiaries. Loans are classified as restructured loans when we grant a concession to the borrowers for economic or legal reasons related to the borrowers' financial difficulties. Detailed reviews of impaired loans are performed on a daily basis after a borrower's annual or semi-annual financial statements first become available. In addition, as part of an ongoing credit review process, our credit officers monitor changes in all customers' creditworthiness including bankruptcy, past due principal or interest, downgrading of external credit rating, declining stock price, business restructuring and other events and reassesses borrowers' ratings in response to such events. This credit monitoring process forms an integral part of



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our overall control process. An impaired loan is evaluated individually based on the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's observable market price or the fair value of the collateral if the loan is collateral-dependent at a balance-sheet date.

The following table summarizes nonaccrual and restructured loans, and accruing loans that are contractually past due 90 days or more as to principal or interest payments, at March 31, 2003, 2004 and 2005:

	At March 31,		
	2003	2004	2005
	(in billions, except percentages)		
<b>Nonaccrual loans:</b>			
Domestic:			
Manufacturing	¥ 111.1	¥ 175.7	¥ 113.9
Construction	149.9	59.0	47.8
Real estate	266.4	154.8	122.0
Services	87.5	73.0	169.6
Wholesale and retail	224.5	108.5	85.7
Banks and other financial institutions	17.8	21.4	4.3
Communication and information services	14.1	5.1	11.8
Other industries	53.9	39.8	22.3
Consumer	151.0	141.8	119.2
	<u>1,076.2</u>	<u>779.1</u>	<u>696.6</u>
Total domestic	1,076.2	779.1	696.6
Foreign	337.4	304.0	125.8
	<u>1,413.6</u>	<u>1,083.1</u>	<u>822.4</u>
Total nonaccrual loans	1,413.6	1,083.1	822.4
<b>Restructured loans:</b>			
Domestic:			
Manufacturing	215.6	88.7	30.8
Construction	118.5	41.2	54.1
Real estate	264.9	131.0	116.1
Services	164.0	87.5	36.6
Wholesale and retail	292.8	149.3	87.3
Banks and other financial institutions	19.9	1.6	0.3
Communication and information services	11.1	4.7	3.6
Other industries	39.6	12.4	48.0
Consumer	86.4	61.0	54.2
	<u>1,212.8</u>	<u>577.4</u>	<u>431.0</u>
Total domestic	1,212.8	577.4	431.0
Foreign	106.2	55.0	23.2
	<u>1,319.0</u>	<u>632.4</u>	<u>454.2</u>
Total restructured loans	1,319.0	632.4	454.2
<b>Accruing loans contractually past due 90 days or more:</b>			
Domestic			
	17.5	14.7	9.2
Foreign	2.9	0.9	0.9
	<u>20.4</u>	<u>15.6</u>	<u>10.1</u>
Total accruing loans contractually past due 90 days or more	20.4	15.6	10.1

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Total	¥ 2,753.0	¥ 1,731.1	¥ 1,286.7
Total loans	¥ 48,465.6	¥ 48,525.9	¥ 51,071.5
Nonaccrual and restructured loans, and accruing loans contractually past due 90 days or more as a percentage of total loans	5.68%	3.57%	2.52%

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Domestic nonaccrual loans and restructured loans within the consumer category in the above table include loans to individuals who utilize loan proceeds to finance their proprietor activities and not for their personal financing needs. During the fiscal year ended March 31, 2004, our credit administration system was upgraded and became able to present a precise breakdown of the balance of such consumer loans by the type of proprietor business. This breakdown at March 31, 2004 and 2005 is presented below:

	<b>Banks and Communication Wholesale other and Real and financial information Other included in Consumer</b>								
	<b>Manufacturing</b>	<b>Construction</b>	<b>Real estate</b>	<b>Services</b>	<b>retail</b>	<b>institutions</b>	<b>services</b>	<b>industries</b>	<b>Consumer</b>
(in billions)									
March 31, 2004									
Nonaccrual loans	¥1.6	¥0.9	¥52.3	¥14.2	¥5.8	¥	¥0.2	¥	¥75.0
Restructured loans	1.0	0.3	21.0	4.1	1.5				27.9
March 31, 2005									
Nonaccrual loans	¥1.3	¥1.0	¥43.3	¥13.7	¥3.2	¥	¥0.2	¥0.5	¥63.2
Restructured loans	1.2	0.3	19.2	2.9	1.9				25.5

We have been making efforts to dispose of nonperforming loans actively. These efforts have been made to improve the quality of our own loan assets, which conforms to the policy to decrease nonperforming loans under the program for financial revival announced by the Japanese government in October 2002. As a result, nonaccrual and restructured loans, and accruing loans contractually past due 90 days or more decreased ¥444.4 billion since March 31, 2004, to ¥1,286.7 billion, or 2.52% of total loans, as of March 31, 2005.

Total nonaccrual loans were ¥822.4 billion at March 31, 2005, a decrease of ¥260.7 billion, or 24.1%, from ¥1,083.1 billion at March 31, 2004. The decrease was ¥82.5 billion for domestic loans and ¥178.2 billion for foreign loans.

Analyzing by industry segments, decrease of ¥61.8 billion in domestic manufacturing was mainly due to collection of loans and the debt-for-equity swap with regards to a particular borrower to which we extended a relatively large amount of loans in order to support its business revitalization plan. The increase of ¥96.6 billion in services was due to unexpected downgrades of several borrowers to which we had extended relatively large amount of loans during the fiscal year. The decrease of ¥178.2 billion of foreign loans was mainly due to partial collection of loans from the overseas subsidiaries of some Japanese borrowers to whom we had extended relatively large amounts of loans.

Total restructured loans were ¥454.2 billion at March 31, 2005, a decrease of ¥178.2 billion, or 28.2%, from ¥632.4 billion at March 31, 2004. The decrease was mainly due to domestic factors. Decrease of domestic loans was ¥146.4 billion. Decrease of foreign restructured loans was ¥31.8 billion. Analyzing by industry segments, restructured loans decreased ¥57.9 billion in manufacturing. This was due to collection of loans and upgrades of some borrowers based on improved operating performance. As for wholesale and retail, restructured loans decreased ¥62.0 billion also due to upgrades of some borrowers. The increase of ¥35.6 billion in other industries was due to downgrades of several borrowers to which we extended relatively large amount of loans during the fiscal year ended March 31, 2005.

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The following table summarizes the balances of impaired loans and related impairment allowances at March 31, 2003, 2004 and 2005, excluding smaller-balance homogeneous loans:

	At March 31,					
	2003		2004		2005	
	Loan balance	Impairment allowance	Loan balance	Impairment allowance	Loan balance	Impairment allowance
	(in billions)					
Requiring an impairment allowance	¥ 2,408.5	¥ 894.4	¥ 1,405.8	¥ 563.6	¥ 1,043.5	¥ 461.2
Not requiring an impairment allowance	211.2		183.1		147.3	
<b>Total</b>	<b>¥ 2,619.7</b>	<b>¥ 894.4</b>	<b>¥ 1,588.9</b>	<b>¥ 563.6</b>	<b>¥ 1,190.8</b>	<b>¥ 461.2</b>
Percentage of the allocated allowance to total impaired loans	34.1%		35.5%		38.7%	

In addition to impaired loans presented in the above table, there were loans held for sale that were impaired of ¥3.8 billion, ¥12.6 billion and ¥15.3 billion at March 31, 2003, 2004 and 2005, respectively.

Impaired loans decreased ¥398.1 billion, or 25.1%, from ¥1,588.9 billion at March 31, 2004 to ¥1,190.8 billion at March 31, 2005, reflecting decreases in nonaccrual loans and restructured loans as set forth above.

The percentage of the allocated allowance to total impaired loans at March 31, 2005 was 38.7%, an increase of 3.2 percentage points from 35.5% at March 31, 2004. The percentage of impairment allowance allocated to nonaccrual loans at March 31, 2005 was 49.5%, an increase of 6.7 percentage points from 42.8% at March 31, 2004. The percentage of impairment allowance allocated to restructured loans at March 31, 2005 was 17.7%, a decrease of 3.5 percentage points from 21.2% at March 31, 2004.

Based upon a review of borrowers' financial status, from time to time each of our banking subsidiaries grants various concessions to troubled borrowers at the borrowers' request, including reductions in the stated interest rates or the principal amount of loans, and extensions of the maturity date. According to the policies of each of our banking subsidiaries, such modifications are made to mitigate the near-term burden of the loans provided to the borrowers and to better match the payment terms with the borrowers' expected future cash flows or, in cooperation with other creditors, to reduce the overall debt burden of the borrowers so that they may normalize their operations, in each case to improve the likelihood that the loans will be repaid in accordance with the revised terms. The nature and amount of the concessions depend on the particular financial condition of each borrower. In principle, however, each of our banking subsidiaries does not modify the terms of loans to borrowers that are considered Likely to Become Bankrupt, Virtually Bankrupt or Bankrupt because in these cases there is little likelihood that the modification of loan terms would enhance recovery of the loans.

*Allocated allowance for large groups of smaller-balance homogeneous loans*

The allocated credit loss allowance for large groups of smaller-balance homogeneous loans is focused on loss experience for the pool rather than on an analysis of individual loans. Large groups of smaller-balance homogeneous loans primarily consist of first mortgage housing loans to individuals. The allowance for groups of performing loans is based on historical loss experience over a period. In determining the level of the allowance for delinquent groups of loans, we classify groups of homogeneous loans based on the risk rating and/or the number of delinquencies. We determine the credit loss allowance for delinquent groups of loans based on the probability of insolvency by the number of actual delinquencies and actual loss experience. The loss experience is usually determined by reviewing the historical loss rate. The allocated credit loss allowance for large groups of smaller-balance homogeneous loans was ¥37.4 billion at March 31, 2005, a slight decrease from ¥38.8 billion at March 31, 2004.

**Table of Contents***Allocated allowance for country risk exposure*

The allocated credit loss allowance for country risk exposure is based on an estimate of probable losses relating to the exposure to countries that we identify as having a high degree of transfer risk. We use a country risk grading system that assigns risk ratings to individual countries. To determine the risk rating, we consider the instability of foreign currency and difficulties regarding debt servicing. The allowance is determined based on the assessment of individual country risks, taking into consideration various factors such as the political and macroeconomic situation and debt repayment capability. It is generally based on a function of default probability and expected recovery ratios, taking external credit ratings into account. The allocated allowance for country risk exposure decreased ¥6.0 billion from ¥6.1 billion at March 31, 2004 to ¥0.1 billion at March 31, 2005. This decrease was due to the improved conditions in countries such as Indonesia.

The following is a summary of cross-border outstandings to counterparties in major Asian and Latin American countries at March 31, 2004 and 2005:

	At March 31,	
	2004	2005
	(in billions)	
Hong Kong	¥ 333.4	¥ 358.3
Singapore	226.5	291.4
People's Republic of China	213.6	288.7
South Korea	226.1	256.3
Thailand	164.1	235.3
Malaysia	106.3	109.2
Philippines	53.5	44.4
Indonesia	28.4	36.6
Brazil	82.5	72.0
Mexico	46.3	47.4
Argentina	18.2	0.9

Note: We record allocated allowance for country risk exposure for specific countries, not all of the countries above.

Our cross-border outstandings to emerging countries has increased with the general improvement in the credit risk of emerging countries. Our cross-border outstandings to countries such as China, Hong Kong and Singapore has increased due to the stable credit risk in those countries. Our cross-border outstandings to Argentina has decreased due to the decrease in loans to non-Japanese borrowers in Argentina.

*Formula allowance for substandard, special mention and unclassified loans*

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

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Bank of Tokyo-Mitsubishi has computed the formula allowance based on estimated credit losses using a methodology defined by the credit rating system. Estimated losses inherent in the loan portfolio at the balance sheet date are calculated by multiplying the default ratio by the irrecoverable ratio (determined as a complement of the recovery ratio). The default ratio is determined by each credit risk rating, taking into account the historical number of defaults of borrowers within each credit risk rating divided by the total number of borrowers within that credit risk rating existing at the beginning of the five-year observation period. The recovery ratio is determined by the historical experience of collections against loans in default.

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Mitsubishi Trust Bank also computes the formula allowance based on a similar methodology on the basis of historical loss experience except for a few technical differences in methodology including shorter observation periods to develop the ratio for formula allowance of each credit rating calculation and the extent of grouping of loans in computing the allowance, reflecting the smaller size of the loan portfolio.

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

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

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

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

The formula allowance decreased ¥27.7 billion from ¥261.1 billion at March 31, 2004 to ¥233.4 billion at March 31, 2005. This decrease was due to a reduction of some performing loans for which credit risk and percentage of allowance were comparatively high, and the general improvement in the quality of our loan assets.

### *Unallocated allowance*

The unallocated allowance is based on management's evaluation of conditions that are not directly reflected in the determination of the formula and specific allowances. Certain losses that had previously been considered in the determination of the unallocated allowance have been incorporated into our formula allowance through the change made to recognize losses based on a loss confirmation period, thereby eliminating the need to reflect them in our unallocated allowance. The evaluation of the inherent loss with respect to these conditions is subject to a higher degree of uncertainty because they may not be identified with specific problem credits or portfolio segments. The conditions evaluated in connection with the unallocated allowance include the following, which existed at the balance sheet date:

general economic and business conditions affecting our key lending areas;

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

collateral values;



loan volumes and concentrations;

seasoning of the loan portfolio;

specific industry conditions within portfolio segments;

recent loss experience in particular segments of the portfolio;

duration of the current economic cycle;

bank regulatory examination results; and

findings of our internal credit examiners.

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

The unallocated allowance decreased ¥9.9 billion from ¥18.5 billion at March 31, 2004 to ¥8.6 billion at March 31, 2005. This decrease was due mainly to refinement of formula allowance and allocated allowance, which has eliminated the need to consider certain losses, such as a certain share of inherent probable loss associated with the credit migration.

### ***Allowance for Off-balance-sheet Credit Instruments***

In addition to the allowance for credit losses on the loan portfolio, we maintain an allowance for credit losses on off-balance-sheet credit instruments, including commitments to extend credit, a variety of guarantees and standby letters of credit. This allowance is included in other liabilities. With regard to the specific allocated allowance for specifically identified credit exposure and the allocated formula allowance, we apply the same methodology that we use in determining the allowance for loan credit losses. The allowance for credit losses on off-balance-sheet credit instruments was ¥69.5 billion at March 31, 2005, a decrease of ¥41.2 billion, or 37.2%, from ¥110.7 billion at March 31, 2004. This decrease shows the same trend as the quality improvement of loan assets.

### ***Investment Portfolio***

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

Historically, we have held equity securities of some of our customers for strategic purposes, in particular to maintain long-term relationships with these customers. However, our current goal is to reduce the aggregate value of our equity securities to approximately 50% of our Tier I capital by March 31, 2007 because we believe from a risk management perspective that reducing the price fluctuation risk in our equity portfolio is imperative. We have not yet determined how the management integration with UFJ Group will impact our plans in this area. As of March 31, 2005, we had reduced the aggregate value of marketable equity securities under Japanese GAAP to 59% of our Tier I capital, which satisfies the requirements of the legislation forbidding banks from holding equity securities in excess of their Tier I capital after September 30, 2006.

Investment securities increased ¥0.71 trillion, from ¥29.08 trillion at March 31, 2004 to ¥29.79 trillion at March 31, 2005 due primarily to an increase in securities being held to maturity and other investment securities, which were partially offset by the decrease in available-for-sale securities.

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The following table shows information as to the value of our investment securities available for sale and being held to maturity at March 31, 2004 and 2005. Subsequent to the filing of our Annual Report on Form 20-F for the fiscal year ended March 31, 2004, management determined that amortized costs and net unrealized gains on securities available for sale for the fiscal year ended March 31, 2004 were erroneously disclosed. As a result, such amounts have been restated from the amounts previously reported.

	At March 31,					
	2004			2005		
	Amortized cost (restated)	Estimated fair value	Net unrealized gains (restated)	Amortized cost	Estimated fair value	Net unrealized gains
	(in billions)					
Securities available for sale:						
Debt securities, principally Japanese government bonds and corporate bonds	¥23,477.8	¥23,547.1	¥69.3	¥22,464.3	¥22,604.9	¥140.6
Marketable equity securities	2,410.4	4,083.2	1,672.8	2,333.4	3,953.6	1,620.2
<b>Total securities available for sale</b>	<b>¥25,888.2</b>	<b>¥27,630.3</b>	<b>¥1,742.1</b>	<b>¥24,797.7</b>	<b>¥26,558.5</b>	<b>¥1,760.8</b>
Debt securities being held to maturity, principally Japanese government bonds	¥1,250.8	¥1,257.9	¥ 7.1	¥2,191.3	¥2,213.6	¥22.3

Securities being held to maturity increased ¥0.94 trillion as our treasury operations increased holdings in Japanese government bonds for asset-liability management purposes, mainly due to the fact that our balance of deposits exceeded our loans, and Japanese government bonds were a viable investment option for us.

Other investment securities increased due to our purchase of preferred shares of UFJ Bank for ¥700 billion in September 2004, as stated in Recent Developments Management Integration of Mitsubishi Tokyo Financial Group and the UFJ Group. These preferred shares were carried on our balance sheet as of March 31, 2005 at cost.

Available-for-sale securities decreased ¥1.07 trillion from ¥27.63 trillion at March 31, 2004 to ¥26.56 trillion at March 31, 2005, primarily due to the decrease in our holdings of foreign bonds, particularly US Treasury bonds, resulting from the rising interest rates in the United States.

Net unrealized gains on available-for-sale securities included in the investment portfolio at March 31, 2004 and 2005 were ¥1.74 trillion and ¥1.76 trillion, respectively. These net unrealized gains related principally to marketable equity securities.

**Cash and Due from Banks**

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Cash and due from banks at March 31, 2005 was ¥4.22 trillion, an increase of ¥1.11 trillion from ¥3.11 trillion at March 31, 2004. The increase in cash and due from banks was primarily attributable to an increase in deposits with the Bank of Japan at the end of the fiscal year, which in turn was due to the Bank of Japan's monetary policy of providing ample liquidity by increasing the balance of current accounts held at the Bank of Japan.

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### ***Interest-earning Deposits in Other Banks***

Interest-earning deposits in other banks fluctuate significantly from day to day depending upon financial market conditions. Interest-earning deposits in other banks at March 31, 2005 were ¥4.54 trillion, an increase of ¥1.03 trillion, from ¥3.51 trillion at March 31, 2004. This increase primarily reflected an increase in foreign currency deposits.

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

Deferred tax assets decreased ¥0.24 trillion, or 23.2%, from ¥1.01 trillion at March 31, 2004 to ¥0.77 trillion at March 31, 2005. This decrease was due primarily to a decrease in existing deductible temporary differences. The decrease in existing deductible temporary differences reflected a decrease in net operating loss carryforwards, which is attributable to the existence of taxable income in our domestic subsidiaries for the fiscal year ended March 31, 2005. The decrease in allowance for credit losses and accrued severance indemnities and pension liabilities also contributed to the decrease in deferred tax assets.

### ***Total Liabilities***

At March 31, 2005, total liabilities were ¥104.05 trillion, an increase of ¥4.20 trillion from ¥99.85 trillion at March 31, 2004. This increase primarily reflected increases of ¥5.06 trillion in other short-term borrowings and ¥1.27 trillion in total deposits. These increases were partially offset by a decrease of ¥1.46 trillion in payables under repurchase agreements and a decrease of ¥1.35 trillion in call money and funds purchased.

The depreciation of the yen against the US dollar and other foreign currencies during the fiscal year ended March 31, 2005 increased the yen values for liabilities denominated in foreign currencies by approximately ¥0.42 trillion.

### ***Deposits***

Deposits are our primary source of funds. Total average deposits increased ¥2.03 trillion from ¥68.50 trillion for the fiscal year ended March 31, 2004 to ¥70.53 trillion for the fiscal year ended March 31, 2005. This increase primarily reflected a ¥1.45 trillion increase in average domestic interest-bearing demand deposits.

Domestic deposits increased ¥0.49 trillion from ¥57.54 trillion at March 31, 2004 to ¥58.03 trillion at March 31, 2005, while foreign deposits increased ¥0.77 trillion from ¥12.49 trillion at March 31, 2004 to ¥13.26 trillion at March 31, 2005.

The reduction in the maximum amount covered by blanket deposit insurance to a ¥10 million maximum as of March 31, 2005 did not have a material affect on our average domestic deposits for the fiscal year ended March 31, 2005.

***Short-term Borrowings***

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

The total average balance of short-term borrowings increased ¥5.49 trillion from ¥15.98 trillion for the fiscal year ended March 31, 2004 to ¥21.47 trillion for the fiscal year ended March 31, 2005.

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Short-term borrowings increased ¥2.57 trillion from ¥16.44 trillion at March 31, 2004 to ¥19.01 trillion at March 31, 2005. This increase was primarily attributable to an increase of ¥5.06 trillion in other short-term borrowings. The increase in other short-term borrowings was primarily due to measures we took to increase our liquidity near the end of the fiscal year ended March 31, 2005 in order to respond to any unexpected outflow of funds caused by the reduction of blanked deposit insurance at March 31, 2005. As discussed in *Deposits* above, no such unexpected outflow of funds occurred.

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

As discussed in *Item 5.A. Operating Results Recent Developments Transfer to the Japanese Government of the Substitutional Portion of Employee Pension Fund Liabilities* and *Item 5.A. Operating Results Accounting Changes Transfer to the Japanese Government of the Substitutional Portion of Employee Pension Fund Liabilities*, in March 2005, the substitutional portion of the employee pension fund liabilities of Bank of Tokyo-Mitsubishi was transferred to a government agency and Bank of Tokyo-Mitsubishi was released from the obligation to pay the substitutional portion of the benefits to its employees. Although the completion of the transfer constituted a settlement of such plan, since there remains a defined benefit plan and the settlement occurred subsequent to December 31, 2004 (the measurement date of such plan), the impact of the transfer / settlement of a pre-tax income of ¥36.1 billion will be recognized in the fiscal year ending March 31, 2006. See Note 17 to our consolidated financial statements for details of our defined benefit pension plans and the effect of the transfer / settlement.

### ***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 shown a historically high rollover rate among our corporate customers and individual depositors. Due to the economic and financial environment in Japan, as well as to our relatively high financial standing in Japan, our deposits have steadily increased during recent years, from ¥67.30 trillion at March 31, 2003 to ¥71.29 trillion at March 31, 2005. As of March 31, 2005, our deposits of ¥71.29 trillion exceeded our loans, net of allowance for credit losses of ¥50.33 trillion, by ¥20.96 trillion. These deposits provide us with a sizable source of stable and low-cost funds. While approximately 51.3% of certificates of deposit and time deposits mature within three months, we continuously monitor relevant interest rate characteristics of these funds and utilize asset and liability management techniques to manage the possible impact of the rollovers on our net interest margin and liquidity. Our average deposits, combined with average shareholders' equity, funded 67.1% of our average total assets of ¥110.83 trillion during the fiscal year ended March 31, 2005.

Most of the remaining funding was 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 mainly three to five years' maturity. Liquidity may also be provided by the sale of financial assets, including securities available for sale, trading account securities and loans. Additional liquidity may be provided by the maturity of loans.

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

The following table presents a summary of our shareholders' equity at March 31, 2004 and 2005:

	At March 31,	
	2004	2005
	(in billions, except percentages)	
Preferred stock	¥ 137.1	¥ 247.1
Common stock	1,069.7	1,084.7
Capital surplus	1,057.9	1,080.5
Retained earnings	1,198.0	1,567.5
Accumulated other changes in equity from nonowner sources	384.7	396.6
Less treasury stock, at cost	(2.4)	(3.3)
<b>Total shareholders' equity</b>	<b>¥ 3,845.0</b>	<b>¥ 4,373.1</b>
<b>Ratio of total shareholders' equity to total assets</b>	<b>3.71%</b>	<b>4.03%</b>

Total shareholders' equity increased ¥528.1 billion, or 13.7%, from ¥3,845.0 billion at March 31, 2004 to ¥4,373.1 billion at March 31, 2005. The ratio of total shareholders' equity to total assets also showed an increase of 0.32 percentage points from 3.71% at March 31, 2004 to 4.03% at March 31, 2005. The increase in total shareholders' equity at March 31, 2005, and the resulting increase in the ratio to total assets, were principally attributable to an increase of ¥369.5 billion in retained earnings, resulting from net income for the fiscal year ended March 31, 2005.

Due to our holdings of a large amount of marketable Japanese equity securities and the volatility of the equity markets in Japan, changes in the fair value of marketable equity securities have significantly affected our shareholders' equity. The following table presents information relating to the accumulated net unrealized gains before tax effect in respect of marketable equity securities at March 31, 2004 and 2005:

	At March 31,	
	2004	2005
	(in billions, except percentages)	
Accumulated net unrealized gains	¥ 1,672.8	¥ 1,620.2
Accumulated net unrealized gains to total assets	1.61%	1.49%

**Capital Adequacy**

We are subject to various regulatory capital requirements promulgated by the regulatory authorities of the countries in which we operate. Failure to meet minimum capital requirements can initiate mandatory actions by regulators that, if undertaken, could have a direct material effect on our consolidated financial statements.



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 marketable securities and deferred tax assets, but also by fluctuations in the value of the yen against the US dollar and other foreign currencies and by general price levels of Japanese equity securities.

*Capital Requirements for Banking Institutions in Japan*

A Japanese banking institution is subject to the minimum capital adequacy requirements both on a consolidated basis and a stand-alone basis, and is required to maintain the minimum capital irrespective of whether it operates independently or as a subsidiary under the control of another company. A bank holding company is also subject to the minimum capital adequacy requirements on a consolidated basis. Under the Financial Services Agency's guidelines, capital is classified into three tiers, referred to as Tier I, Tier II and Tier III. Our Tier I capital generally consists of shareholders' equity items, including common stock, non-cumulative

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preferred stock, capital surplus, minority interests and retained earnings (which includes deferred tax assets), but recorded goodwill and other items, such as treasury stock, are deducted from Tier I capital. Our Tier II generally consists of general reserves for credit losses up to 1.25% of risk-weighted assets, 45% of the unrealized gains on investment securities available for sale, 45% of the land revaluation excess, the balance of perpetual subordinated debt and the balance of subordinated term debt with an original maturity of over five years subject to certain limitations, up to 50% of Tier I capital. Our Tier III capital consists of short-term subordinated debt with an original maturity of at least two years, subject to certain limitations. At least 50% of the minimum capital requirements must be maintained in the form of Tier I capital.

Under the Japanese regulatory capital requirements, our consolidated capital components, including Tier I, Tier II and Tier III and risk-weighted assets are calculated from our consolidated financial statements prepared under Japanese GAAP. Also, each of the consolidated and stand-alone capital components of our banking subsidiaries in Japan is calculated from consolidated and non-consolidated financial statements prepared under Japanese GAAP, respectively.

For a detailed discussion of the capital adequacy guidelines adopted by the Financial Service Agency and proposed amendments, see Item 4.B. Information on the Company Business Overview Supervision and Regulation Japan Capital Adequacy.

### ***Capital Requirements for Banking Institutions in the United States of America***

In the United States, UnionBanCal Corporation and its banking subsidiary, Union Bank of California, N.A., our largest subsidiaries operating outside Japan, are subject to various regulatory capital requirements administered by U.S. Federal banking agencies, including minimum capital requirements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, they must meet specific capital guidelines that involve quantitative measures of their assets, liabilities and certain off-balance-sheet items as calculated under U.S. regulatory accounting practices. Their capital amounts and prompt corrective action classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

For a detailed discussion of the capital adequacy guidelines applicable to our U.S. bank subsidiaries, see Item 4.B. Information on the Company Business Overview Supervision and Regulation United States Bank Capital Requirements and Capital Distributions.

### ***Capital Requirements for Securities Firms in Japan and Overseas***

We have securities subsidiaries in Japan and overseas, which are also subject to regulatory capital requirements. In Japan, the Securities and Exchange Law of Japan and related ordinance require securities firms to maintain a minimum capital ratio of 120% calculated by as a percentage of capital accounts less certain illiquid assets, as determined in accordance with Japanese GAAP, against amounts equivalent to market, counterparty credit and operations risks. Specific guidelines are issued as a ministerial ordinance which detail the definition of essential components of the capital ratios, including capital, illiquid assets deductions, risks and related measures. Failure to maintain a minimum capital ratio will trigger mandatory regulatory actions. A capital ratio of less than 140% will call for regulatory reporting and a capital ratio of 100% or less may lead to a suspension of all or part of the business for a period of time and cancellation of a license. Overseas securities subsidiaries are subject to the relevant regulatory capital requirements of the countries or jurisdictions in which they operate. At March 31, 2005, Mitsubishi Securities capital accounts, less certain illiquid assets of ¥415.8 billion, were 406.7% of total amounts equivalent to market, counterparty credit and operations risks.



**Table of Contents****Mitsubishi Tokyo Financial Group Ratios**

The table below presents our consolidated risk-based capital, risk-adjusted assets and risk-based capital ratios at March 31, 2004 and 2005 (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 Financial Services Agency):

	At March 31,		Minimum capital ratios required
	2004	2005	
	(in billions, except percentages)		
Capital components:			
Tier I capital	¥ 3,859.4	¥ 4,286.8	
Tier II capital includable as qualifying capital	3,157.9	3,250.9	
Tier III capital includable as qualifying capital	30.0		
Deductions from total qualifying capital	54.5	915.1	
<b>Total risk-based capital</b>	<b>¥ 6,992.8</b>	<b>¥ 6,622.6</b>	
Risk-weighted assets	¥ 53,996.8	¥ 56,270.6	
Capital ratios:			
Tier I capital	7.14%	7.62%	4.00%
Total risk-based capital	12.95	11.76	8.00

Our Tier I ratio increased 0.48 percentage points from 7.14% at March 31, 2004 to 7.62% at March 31, 2005. This increase was a result of the increase in our retained earnings and our issuance of preferred shares during the fiscal year ended March 31, 2005. However, our total risk-based capital ratio decreased 1.19 percentage points from 12.95% at March 31, 2004 to 11.76% at March 31, 2005 mainly due to our investments in ACOM and UFJ Bank, which decreased our total risk-based capital as those investments were deducted from our qualifying capital under Japanese regulations, and also due to the increase in our loans, which in turn increased our risk-weighted assets.

**Capital Ratios of Our Subsidiary Banks in Japan**

The table below presents the risk-based capital ratios of Bank of Tokyo-Mitsubishi and Mitsubishi Trust Bank at March 31, 2004 and 2005 (underlying figures are calculated in accordance with Japanese banking regulations based on information derived from their consolidated and non-consolidated financial statements prepared in accordance with Japanese GAAP, as required by the Financial Services Agency):

	At March 31,		Minimum capital ratios required
	2004	2005	
Consolidated capital ratios:			
Bank of Tokyo-Mitsubishi			
Tier I capital	6.52%	6.86%	4.00%

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Total risk-based capital	11.97	11.83	8.00
Mitsubishi Trust Bank			
Tier I capital	7.76	8.87	4.00
Total risk-based capital	15.03	12.72	8.00
Stand-alone capital ratios:			
Bank of Tokyo-Mitsubishi			
Tier I capital	6.35	6.78	4.00
Total risk-based capital	12.18	12.22	8.00
Mitsubishi Trust Bank			
Tier I capital	7.78	8.76	4.00
Total risk-based capital	15.16	12.68	8.00

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As of March 31, 2005, the consolidated Tier I capital ratios of both Bank of Tokyo-Mitsubishi and Mitsubishi Trust Bank increased compared to the ratios as of March 31, 2004, due to the net income of each bank for the fiscal year. However, the consolidated total risk-based capital ratio decreased for both Bank of Tokyo-Mitsubishi and Mitsubishi Trust Bank mainly due to the loans that both banks made to Mitsubishi Tokyo Financial Group Inc., which decreased their total risk-based capital as those loans were deducted from their qualifying capital under Japanese regulations. As of March 31, 2005, Bank of Tokyo-Mitsubishi and Mitsubishi Trust Bank had outstanding loans of ¥200.0 billion and ¥300.0 billion, respectively, with regard to the investment by Mitsubishi Tokyo Financial Group Inc. in UFJ Bank. The increase in loans at Bank of Tokyo-Mitsubishi, which increased their risk-weighted assets, also was a factor to the decrease in the consolidated total risk-based capital ratio at Bank of Tokyo-Mitsubishi.

At March 31, 2005, management believes that our subsidiary banks are in compliance with all capital adequacy requirements to which they are subject.

**Capital Ratios of Subsidiary Banks in the United States**

The table below presents the risk-based capital ratios of UnionBanCal Corporation and Union Bank of California, both subsidiaries of Bank of Tokyo-Mitsubishi, at December 31, 2003 and 2004:

	<u>At December 31,</u>		<u>Minimum</u> <u>capital ratios required</u>	<u>Ratios OCC requires</u> <u>to be well-capitalized</u>
	<u>2003</u>	<u>2004</u>		
<b>UnionBanCal Corporation:</b>				
Tier I capital (to risk-weighted assets)	11.31%	9.71%	4.00%	
Tier I capital (to quarterly average assets)*	9.03	8.09	4.00	
Total capital (to risk-weighted assets)	14.14	12.17	8.00	
<b>Union Bank of California:</b>				
Tier I capital (to risk-weighted assets)	10.44%	9.29%	4.00%	6.00%
Tier I capital (to quarterly average assets)*	8.30	7.72	4.00	5.00
Total capital (to risk-weighted assets)	11.88	10.57	8.00	10.00

\* Excludes certain intangible assets.

Management believes that, as of December 31, 2004 and June 30, 2005, UnionBanCal Corporation and Union Bank of California met all capital adequacy requirements to which they are subject.

As of December 31, 2004, Union Bank of California was categorized as well-capitalized under the regulatory framework for prompt corrective action in accordance with the notification from the OCC. To be categorized as well capitalized, Union Bank of California must maintain minimum total risk-based, Tier I risk-based and Tier I leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed Union Bank of California's category.

**Table of Contents****Off-balance-sheet Arrangements**

In the normal course of our business, we engage in several types of off-balance-sheet arrangements to meet the financing needs of our customers, including various types of guarantees, commitments to extend credit and commercial letters of credit. The following table summarizes these commitments at March 31, 2005:

	Amount of commitment expiration by period			
	Less than 1 year	1-5 years	Over 5 years	Total
	(Restated)	(Restated)	(Restated)	(Restated)
	(in billions)			
Guarantees:				
Standby letters of credit and financial guarantees	¥ 1,284	¥ 476	¥ 881	¥ 2,641
Performance guarantees	780	516	78	1,374
Derivative instruments	10,165	5,649	914	16,728
Guarantees for the repayment of trust principal	228	1,554	8	1,790
Liabilities of trust account	2,915	47	279	3,241
Others	512			512
<b>Total guarantees</b>	<b>15,884</b>	<b>8,242</b>	<b>2,160</b>	<b>26,286</b>
Other off-balance-sheet instruments:				
Commitments to extend credit	21,020	6,118	675	27,813
Commercial letters of credit	457	1		458
Others	12	12	3	27
<b>Total other off-balance-sheet instruments</b>	<b>21,489</b>	<b>6,131</b>	<b>678</b>	<b>28,298</b>
<b>Total</b>	<b>¥ 37,373</b>	<b>¥ 14,373</b>	<b>¥ 2,838</b>	<b>¥ 54,584</b>

See Note 25 to our consolidated financial statements for a description of the nature of our guarantees and other off-balance-sheet instruments.

The contractual amounts of these guarantees and other off-balance-sheet instruments represent the amounts at risk should the contracts be fully drawn upon with a subsequent default by our customer and a decline in the value of the underlying collateral. Because many of these commitments expire without being drawn upon, the total contractual or notional amounts of these commitments do not necessarily represent our future cash requirements. At March 31, 2005, approximately 69% of these commitments will expire within one year, 26% from one year to five years and 5% after five years. Such risks are monitored and managed as a part of our risk management system as set forth in Item 11. Quantitative and Qualitative Disclosures about Credit, Market and Other Risk. In addition, in accordance with SFAS No. 5, Accounting for Contingencies, we evaluate off-balance-sheet arrangement in the manner described in note 1 to our consolidated financial statements.

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In the aggregate, the income generated from fees and commissions is one of our most important sources of revenue. Such income amounted to ¥649.2 billion during the fiscal year ended March 31, 2005, accounting for approximately 65% of our non-interest income for the fiscal year. However, the fees generated specifically from off-balance-sheet arrangements are not a dominant source of our fees and commissions.

Some of our off-balance-sheet arrangements are related to activities of special purpose entities, most of which are VIEs. As set out in Item 5.A. Operating Results Accounting Changes Variable Interest Entities, we adopted FIN No. 46R at April 1, 2004. As a result, we have consolidated all VIEs in which we are deemed to be the primary beneficiary including those created before February 1, 2003.

Off-balance-sheet arrangements include the following types of special purpose entities.



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### ***Asset-backed Commercial Paper Conduits***

We administer several multi-seller finance entities (primarily commercial paper conduits) that purchase financial assets, primarily pools of receivables, from third-party customers. Assets purchased by these conduits are generally funded by issuing commercial paper to and/or by borrowings from us or third parties. While customers basically continue to service the transferred trade receivables, we underwrite, distribute, make a market in commercial paper issued by the conduits, and also provide liquidity and credit support facilities to the entities.

We, as a non-primary beneficiary, had variable interests in this type of entity, with total assets of ¥381.4 billion at March 31, 2005, and are exposed to a maximum loss of ¥56.5 billion.

### ***Securitization Conduits of Client Properties***

We administer several conduits that acquire client assets, primarily real estate, from third-party customers ( property sellers ) with the property sellers continuing to use the acquired real estate through lease-back agreements. The equity of the conduits is provided by the property sellers but such equity holders have no ability to make decisions about the activities of the conduits. Thus, we consider those conduits to be VIEs. The assets acquired by these conduits are generally funded by borrowings from us or third parties. We believe we are not the primary beneficiary of any of the conduits.

We, as a non-primary beneficiary, had variable interests in this type of entity, with total assets of ¥1,574.8 billion at March 31, 2005, and are exposed to a maximum loss of ¥618.8 billion, which would need to be recognized if, contrary to current expectations, we are unable to collect on our loans to these entities.

### ***Investment Funds***

We hold investments in various investment funds that collectively invest in equity and debt securities including listed Japanese securities and investment grade bonds, and, to a limited extent, securities and other interests issued by companies in a start-up or restructuring stage. Such investment funds are managed by investment advisory companies or fund management companies that make investment decisions and administer the funds.

We occasionally sell assets such as nonperforming loans to these funds, in particular the Corporate Recovery Fund, when we believe that such sale may improve our asset quality.

*Corporate Recovery Fund.* We have non-controlling equity interests in corporate recovery funds whose principal business purpose is to generate profits by investing in companies in the process of restructuring and then, typically, selling these investments after the companies complete their restructurings. Such funds purchase nonperforming loans from us or others and in some cases acquire majority ownership in the borrower companies by means of a debt-for-equity swap. Our non-voting interests in these funds amounted to ¥35.9 billion at March 31, 2004 and ¥29.5 billion at March 31, 2005, respectively. In addition, at March 31, 2005, we had commitments to make additional contributions of up to

¥6.0 billion to these funds.

The total assets of the corporate recovery funds in which we have interests were approximately ¥127.6 billion at March 31, 2004 and ¥98.3 billion at March 31, 2005. We sold to corporate recovery funds nonperforming loans with an aggregate net book value of ¥2.2 billion for ¥1.6 billion during the fiscal year ended March 31, 2004 and an aggregate net book value of ¥4.2 billion for ¥1.9 billion during the fiscal year ended March 31, 2005. For a detailed discussion on additional provisions for credit losses associated with the sale of such loans, see Financial Condition Allowance for Credit Losses, Nonperforming and Past Due Loans.

*Venture Capital Fund.* We own non-controlling equity interests in investment funds managed by fund management companies who have discretionary investment powers. These funds seek to invest in start-up companies or companies that are rapidly developing. The aggregate assets of these funds were approximately

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¥4,157.5 billion at March 31, 2005. We made contributions to these funds amounting to ¥146.7 billion at March 31, 2005. At March 31, 2005, in accordance with the applicable limited partnership agreements, we had commitments to make additional contributions of up to ¥31.5 billion when required by the fund management companies.

*Investment Trust.* We purchase the share units of investment trusts as mid- to long-term investments. These investment trusts are managed by investment advisory companies with the objective of investing in a diversified portfolio consisting of equity and debt securities, primarily shares of Japanese public companies. At March 31, 2005, our share units in investment trusts amounted to approximately ¥543.2 billion, which is equal to our maximum loss exposure. Generally, we are not obligated to invest in or extend funds by purchasing additional share units and our off-balance-sheet exposures or commitments relating to this type of special purpose entities were not material.

### ***Special Purpose Entities Created for Structured Financing***

We extend non-recourse asset-backed loans to special purpose entities, which hold beneficial interests in real properties, to provide financing for special purpose projects including real estate development and natural resource development managed by third parties.

We generally act as a member of a lending group and do not have any equity investment in the entities, which is typically provided by project owners. For most of these financings, the equity provided by the project owners is of sufficient level to absorb expected losses, while expected returns to the owners are arranged to be the most significant among all returns. Accordingly, we determined that we are not the primary beneficiary of most of these entities. However, we are ultimately required to consolidate entities whose investment at risk is exceptionally thin and to whom we provided most of the financing.

We, as a non-primary beneficiary, had variable interests in this type of entity, with total assets of ¥16,419.8 billion, at March 31, 2005, and are exposed to maximum loss of ¥1,134.4 billion, which will possibly realize if our loans to entities are not collected in accordance with the contractual terms.

### ***Trust Arrangements***

We offer a variety of asset management and administration services under trust arrangements including securities investment trusts, pension trusts and trusts used as securitization vehicles. Although in limited cases we may assume risks through guarantees or certain protections as provided in the agreements or relevant legislations, we have determined that we will not absorb a majority of expected losses in connection with such trust arrangements. In a typical trust arrangement, however, we manage and administer assets on behalf of the customers in an agency, fiduciary and trust capacity and do not assume risks associated with the entrusted assets. Customers receive and absorb expected returns and losses on the performance and operations of trust assets under management of us. Accordingly, we determined that we are generally not a primary beneficiary to any trust arrangements under management as our interests in the trust arrangements are insignificant in most cases. Fees on trust products that we offer for the fiscal years ended March 31, 2004 and 2005 were ¥90.0 billion and ¥102.8 billion, respectively.

See Notes 15, 25 and 28 to our consolidated financial statements for further details.

*Repackaged Instruments*

We have two types of relationships with special purpose entities that repackage financial instruments to create new financial instruments.

We provide repackaged instruments with features that meet the customer's needs and preferences through special purpose entities. We purchase financial instruments such as bonds and transfer them to special purpose

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entities which then issue new instruments. The special purpose entities may enter into derivative transactions including interest rate and currency swaps with us or other financial institutions to modify the cash flows of the underlying financial instruments. We underwrite and market to our customers the new instruments issued by the special purpose entities.

We also invest in repackaged instruments arranged and issued by third parties.

At March 31, 2005, the total assets of these entities were estimated as ¥34,851.6 billion and our maximum exposure to loss as a result of our involvement with such entities were estimated as ¥883.2 billion.

**Other Type of VIEs**

We are also a party to other types of VIEs including special purpose entities created to hold assets on behalf of us as an intermediary.

We identified borrowers that were determined to be VIEs due to an insufficient level of equity. We determined that we are not the primary beneficiary of most of these borrowers because of our limited exposure as a lender to such borrowers. Such borrowers engage in diverse business activities of various sizes in industries such as manufacturing, merchandise trading, distribution, construction and real estate development, independently from us.

**Contractual Cash Obligations**

In the normal course of our business, we enter into contractual agreements whereby we commit to future purchases of products or services from unaffiliated parties. The following table shows a summary of our contractual cash obligations at March 31, 2005

	Payments due by period				Total
	Less than 1 year	1-3 years	3-5 years	Over 5 years	
	(in billions)				
Contractual cash obligations:					
Time deposits	¥ 25,233	¥ 6,141	¥ 1,939	¥ 84	¥ 33,397
Long-term debt	832	1,203	831	3,116	5,982
Capital lease obligations	9	11	4	7	31
Operating leases	27	46	36	45	154
Purchase obligations	9	11	8	28	56
<b>Total*</b>	<b>¥ 26,110</b>	<b>¥ 7,412</b>	<b>¥ 2,818</b>	<b>¥ 3,280</b>	<b>¥ 39,620</b>

\* The total amount of expected future pension payments is not included in the above table or the total amount of commitments outstanding at March 31, 2005 as such amount is not currently determinable. We expect to contribute approximately ¥23.4 billion to the pension plans of domestic subsidiaries and approximately ¥14.8 billion to the pension plans of subsidiaries in the United States of America for the fiscal year ending March 31, 2006.

Purchase obligations include any legally binding contractual obligations that require us to spend more than ¥100 million annually under the contract. Purchase obligations in the table primarily include commitments to make investments into corporate recovery or private equity investment funds.

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

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

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with similar characteristics. Gains or losses on non-exchange traded contracts are included in Trading account profits net in our consolidated statements of income. These contracts consist primarily of crude oil commodity contracts. The following table summarizes the changes in fair value of non-exchange traded contracts for the fiscal years ended March 31, 2004 and 2005:

	Fiscal years ended March 31,	
	2004	2005
	(in millions)	
Net fair value of contracts outstandings at beginning of fiscal year	¥ 10,275	¥ 12,054
Changes attributable to contracts realized or otherwise settled during the fiscal year	(8,467)	(5,375)
Fair value of new contracts when entered into during the fiscal year	(23)	(29)
Other changes in fair value, principally revaluation at end of fiscal year	10,269	23,173
Net fair value of contracts outstandings at end of fiscal year	¥ 12,054	¥ 29,823

During the fiscal years ended March 31, 2004 and 2005, the fair value of non-exchange traded contracts increased primarily due to an increase in the fair value of oil commodity contracts indexed to the Brent crude oil and WTI crude oil prices, reflecting political factors in the Middle East and other factors.

The following table summarizes the maturities of non-exchange traded contracts at March 31, 2005:

	Net fair value of contracts	
	unrealized gains	
	Prices based on models and	
	Prices actively quoted	other valuation methods
	(in millions)	
Maturity less than 1 year	¥ 7,851	¥ 305
Maturity less than 3 years	8,779	197
Maturity less than 5 years	6,082	
Maturity 5 years or more	6,609	
Total fair values	¥ 29,321	¥ 502

**C. Research and Development, Patents and Licenses, etc.**

Not applicable.

**D. Trend Information**

See the discussions under Items 5.A. and 5.B. of this Annual Report.

**E. Off-balance-sheet Arrangements**

See the discussion under Item 5.B. Operating and Financial Review and Prospects Liquidity and Capital Resources.

**F. Tabular Disclosure of Contractual Obligations**

See the discussion under Item 5.B. Operating and Financial Review and Prospects Liquidity and Capital Resources.

**G. Safe Harbor**

See the discussion under Forward-Looking Statements.



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**Item 18. Financial Statements.**

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

**Item 19. Exhibits.**

<b><u>Exhibit</u></b>	<b><u>Description</u></b>
12	Certifications required by Rule 13a-14(a) (17 CFR 240.13a-14(a)) or Rule 15d-14(a) (17 CFR 240.15d-14(a)).
13	Certifications required by Rule 13a-14(b) (17 CFR 240.13a-14(b)) or Rule 15d-14(b) (17 CFR 240.15d-14(b)) and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. 1350).

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**SELECTED STATISTICAL DATA**

Due to close integration of our foreign and domestic activities, it is difficult to make a precise determination of the assets, liabilities, income and expenses of our foreign operations. The foreign operations as presented include the business conducted by overseas subsidiaries and branches, and the international business conducted by the several international banking related divisions headquartered in Japan. Our management believes that the results appropriately represent our domestic and foreign activities.

During the fiscal year ended March 31, 2003, the Bank of Japan changed its industry segment loan classification. Such change primarily includes the introduction of a new "Communication and information services" category. Due to the introduction of the new category, certain businesses previously included in "Manufacturing," "Services" and "Other" industries were reclassified into "Communication and information services." This change is expected to provide a more suitable and detailed description of the loan portfolio. In response to the change, we modified our loan reporting system. For comparative purposes, we provide the loan information by industry segment as of March 31, 2003, 2004 and 2005, including III. Loan Portfolio and IV. Summary of Loan Loss Experience, based on both the old and new industry segment classifications.

Upon the acquisition of additional shares of ACOM CO., LTD. in April 2004, we applied the equity method of accounting to our investments in ACOM in a manner consistent with the accounting for a step-by-step acquisition of a subsidiary. Accordingly, certain financial information for fiscal years ended on and before March 31, 2004 has been retroactively adjusted.

**Table of Contents****I. Distribution of Assets, Liabilities and Shareholders Equity; Interest Rates and Interest Differential***Average Balance Sheets, Interest and Average Rates*

The following table shows our average balances, interest and average interest rates for the fiscal years ended March 31, 2003, 2004 and 2005. Average balances are generally based on a daily average while a month-end average is used for certain average balances when it is not practicable to obtain applicable daily averages. The average balances determined by such methods are considered to be representative of our operations.

	Fiscal years ended March 31,								
	2003			2004			2005		
	Average balance	Interest	Average rate	Average balance	Interest	Average rate	Average balance	Interest	Average rate
	(in millions, except percentages)								
<b>Assets:</b>									
<b>Interest-earning assets:</b>									
Interest-earning deposits in other banks:									
Domestic	¥ 365,166	¥ 3,773	1.03%	¥ 314,643	¥ 4,072	1.29%	¥ 311,368	¥ 6,115	1.96%
Foreign	3,199,131	68,837	2.15	2,804,134	44,021	1.57	3,052,860	60,583	1.98
<b>Total</b>	<b>3,564,297</b>	<b>72,610</b>	<b>2.04</b>	<b>3,118,777</b>	<b>48,093</b>	<b>1.54</b>	<b>3,364,228</b>	<b>66,698</b>	<b>1.98</b>
Call loans, funds sold, and receivables under resale agreements and securities borrowing transactions:									
Domestic	1,504,164	4,518	0.30	3,436,564	3,130	0.09	3,578,564	3,284	0.09
Foreign	2,483,718	56,857	2.29	2,392,079	38,145	1.59	2,476,391	48,694	1.97
<b>Total</b>	<b>3,987,882</b>	<b>61,375</b>	<b>1.54</b>	<b>5,828,643</b>	<b>41,275</b>	<b>0.71</b>	<b>6,054,955</b>	<b>51,978</b>	<b>0.86</b>
Trading account assets:									
Domestic	3,753,237	10,330	0.28	5,455,464	23,005	0.42	5,177,032	25,780	0.50
Foreign	634,006	1,710	0.27	555,837	5,446	0.98	687,253	5,049	0.73
<b>Total</b>	<b>4,387,243</b>	<b>12,040</b>	<b>0.27</b>	<b>6,011,301</b>	<b>28,451</b>	<b>0.47</b>	<b>5,864,285</b>	<b>30,829</b>	<b>0.53</b>
Investment securities (see Note 1):									
Domestic	17,957,078	122,348	0.68	18,989,987	111,772	0.59	25,978,515	125,081	0.48
Foreign	6,651,616	268,790	4.04	7,951,162	270,497	3.40	7,261,113	245,486	3.38
<b>Total</b>	<b>24,608,694</b>	<b>391,138</b>	<b>1.59</b>	<b>26,941,149</b>	<b>382,269</b>	<b>1.42</b>	<b>33,239,628</b>	<b>370,567</b>	<b>1.11</b>
Loans (see Note 2):									

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Domestic	39,025,438	602,899	1.54	39,328,149	572,157	1.45	41,380,643	577,088	1.39
Foreign	10,673,412	442,431	4.15	9,622,611	349,509	3.63	9,581,539	345,463	3.61
<b>Total</b>	<b>49,698,850</b>	<b>1,045,330</b>	<b>2.10</b>	<b>48,950,760</b>	<b>921,666</b>	<b>1.88</b>	<b>50,962,182</b>	<b>922,551</b>	<b>1.81</b>
<b>Total interest-earning assets:</b>									
Domestic	62,605,083	743,868	1.19	67,524,807	714,136	1.06	76,426,122	737,348	0.96
Foreign	23,641,883	838,625	3.55	23,325,823	707,618	3.03	23,059,156	705,275	3.06
<b>Total</b>	<b>86,246,966</b>	<b>1,582,493</b>	<b>1.83</b>	<b>90,850,630</b>	<b>1,421,754</b>	<b>1.56</b>	<b>99,485,278</b>	<b>1,442,623</b>	<b>1.45</b>
<b>Non-interest-earning assets:</b>									
Cash and due from banks	1,978,884			4,217,976			4,663,475		
Other non-interest-earning assets	8,841,807			8,949,009			7,526,806		
Allowance for credit losses	(1,668,959)			(1,210,948)			(846,153)		
<b>Total non-interest-earning assets</b>	<b>9,151,732</b>			<b>11,956,037</b>			<b>11,344,128</b>		
<b>Total assets from discontinued operations</b>	<b>80,280</b>			<b>21,183</b>					
<b>Total average assets</b>	<b>¥ 95,478,978</b>			<b>¥ 102,827,850</b>			<b>¥ 110,829,406</b>		

Notes:

1. Tax-exempt income of tax-exempt investment securities has not been calculated on a tax equivalent basis because the effect of such calculation would not be material.
2. Average balances on loans outstanding include all nonaccrual and restructured loans. See III. Loan Portfolio. The amortized portion of net loan origination fees (costs) is included in interest income on loans, representing an adjustment to the yields with insignificant impact.

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Fiscal years ended March 31,

	2003			2004			2005		
	Average balance	Interest	Average rate	Average balance	Interest	Average rate	Average balance	Interest	Average rate
(in millions, except percentages)									
<b>Liabilities and shareholders equity:</b>									
<b>Interest-bearing liabilities:</b>									
Deposits:									
Domestic	¥ 50,445,839	¥ 86,460	0.17%	¥ 52,741,521	¥ 67,115	0.13%	¥ 53,201,971	¥ 74,960	0.14%
Foreign	8,964,019	157,295	1.75	8,883,246	111,434	1.25	9,764,563	146,320	1.50
<b>Total</b>	<b>59,409,858</b>	<b>243,755</b>	<b>0.41</b>	<b>61,624,767</b>	<b>178,549</b>	<b>0.29</b>	<b>62,966,534</b>	<b>221,280</b>	<b>0.35</b>
Debentures Domestic	1,343,078	8,508	0.63	498,518	4,035	0.81	68,296	351	0.51
Call money, funds purchased, and payables under repurchase agreements and securities lending transactions:									
Domestic	4,839,272	13,402	0.28	6,729,173	20,792	0.31	7,565,432	31,005	0.41
Foreign	3,647,691	93,553	2.56	4,199,303	63,161	1.50	3,143,399	50,275	1.60
<b>Total</b>	<b>8,486,963</b>	<b>106,955</b>	<b>1.26</b>	<b>10,928,476</b>	<b>83,953</b>	<b>0.77</b>	<b>10,708,831</b>	<b>81,280</b>	<b>0.76</b>
Due to trust account Domestic	1,691,359	8,673	0.51	1,326,313	4,950	0.37	1,349,118	3,887	0.29
Other short-term borrowings and trading account liabilities:									
Domestic	2,825,797	13,853	0.49	4,536,380	26,997	0.60	10,410,410	29,826	0.29
Foreign	624,089	17,287	2.77	558,848	7,265	1.30	1,319,028	24,215	1.84
<b>Total</b>	<b>3,449,886</b>	<b>31,140</b>	<b>0.90</b>	<b>5,095,228</b>	<b>34,262</b>	<b>0.67</b>	<b>11,729,438</b>	<b>54,041</b>	<b>0.46</b>
Long-term debt:									
Domestic	3,682,571	92,213	2.50	4,319,231	93,891	2.17	4,600,095	91,519	1.99
Foreign	1,594,637	48,026	3.01	1,182,522	26,874	2.27	943,511	18,873	2.00
<b>Total</b>	<b>5,277,208</b>	<b>140,239</b>	<b>2.66</b>	<b>5,501,753</b>	<b>120,765</b>	<b>2.20</b>	<b>5,543,606</b>	<b>110,392</b>	<b>1.99</b>
Total interest-bearing liabilities:									
Domestic	64,827,916	223,109	0.34	70,151,136	217,780	0.31	77,195,322	231,548	0.30
Foreign	14,830,436	316,161	2.13	14,823,919	208,734	1.41	15,170,501	239,683	1.58
<b>Total</b>	<b>79,658,352</b>	<b>539,270</b>	<b>0.68</b>	<b>84,975,055</b>	<b>426,514</b>	<b>0.50</b>	<b>92,365,823</b>	<b>471,231</b>	<b>0.51</b>
<b>Non-interest-bearing liabilities</b>	<b>13,337,356</b>			<b>14,547,857</b>			<b>14,583,539</b>		
<b>Total liabilities from discontinued operations</b>	<b>50,991</b>			<b>15,155</b>					
<b>Shareholders equity</b>	<b>2,432,279</b>			<b>3,289,783</b>			<b>3,880,044</b>		

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<b>Total average liabilities and shareholders equity</b>	¥ 95,478,978		¥ 102,827,850		¥ 110,829,406	
<b>Net interest income and average interest rate spread</b>	¥ 1,043,223	1.15%	¥ 995,240	1.06%	¥ 971,392	0.94%
<b>Net interest income as a percentage of average total interest-earning assets</b>		1.21%		1.10%		0.98%

The percentage of average total assets attributable to foreign activities was 29.3%, 27.2% and 23.9%, respectively, for the fiscal years ended March 31, 2003, 2004 and 2005.

The percentage of average total liabilities attributable to foreign activities was 29.9%, 27.9% and 24.8%, respectively, for the fiscal years ended March 31, 2003, 2004 and 2005.

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

The following table shows changes in our net interest income between changes in volume and changes in rate for the fiscal year ended March 31, 2004 compared to the fiscal year ended March 31, 2003 and the fiscal year ended March 31, 2005 compared to the fiscal year ended March 31, 2004.

	Fiscal year ended March 31, 2003 versus fiscal year ended March 31, 2004			Fiscal year ended March 31, 2004 versus fiscal year ended March 31, 2005		
	Increase (decrease) due to changes in			Increase (decrease) due to changes in		
	Volume	Rate	Net change	Volume	Rate	Net change
(in millions)						
<b>Interest income:</b>						
Interest-earning deposits in other banks:						
Domestic	¥ (522)	¥ 821	¥ 299	¥ (42)	¥ 2,085	¥ 2,043
Foreign	(6,834)	(17,982)	(24,816)	4,164	12,398	16,562
<b>Total</b>	<b>(7,356)</b>	<b>(17,161)</b>	<b>(24,517)</b>	<b>4,122</b>	<b>14,483</b>	<b>18,605</b>
Call loans, funds sold, and receivables under resale agreements and securities borrowing transactions:						
Domestic	1,760	(3,148)	(1,388)	130	24	154
Foreign	(1,513)	(17,199)	(18,712)	1,386	9,163	10,549
<b>Total</b>	<b>247</b>	<b>(20,347)</b>	<b>(20,100)</b>	<b>1,516</b>	<b>9,187</b>	<b>10,703</b>
Trading account assets:						
Domestic	5,832	6,843	12,675	(1,174)	3,949	2,775
Foreign	(211)	3,947	3,736	965	(1,362)	(397)
<b>Total</b>	<b>5,621</b>	<b>10,790</b>	<b>16,411</b>	<b>(209)</b>	<b>2,587</b>	<b>2,378</b>
Investment securities (see Note 2):						
Domestic	6,080	(16,656)	(10,576)	33,648	(20,339)	13,309
Foreign	44,210	(42,503)	1,707	(23,466)	(1,545)	(25,011)
<b>Total</b>	<b>50,290</b>	<b>(59,159)</b>	<b>(8,869)</b>	<b>10,182</b>	<b>(21,884)</b>	<b>(11,702)</b>
Loans:						
Domestic	4,404	(35,146)	(30,742)	28,624	(23,693)	4,931
Foreign	(40,517)	(52,405)	(92,922)	(1,485)	(2,561)	(4,046)
<b>Total</b>	<b>(36,113)</b>	<b>(87,551)</b>	<b>(123,664)</b>	<b>27,139</b>	<b>(26,254)</b>	<b>885</b>
<b>Total interest income:</b>						
Domestic	17,554	(47,286)	(29,732)	61,186	(37,974)	23,212

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Foreign	(4,865)	(126,142)	(131,007)	(18,436)	16,093	(2,343)
<b>Total</b>	<b>¥ 12,689</b>	<b>¥ (173,428)</b>	<b>¥ (160,739)</b>	<b>¥ 42,750</b>	<b>¥ (21,881)</b>	<b>¥ 20,869</b>

Notes:

1. Rate/volume variance is allocated based on the percentage relationship of changes in volume and changes in rate to the total net change.
2. Tax-exempt income of tax-exempt investment securities has not been calculated on a tax equivalent basis because the effect of such calculation would not be material.

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	Fiscal year ended March 31, 2003 versus fiscal year ended March 31, 2004			Fiscal year ended March 31, 2004 versus fiscal year ended March 31, 2005		
	Increase (decrease)			Increase (decrease)		
	due to changes in			due to changes in		
	Volume	Rate	Net change	Volume	Rate	Net change
(in millions)						
<b>Interest expense:</b>						
Deposits:						
Domestic	¥ 2,921	¥ (22,266)	¥ (19,345)	¥ 591	¥ 7,254	¥ 7,845
Foreign	(1,022)	(44,839)	(45,861)	11,782	23,104	34,886
<b>Total</b>	<b>1,899</b>	<b>(67,105)</b>	<b>(65,206)</b>	<b>12,373</b>	<b>30,358</b>	<b>42,731</b>
Debentures Domestic	(5,350)	877	(4,473)	(3,376)	(308)	(3,684)
Call money, funds purchased, and payables under repurchase agreements and securities lending transactions:						
Domestic	5,701	1,689	7,390	2,816	7,397	10,213
Foreign	8,297	(38,689)	(30,392)	(15,882)	2,996	(12,886)
<b>Total</b>	<b>13,998</b>	<b>(37,000)</b>	<b>(23,002)</b>	<b>(13,066)</b>	<b>10,393</b>	<b>(2,673)</b>
Due to trust account Domestic	(1,578)	(2,145)	(3,723)	66	(1,129)	(1,063)
Other short-term borrowings and trading account liabilities:						
Domestic	9,712	3,432	13,144	16,829	(14,000)	2,829
Foreign	(938)	(9,084)	(10,022)	13,008	3,942	16,950
<b>Total</b>	<b>8,774</b>	<b>(5,652)</b>	<b>3,122</b>	<b>29,837</b>	<b>(10,058)</b>	<b>19,779</b>
Long-term debt:						
Domestic	13,840	(12,162)	1,678	5,588	(7,960)	(2,372)
Foreign	(10,941)	(10,211)	(21,152)	(5,204)	(2,797)	(8,001)
<b>Total</b>	<b>2,899</b>	<b>(22,373)</b>	<b>(19,474)</b>	<b>384</b>	<b>(10,757)</b>	<b>(10,373)</b>
<b>Total interest expense:</b>						
Domestic	25,246	(30,575)	(5,329)	22,514	(8,746)	13,768
Foreign	(4,604)	(102,823)	(107,427)	3,704	27,245	30,949
<b>Total</b>	<b>¥ 20,642</b>	<b>¥ (133,398)</b>	<b>¥ (112,756)</b>	<b>¥26,218</b>	<b>¥ 18,499</b>	<b>¥ 44,717</b>
<b>Net interest income:</b>						
Domestic	¥ (7,692)	¥ (16,711)	¥ (24,403)	¥38,672	¥ (29,228)	¥ 9,444
Foreign	(261)	(23,319)	(23,580)	(22,140)	(11,152)	(33,292)
<b>Total</b>	<b>¥ (7,953)</b>	<b>¥ (40,030)</b>	<b>¥ (47,983)</b>	<b>¥16,532</b>	<b>¥ (40,380)</b>	<b>¥ (23,848)</b>

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Note Rate/volume variance is allocated based on the percentage relationship of changes in volume and changes in rate to the total net change.

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**Table of Contents****II. Investment Portfolio**

The following table shows information as to the value of our investment securities available for sale and being held to maturity at March 31, 2003, 2004 and 2005.

	At March 31,								
	2003			2004			2005		
	Amortized cost	Estimated market value	Net unrealized gains	Amortized cost (Restated)	Estimated market value	Net unrealized gains (losses) (Restated)	Amortized cost	Estimated market value	Net unrealized gains (losses)
	(in millions)								
<b>Securities available for sale:</b>									
Domestic:									
Japanese national government and Japanese government agency bonds									
	¥ 10,912,961	¥ 11,023,887	¥ 110,926	¥ 14,651,744	¥ 14,677,458	¥ 25,714	¥ 13,888,641	¥ 13,947,014	¥ 58,373
Corporate bonds	1,179,487	1,185,335	5,848	1,355,202	1,357,784	2,582	1,717,312	1,725,628	8,316
Marketable equity securities	2,710,220	3,418,558	708,338	2,177,964	3,831,528	1,653,564	2,182,825	3,782,435	1,599,610
Other securities	824,975	834,750	9,775	581,848	584,837	2,989	519,327	521,813	2,486
<b>Total domestic</b>	<b>15,627,643</b>	<b>16,462,530</b>	<b>834,887</b>	<b>18,766,758</b>	<b>20,451,607</b>	<b>1,684,849</b>	<b>18,308,105</b>	<b>19,976,890</b>	<b>1,668,785</b>
Foreign:									
U.S. Treasury and other U.S. government agencies bonds									
	2,524,559	2,559,314	34,755	2,861,664	2,855,529	(6,135)	909,464	898,813	(10,651)
Other governments and official institutions bonds	2,705,042	2,853,815	148,773	1,642,737	1,668,420	25,683	1,463,311	1,498,627	35,316
Mortgage-backed securities	1,195,741	1,211,111	15,370	1,157,197	1,153,570	(3,627)	2,106,233	2,111,164	4,931
Other securities	1,222,506	1,267,510	45,004	1,459,841	1,501,190	41,349	2,010,551	2,073,044	62,493
<b>Total foreign</b>	<b>7,647,848</b>	<b>7,891,750</b>	<b>243,902</b>	<b>7,121,439</b>	<b>7,178,709</b>	<b>57,270</b>	<b>6,489,559</b>	<b>6,581,648</b>	<b>92,089</b>
<b>Total</b>	<b>¥ 23,275,491</b>	<b>¥ 24,354,280</b>	<b>¥ 1,078,789</b>	<b>¥ 25,888,197</b>	<b>¥ 27,630,316</b>	<b>¥ 1,742,119</b>	<b>¥ 24,797,664</b>	<b>¥ 26,558,538</b>	<b>¥ 1,760,874</b>
<b>Securities being held to maturity:</b>									
Domestic:									
Japanese national government and Japanese government agency bonds									
	¥ 70,208	¥ 74,095	¥ 3,887	¥ 1,050,931	¥ 1,053,611	¥ 2,680	¥ 2,038,450	¥ 2,056,528	¥ 18,078
Other securities	95,904	101,833	5,929	109,881	113,227	3,346	92,363	96,067	3,704
<b>Total domestic</b>	<b>166,112</b>	<b>175,928</b>	<b>9,816</b>	<b>1,160,812</b>	<b>1,166,838</b>	<b>6,026</b>	<b>2,130,813</b>	<b>2,152,595</b>	<b>21,782</b>
Foreign:									
U.S. Treasury and other U.S. government agencies bonds									
				5,584	5,584		14,134	14,209	75

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Other governments and official institutions bonds	25,020	27,596	2,576	32,577	33,551	974	9,846	9,957	111
Other securities				51,786	51,928	142	36,523	36,824	301
<b>Total foreign</b>	<b>25,020</b>	<b>27,596</b>	<b>2,576</b>	<b>89,947</b>	<b>91,063</b>	<b>1,116</b>	<b>60,503</b>	<b>60,990</b>	<b>487</b>
<b>Total</b>	<b>¥ 191,132</b>	<b>¥ 203,524</b>	<b>¥ 12,392</b>	<b>¥ 1,250,759</b>	<b>¥ 1,257,901</b>	<b>¥ 7,142</b>	<b>¥ 2,191,316</b>	<b>¥ 2,213,585</b>	<b>¥ 22,269</b>

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Subsequent to the filing of our Annual Report on Form 20-F for the fiscal year ended March 31, 2004, management determined that amortized costs and net unrealized gains (losses) on securities available for sale for the fiscal year ended March 31, 2004 were erroneously disclosed. As a result, such amounts have been restated from the amounts previously reported as follows:

	2004			
	Amortized		Net unrealized	
	cost		gains (losses)	
	As previously	As previously	As previously	As previously
	reported	As restated	reported	As restated
(in millions)				
<b>Securities available for sale:</b>				
Foreign:				
U.S. Treasury and other U.S. government agencies bonds	¥ 2,853,379	¥ 2,861,664	¥ 2,150	¥ (6,135)
Other governments and official institutions bonds	1,635,547	1,642,737	32,873	25,683
Mortgage-backed securities	1,127,467	1,157,197	26,103	(3,627)
Other securities	1,440,665	1,459,841	60,525	41,349
<b>Total foreign</b>	<b>¥ 7,057,058</b>	<b>¥ 7,121,439</b>	<b>¥ 121,651</b>	<b>¥ 57,270</b>

Nonmarketable equity securities presented in Other investment securities in the consolidated financial statements were carried at costs of ¥145,431 million, ¥200,557 million and ¥341,744 million, at March 31, 2003, 2004 and 2005, respectively. The corresponding estimated fair values at those dates were not readily determinable. In addition, in September 2004, we purchased ¥700,000 million in preferred shares issued by UFJ Bank. These preferred shares were carried at cost on our consolidated balance sheet at March 31, 2005. The estimated fair value of the investment is not readily determinable at March 31, 2005.

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The following table presents the book values, maturities and weighted average yields of investment securities available for sale and being held to maturity, excluding equity securities, at March 31, 2005. Weighted average yields are calculated based on amortized cost. Yields on tax-exempt obligations have not been calculated on a tax equivalent basis because the effect of such calculation would not be material:

	Maturities within one year		Maturities after one year but within five years		Maturities after five years but within ten years		Maturities after ten years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
(in millions, except percentages)										
<b>Securities available for sale:</b>										
Domestic:										
Japanese national government and Japanese government agency bonds	¥ 5,112,156	0.05%	¥ 6,535,887	0.41%	¥ 1,014,437	1.30%	¥ 1,284,534	0.79%	¥ 13,947,014	0.38%
Corporate bonds	239,250	1.22	1,378,500	0.78	100,277	1.13	7,601	0.87	1,725,628	0.86
Other securities	302,888	0.71	110,286	2.08	40,874	1.06	67,765	0.77	521,813	1.03
<b>Total domestic</b>	<b>5,654,294</b>	<b>0.14</b>	<b>8,024,673</b>	<b>0.50</b>	<b>1,155,588</b>	<b>1.28</b>	<b>1,359,900</b>	<b>0.79</b>	<b>16,194,455</b>	<b>0.45</b>
Foreign:										
U.S. Treasury and other U.S. government agencies bonds	200,139	2.97	515,521	3.01	181,460	4.30	1,693	8.86	898,813	3.27
Other governments and official institutions bonds	187,050	2.63	835,107	3.22	440,798	4.27	35,672	4.52	1,498,627	3.49
Mortgage-backed securities	219	4.57	7,891	3.68	173,563	3.60	1,929,491	4.36	2,111,164	4.30
Other securities	107,017	2.27	816,316	1.81	347,752	3.02	630,840	3.94	1,901,925	2.77
<b>Total foreign</b>	<b>494,425</b>	<b>2.69</b>	<b>2,174,835</b>	<b>2.65</b>	<b>1,143,573</b>	<b>3.79</b>	<b>2,597,696</b>	<b>4.27</b>	<b>6,410,529</b>	<b>3.51</b>
<b>Total</b>	<b>¥6,148,719</b>	<b>0.34%</b>	<b>¥ 10,199,508</b>	<b>0.95%</b>	<b>¥ 2,299,161</b>	<b>2.54%</b>	<b>¥ 3,957,596</b>	<b>3.07%</b>	<b>¥ 22,604,984</b>	<b>1.32%</b>
<b>Securities being held to maturity:</b>										
Domestic:										
Japanese national government and Japanese government agency bonds	¥ 11,855	1.87%	¥ 2,021,269	0.53%	¥ 5,326	1.90%	¥	%¥ 2,038,450	0.54%	
Other securities	3,468	2.68	44,898	1.78	43,000	1.48	997	1.50	92,363	1.67
<b>Total domestic</b>	<b>15,323</b>	<b>2.06</b>	<b>2,066,167</b>	<b>0.55</b>	<b>48,326</b>	<b>1.53</b>	<b>997</b>	<b>1.50</b>	<b>2,130,813</b>	<b>0.59</b>
Foreign:										
U.S. Treasury and other U.S. government agencies bonds	654	6.57	9,535	2.38			3,945	8.31	14,134	4.23
Other governments and official institutions bonds	9,153	4.46	693	8.80					9,846	4.76
Other securities	5,288	2.57	25,288	3.37	5,947	1.56			36,523	2.96
<b>Total foreign</b>	<b>15,095</b>	<b>3.89</b>	<b>35,516</b>	<b>3.21</b>	<b>5,947</b>	<b>1.56</b>	<b>3,945</b>	<b>8.31</b>	<b>60,503</b>	<b>3.55</b>
<b>Total</b>	<b>¥ 30,418</b>	<b>2.97%</b>	<b>¥ 2,101,683</b>	<b>0.60%</b>	<b>¥ 54,273</b>	<b>1.53%</b>	<b>¥ 4,942</b>	<b>6.94%</b>	<b>¥ 2,191,316</b>	<b>0.67%</b>

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Excluding U.S. Treasury and other U.S. government agencies bonds and Japanese national government bonds, the following table sets forth the securities of individual issuers held in our investment securities portfolio which exceeded 10% of our consolidated shareholders' equity at March 31, 2005.

	Amortized cost	Fair value
(in millions)		
Mortgage-backed securities issued by U.S. Federal National Mortgage Association	¥ 1,581,381	¥ 1,583,470
Germany government bonds	722,111	750,645
Mortgage-backed securities issued by U.S. Federal Home Loan Mortgage Corporation	669,543	669,641
Deposit Insurance Corporation of Japan	509,823	510,685

**III. Loan Portfolio**

The following table shows our loans outstanding, before deduction of allowance for credit losses, by domicile and type of industry of borrower at March 31 of each of the five fiscal years ended March 31, 2005. Classification of loans by industry is based on the industry segment loan classification as defined by the Bank of Japan for regulatory reporting purposes and is not necessarily based on use of proceeds:

At March 31,								
	2001	2002	2003		2004		2005	
	Old classification	Old classification	Old classification	New classification	Old classification	New classification	Old classification	New classification
	(Restated)	(Restated)	(Restated)	(Restated)	(Restated)	(Restated)	(Restated)	(Restated)
(in millions)								
<b>Domestic:</b>								
Manufacturing	¥ 6,451,672	¥ 6,394,459	¥ 6,119,502	¥ 6,034,347	¥ 6,073,182	¥ 6,000,095	¥ 6,541,504	¥ 6,475,361
Construction	1,726,278	1,535,191	1,277,407	1,277,407	1,010,439	1,010,439	974,060	974,060
Real estate	5,272,787	4,923,688	4,297,718	4,298,146	4,584,882	4,585,299	5,266,097	5,266,553
Services	4,763,938	4,549,692	5,062,035	4,953,830	4,630,528	4,344,833	3,887,649	3,621,673
Wholesale and retail	6,592,660	5,983,958	5,634,752	5,458,337	5,149,173	4,998,952	5,374,042	5,228,318
Banks and other financial institutions <sup>(1)</sup>	3,964,033	4,168,582	3,502,621	3,502,621	3,745,586	3,745,586	3,691,908	3,691,908
Communication and information services				1,516,020		874,564		784,301
Other industries	2,797,419	3,850,153	5,004,906	3,858,233	6,535,434	6,169,456	7,090,189	6,783,275
Consumer	7,040,235	7,151,695	7,520,907	7,520,907	8,039,797	8,039,797 <sup>(3)</sup>	8,162,062	8,162,062 <sup>(3)</sup>
<b>Total domestic</b>	<b>38,609,022</b>	<b>38,557,418</b>	<b>38,419,848</b>	<b>38,419,848</b>	<b>39,769,021</b>	<b>39,769,021</b>	<b>40,987,511</b>	<b>40,987,511</b>
<b>Foreign:</b>								
Governments and official institutions	315,321	326,086	235,093	235,093	183,117	183,117	212,750	212,750
Banks and other financial institutions <sup>(1)</sup>	783,501	680,449	928,059	928,059	1,043,904	1,043,904	917,409	917,409

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Commercial and industrial	8,820,141	9,708,102	8,413,452	8,413,452	7,239,896	7,239,896	8,687,162	8,687,162
Other	1,173,223	1,000,044	510,179	510,179	318,543	318,543	285,474	285,474
<b>Total foreign</b>	<b>11,092,186</b>	<b>11,714,681</b>	<b>10,086,783</b>	<b>10,086,783</b>	<b>8,785,460</b>	<b>8,785,460</b>	<b>10,102,795</b>	<b>10,102,795</b>
<b>Total</b>	<b>49,701,208</b>	<b>50,272,099</b>	<b>48,506,631</b>	<b>48,506,631</b>	<b>48,554,481</b>	<b>48,554,481</b>	<b>51,090,306</b>	<b>51,090,306</b>
Less unearned income and deferred loan fees net	30,305	42,374	41,062	41,062	28,625	28,625	18,768	18,768
<b>Total</b>	<b>¥ 49,670,903</b>	<b>¥ 50,229,725<sup>(2)</sup></b>	<b>¥ 48,465,569<sup>(2)</sup></b>	<b>¥ 48,465,569<sup>(2)</sup></b>	<b>¥ 48,525,856<sup>(2)</sup></b>	<b>¥ 48,525,856<sup>(2)</sup></b>	<b>¥ 51,071,538<sup>(2)</sup></b>	<b>¥ 51,071,538<sup>(2)</sup></b>

Notes:

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



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- (2) The above table includes loans held for sale of ¥3,178 million, ¥3,965 million, ¥12,893 million and ¥36,424 million at March 31, 2002, 2003, 2004 and 2005, respectively.
- (3) Domestic loans within the consumer category in the above table include loans to individuals who utilize loan proceeds to finance their proprietor activities and not for their personal financing needs. During the fiscal year ended March 31, 2004, our credit administration system was upgraded and became able to present a precise breakdown of the balance of such consumer loans by the type of proprietor business. This breakdown at March 31, 2004 and 2005 is presented below in accordance with our new classification:

	<u>Manufacturing</u>	<u>Construction</u>	<u>Real estate</u>	<u>Services</u>	<u>Wholesale and retail</u>	<u>Banks and other financial institutions</u>	<u>Communication and information services</u>	<u>Other industries</u>	<u>Total included in Consumer</u>
(in millions)									
March 31, 2004	¥28,229	¥19,283	¥738,377	¥230,730	¥52,253	¥1,200	¥4,121	¥10,620	¥1,084,813
March 31, 2005	¥23,023	¥16,157	¥542,969	¥193,417	¥39,806	¥1,126	¥3,681	¥ 7,782	¥ 827,961

Since the system upgrade was effective during the fiscal year ended March 31, 2004, no equivalent information is obtainable for prior fiscal year-end dates.

Subsequent to the filing of our Annual Report on Form 20-F for the fiscal year ended March 31, 2005, management determined that the details of loans by domicile and type of industry of borrower at March 31 of each of the five fiscal years ended March 31, 2005 were erroneously disclosed. As a result, such amounts have been restated from the amounts previously reported as follows.

**As previously reported**

At March 31,									
2001		2002		2003		2004		2005	
Old classification	Old classification	Old classification	New classification	Old classification	New classification	Old classification	New classification	Old classification	New classification
(In millions)									
Domestic:									
Banks and other financial institutions	¥4,069,828	¥4,271,182	¥3,598,028	¥3,598,028	¥3,834,178	¥3,834,178	¥3,774,847	¥3,774,847	¥3,774,847
Other industries	2,797,419	3,850,153	5,004,704	3,858,031	6,535,434	6,169,456	7,007,250	6,700,336	6,700,336
Consumer	6,934,440	7,049,095	7,425,702	7,425,702	7,951,205	7,951,205	8,162,062	8,162,062	8,162,062
Foreign:									
Banks and other financial institutions	783,501	680,449	928,059	928,059	1,043,904	1,043,904	1,212,082	1,212,082	1,212,082
Commercial and industrial	8,820,141	9,708,102	8,413,452	8,413,452	7,239,896	7,239,896	8,392,489	8,392,489	8,392,489

**As restated**

At March 31,				
2001	2002	2003	2004	2005

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	Old classification	Old classification	Old classification	New classification	Old classification	New classification	Old classification	New classification
(in millions)								
<b>Domestic:</b>								
Banks and other financial institutions	¥3,964,033	¥4,168,582	¥3,502,621	¥3,502,621	¥3,745,586	¥3,745,586	¥3,691,908	¥3,691,908
Other industries	2,797,419	3,850,153	5,004,906	3,858,233	6,535,434	6,169,456	7,090,189	6,783,275
Consumer	7,040,235	7,151,695	7,520,907	7,520,907	8,039,797	8,039,797	8,162,062	8,162,062
<b>Foreign:</b>								
Banks and other financial institutions	783,501	680,449	928,059	928,059	1,043,904	1,043,904	917,409	917,409
Commercial and industrial	8,820,141	9,708,102	8,413,452	8,413,452	7,239,896	7,239,896	8,687,162	8,687,162

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**Table of Contents*****Maturities and Sensitivities of Loans to Changes in Interest Rates***

The following table shows the maturities of our loan portfolio at March 31, 2005:

**Old Classification**

	<b>Maturity</b>			
	<b>One year or less</b>	<b>One to five years</b>	<b>Over five years</b>	<b>Total</b>
	<b>(Restated)</b>	<b>(Restated)</b>	<b>(Restated)</b>	<b>(Restated)</b>
	(in millions)			
<b>Domestic:</b>				
Manufacturing	¥ 4,531,686	¥ 1,788,620	¥ 221,198	¥ 6,541,504
Construction	668,517	238,658	66,885	974,060
Real estate	1,534,037	1,842,907	1,889,153	5,266,097
Services	1,991,713	1,390,175	505,761	3,887,649
Wholesale and retail	3,667,413	1,534,970	171,659	5,374,042
Banks and other financial institutions	2,108,005	1,054,914	528,989	3,691,908
Other industries	5,399,979	1,194,064	496,146	7,090,189
<b>Consumer:</b>				
Installment loans to individuals	424,412	1,708,951	5,428,389	7,561,752
Other	486,790	46,425	67,095	600,310
<b>Total domestic</b>	<b>20,812,552</b>	<b>10,799,684</b>	<b>9,375,275</b>	<b>40,987,511</b>
<b>Foreign</b>	<b>4,848,731</b>	<b>3,089,940</b>	<b>2,164,124</b>	<b>10,102,795</b>
<b>Total</b>	<b>¥ 25,661,283</b>	<b>¥ 13,889,624</b>	<b>¥ 11,539,399</b>	<b>¥ 51,090,306</b>

**New Classification**

	<b>Maturity</b>			
	<b>One year or less</b>	<b>One to five years</b>	<b>Over five years</b>	<b>Total</b>
	<b>(Restated)</b>	<b>(Restated)</b>	<b>(Restated)</b>	<b>(Restated)</b>
	(in millions)			
<b>Domestic:</b>				
Manufacturing	¥ 4,491,037	¥ 1,773,670	¥ 210,654	¥ 6,475,361
Construction	668,517	238,658	66,885	974,060
Real estate	1,534,469	1,842,931	1,889,153	5,266,553
Services	1,802,804	1,323,128	495,741	3,621,673

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Wholesale and retail	3,592,598	1,479,661	156,059	5,228,318
Banks and other financial institutions	2,108,005	1,054,914	528,989	3,691,908
Communication and information services	509,571	230,148	44,582	784,301
Other industries	5,194,349	1,101,198	487,728	6,783,275
Consumer:				
Installment loans to individuals	424,412	1,708,951	5,428,389	7,561,752
Other	486,790	46,425	67,095	600,310
	<hr/>	<hr/>	<hr/>	<hr/>
Total domestic	20,812,552	10,799,684	9,375,275	40,987,511
Foreign	4,848,731	3,089,940	2,164,124	10,102,795
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Total</b>	<b>¥ 25,661,283</b>	<b>¥ 13,889,624</b>	<b>¥ 11,539,399</b>	<b>¥ 51,090,306</b>
	<hr/>	<hr/>	<hr/>	<hr/>

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Subsequent to the filing of our Annual Report on Form 20-F for the fiscal year ended March 31, 2005, management determined that the details of the maturities of our loan portfolio for the fiscal year ended March 31, 2005 were erroneously disclosed. As a result, such amounts have been restated from the amounts previously reported as follows.

**Old Classification**

	Maturity					
	One year or less		One to five years		Over five years	
	As previously reported		As previously reported		As previously reported	
	As restated	As restated	As restated	As restated	As restated	As restated
<b>Domestic:</b>						
Banks and other financial institutions	¥2,190,944	¥2,108,005	¥1,054,914	¥1,054,914	¥528,989	¥528,989
Other industries	5,317,040	5,399,979	1,194,064	1,194,064	496,146	496,146
Consumer:						
Installment loans to individuals	419,759	424,412	1,691,094	1,708,951	5,450,899	5,428,389

**New Classification**

	Maturity					
	One year or less		One to five years		Over five years	
	As previously reported		As previously reported		As previously reported	
	As restated	As restated	As restated	As restated	As restated	As restated
<b>Domestic:</b>						
Banks and other financial institutions	¥2,190,944	¥2,108,005	¥1,054,914	¥1,054,914	¥ 528,989	¥ 528,989
Other industries	5,111,410	5,194,349	1,101,198	1,101,198	487,728	487,728
Consumer:						
Installment loans to individuals	419,759	424,412	1,691,094	1,708,951	5,450,899	5,428,389

The above loans due after one year which had predetermined interest rates and floating or adjustable interest rates at March 31, 2005 are shown below.

	Domestic		Total	
	(Restated)	Foreign	(Restated)	
			(in millions)	
Predetermined rate	¥ 8,634,980	¥ 1,848,793	10,483,773	
Floating or adjustable rate	11,539,979	3,405,271	14,945,250	
<b>Total</b>	¥ 20,174,959	¥ 5,254,064	¥ 25,429,023	

Subsequent to the filing of our Annual Report on Form 20-F for the fiscal year ended March 31, 2005, management determined that the details of the loans due after one year which had predetermined interest rates for the fiscal year ended March 31, 2005 were erroneously disclosed. As a result, such amounts have been restated from the amounts previously reported as follows.

	<u>Domestic</u>	
	<u>As previously reported</u>	<u>As restated</u>
Predetermined rate	¥ 8,639,633	¥ 8,634,980

*Nonaccrual, Past Due and Restructured Loans*

We generally discontinue accrual of interest income on loans when substantial doubt exists as to the full and timely collection of either principal or interest, or when principal or interest is contractually past due one month or more with respect to loans of banking subsidiaries, including Bank of Tokyo-Mitsubishi and Mitsubishi Trust Bank, and 90 days or more with respect to loans of certain foreign banking subsidiaries.

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The following table shows the distribution of our nonaccrual loans, restructured loans and accruing loans which are contractually past due 90 days or more as to principal or interest payments at March 31 of each of the five fiscal years ended March 31, 2005, based on the domicile and type of industry of the borrowers:

	At March 31,									
	2001		2002		2003		2004		2005	
	Old	Old	Old	New	Old	New	Old	New	Old	New
classification classification classification classification classification classification classification classification classification classification										
(in millions)										
Nonaccrual loans:										
Domestic:										
Manufacturing	¥ 118,935	¥ 142,572	¥ 112,152	¥ 111,107	¥ 175,904	¥ 175,691	¥ 114,115	¥ 113,884		
Construction	202,506	213,491	149,918	149,918	59,031	59,031	47,764	47,764		
Real estate	939,267	841,414	266,408	266,408	154,776	154,776	121,962	121,962		
Services	247,697	214,877	85,602	87,492	68,085	72,951	167,553	169,602		
Wholesale and retail	229,965	251,061	238,986	224,468	118,058	108,516	99,048	85,659		
Banks and other financial institutions	125,649	58,568	17,794	17,794	21,367	21,367	4,346	4,346		
Communication and information services				14,081		5,128		11,829		
Other industries	39,963	39,687	54,330	53,922	40,022	39,783	22,582	22,324		
Consumer	163,076	166,333	150,989	150,989	141,844	141,844 <sup>(2)</sup>	119,229	119,229 <sup>(2)</sup>		
<b>Total domestic</b>	<b>2,067,058</b>	<b>1,928,003</b>	<b>1,076,179</b>	<b>1,076,179</b>	<b>779,087</b>	<b>779,087</b>	<b>696,599</b>	<b>696,599</b>		
Foreign:										
Governments and official institutions	2,336	3,341	1,747	1,747	877	877	466	466		
Banks and other financial institutions	8,403	9,119	8,387	8,387	87,162	87,162	45,091	45,091		
Commercial and industrial	180,760	226,054	271,090	271,090	153,477	153,477	56,379	56,379		
Other	32,345	7,059	56,156	56,156	62,521	62,521	23,835	23,835		
<b>Total foreign</b>	<b>223,844</b>	<b>245,573</b>	<b>337,380</b>	<b>337,380</b>	<b>304,037</b>	<b>304,037</b>	<b>125,771</b>	<b>125,771</b>		
<b>Total</b>	<b>2,290,902</b>	<b>2,173,576</b>	<b>1,413,559</b>	<b>1,413,559</b>	<b>1,083,124</b>	<b>1,083,124</b>	<b>822,370</b>	<b>822,370</b>		
Restructured loans:										
Domestic	1,855,616	1,859,176	1,212,832	1,212,832	577,348	577,348	431,036	431,036		
Foreign	98,879	109,190	106,236	106,236	55,015	55,015	23,153	23,153		
<b>Total</b>	<b>1,954,495</b>	<b>1,968,366</b>	<b>1,319,068</b>	<b>1,319,068</b>	<b>632,363</b>	<b>632,363</b>	<b>454,189</b>	<b>454,189</b>		
Accruing loans contractually past due 90 days or more:										
Domestic	24,005	20,276	17,533	17,533	14,696	14,696	9,232	9,232		
Foreign	3,392	2,764	2,866	2,866	900	900	879	879		
<b>Total</b>	<b>27,397</b>	<b>23,040</b>	<b>20,399</b>	<b>20,399</b>	<b>15,596</b>	<b>15,596</b>	<b>10,111</b>	<b>10,111</b>		
<b>Total</b>	<b>¥ 4,272,794</b>	<b>¥ 4,164,982</b>	<b>¥ 2,753,026</b>	<b>¥ 2,753,026</b>	<b>¥ 1,731,083</b>	<b>¥ 1,731,083</b>	<b>¥ 1,286,670</b>	<b>¥ 1,286,670</b>		

Notes:

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- (1) The above table does not include real estate acquired in full or partial satisfaction of debt and certain assets under the management of the Cooperative Credit Purchasing Company which are recorded at estimated fair value less estimated cost to sell.
- (2) Domestic nonaccrual loans within the consumer category in the above table include loans to individuals who utilize loan proceeds to finance their proprietor activities and not for their personal financing needs. During the fiscal year ended March 31, 2004, our credit administration system was upgraded and became able to present a precise breakdown of the balance of such consumer loans by the type of proprietor business. This breakdown at March 31, 2004 and 2005 is presented below in accordance with our new classification:

	<u>Manufacturing</u>	<u>Construction</u>	<u>Real estate</u>	<u>Services</u>	<u>Wholesale and retail</u>	<u>Banks and other financial institutions</u>	<u>Communication and information services</u>	<u>Other industries</u>	<u>Total included in Consumer</u>
(in millions)									
March 31, 2004	¥ 1,566	¥ 877	¥ 52,271	¥ 14,203	¥ 5,765	¥ 21	¥ 264	¥	¥ 74,967
March 31, 2005	¥ 1,345	¥ 986	¥ 43,334	¥ 13,692	¥ 3,185	¥ 18	¥ 219	¥ 378	¥ 63,157

Since the system upgrade was effective during the fiscal year ended March 31, 2004, no equivalent information is obtainable for prior fiscal year-end dates.



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Gross interest income which would have been accrued at the original terms on domestic nonaccrual and restructured loans outstanding during the fiscal year ended March 31, 2005 was approximately ¥26.4 billion, of which ¥21.3 billion was included in the results of operations for the fiscal year. Gross interest income which would have been accrued at the original terms on foreign nonaccrual and restructured loans outstanding for the fiscal year ended March 31, 2005 was approximately ¥7.9 billion, of which ¥5.2 billion was included in the results of operations for the fiscal year.

**Foreign Loans Outstanding**

Cross-border outstandings are defined, for this purpose, as loans (including accrued interest), acceptances, interest-earning deposits with other banks, other interest-earning investments and any other monetary assets denominated in Japanese yen or other non-local currencies. Material local currency loans outstanding which are neither hedged nor funded by local currency borrowings are included in cross-border outstandings.

At March 31, 2004 and 2005, we had no cross-border outstandings to borrowers in any foreign country which in total exceeded 0.75% of consolidated total assets. The following table sets forth our cross-border outstandings for the country in which the total was between 0.75% and 1% of consolidated total assets at March 31, 2003.

	<u>Cross-border outstandings</u>	<u>Percentage of total assets</u>
	(in millions)	
United Kingdom	¥ 810,668	0.84%

Guarantees of outstandings of borrowers of other countries are considered to be outstandings of the guarantor. Loans made to, or deposits placed with, a branch of a foreign bank located outside the foreign bank's home country are considered to be loans to, or deposits with, the foreign bank. Outstandings of a country do not include principal or interest amounts of which are supported by written, legally enforceable guarantees by guarantors of other countries or the amounts of outstandings to the extent that they are secured by tangible, liquid collateral held and realizable by Bank of Tokyo-Mitsubishi, Mitsubishi Trust Bank and their subsidiaries outside the country in which they operate.

In addition to credit risk, cross-border outstandings are subject to country risk that as a result of political or economic conditions in a country, borrowers may be unable or unwilling to pay principal and interest according to contractual terms. Other risks related to cross-border outstandings include the possibility of insufficient foreign exchange and restrictions on its availability.

In order to manage country risk, we establish various risk management measures internally. Among other things, we first regularly monitor economic conditions and other factors globally and assess country risk in each country where we have cross-border exposure. For purposes of monitoring and controlling the amount of credit exposed to country risk, we set a country limit, the maximum amount of credit exposure for an individual country, in consideration of the level of country risk and our ability to bear such potential risk. We also determine our credit policy for each country in accordance with our country risk level and our business plan with regard to the country. Assessment of country risk, establishment of country limits, and determination of country credit policies are subject to review and approval by our senior management and are updated periodically.

*Exposure to East Asia*

We maintain a substantial network of branches and subsidiaries in East Asia and the region has been an important market for our financial services. Certain economies in this region are growing at a rapid pace and are not always stable. Accordingly, we are exposed to country risk in this region to a greater extent than in developed countries. In response to on-going and possible developments in the regional economy, we regularly reassess the country risk of each country in the region, to adjust exposure levels, and to review and revise country credit policies.

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The following table represents our cross-border outstandings and unused commitments at March 31, 2004 and 2005, to certain East Asian countries:

	At March 31,			
	2004		2005	
	Cross-border outstanding	Unused commitments	Cross-border outstanding	Unused commitments
	(in billions)			
Hong Kong	¥ 333.4	¥	¥ 358.3	¥
Singapore	226.5	2.7	291.4	2.8
People's Republic of China	213.6	0.7	288.7	
South Korea	226.1	0.5	256.3	4.8
Thailand	164.1	4.4	235.3	1.0
Malaysia	106.3	1.0	109.2	
Philippines	53.5		44.4	
Indonesia	28.4	0.2	36.6	

*Exposure to Latin America*

Similar to the economies in East Asia, economic growth together with instability has been observed in the Latin American region. The following is a summary of cross-border outstandings to counterparties in major Latin American countries at March 31, 2004 and 2005:

	At March 31,	
	2004	2005
	(in billions)	
Brazil	¥ 82.5	¥ 72.0
Mexico	46.3	47.4
Argentina	18.2	0.9

*Loan Concentrations*

At March 31, 2005, there were no concentrations of loans to a single industry group of borrowers, as defined by the Bank of Japan industry segment loan classifications, which exceeded 10% of our consolidated total loans, except for loans in a category disclosed in the table of loans outstanding above.

*Credit Risk Management*

We have a credit rating system, under which borrowers and transactions are graded on a worldwide basis. We calculate probability of default by statistical means and manage our credit portfolio based on this credit rating system. For a detailed description of this system and other elements of our risk management structure, see Item 11. Quantitative and Qualitative Disclosures about Credit, Market and Other Risk - Credit Risk Management.

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**Table of Contents****IV. Summary of Loan Loss Experience**

The following table shows an analysis of our loan loss experience by type of borrowers business for each of the five fiscal years ended March 31, 2005:

	Fiscal years ended March 31,							
	2001	2002	2003		2004		2005	
	Old classification	Old classification	Old classification	New classification	Old classification	New classification	Old classification	New classification
	(in millions, except percentages)							
Allowance for credit losses at beginning of fiscal year	¥ 1,486,212	¥ 1,716,984	¥ 1,735,180	¥ 1,735,180	¥ 1,360,136	¥ 1,360,136	¥ 888,127	¥ 888,127
Provision (credit) for credit losses	783,855	598,412	437,972	437,972	(114,109)	(114,109)	109,502	109,502
Charge-offs:								
Domestic:								
Manufacturing	31,386	55,916	75,430	75,278	18,726	18,644	81,422	81,370
Construction	82,078	35,365	60,837	60,837	35,612	35,612	10,634	10,634
Real estate	154,887	150,684	332,264	332,414	119,005	119,005	43,983	43,983
Services	72,673	51,803	82,478	87,573	17,019	17,647	11,776	11,711
Wholesale and retail	152,723	96,745	117,138	109,257	47,010	44,282	27,886	26,822
Banks and other financial institutions	22,453	64,615	20,817	20,817	1,516	1,516	8,920	8,920
Communication and information services				5,002		2,256		1,312
Other industries	6,069	11,500	25,304	23,090	6,114	6,040	6,535	6,404
Consumer	34,291	46,550	39,594	39,594	49,162	49,162 <sup>(2)</sup>	26,343	26,343 <sup>(2)</sup>
Total domestic	556,560	513,178	753,862	753,862	294,164	294,164	217,499	217,499
Total foreign	87,879	156,203	139,776	139,776	83,930	83,930	80,762	80,762
Total	644,439	669,381	893,638	893,638	378,094	378,094	298,261	298,261
Recoveries:								
Domestic	26,666	42,112	57,790	57,790	17,299	17,299	22,063	22,063
Foreign	19,411	23,865	21,037	21,037	23,671	23,671	15,271	15,271
Total	46,077	65,977	78,827	78,827	40,970	40,970	37,334	37,334
Net charge-offs	598,362	603,404	814,811	814,811	337,124	337,124	260,927	260,927
Others <sup>(1)</sup>	45,279	23,188	1,795	1,795	(20,776)	(20,776)	4,004	4,004
Allowance for credit losses at end of fiscal year	¥ 1,716,984	¥ 1,735,180	¥ 1,360,136	¥ 1,360,136	¥ 888,127	¥ 888,127	¥ 740,706	¥ 740,706

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Allowance for credit losses applicable to foreign activities:								
Balance at beginning of fiscal year	¥ 190,571	¥ 243,716	¥ 244,650	¥ 244,650	¥ 263,929	¥ 263,929	¥ 245,842	¥ 245,842
Balance at end of fiscal year	¥ 243,716	¥ 244,650	¥ 263,929	¥ 263,929	¥ 245,842	¥ 245,842	¥ 92,535	¥ 92,535
Provision (credit) for credit losses	¥ 105,664	¥ 127,348	¥ 151,783	¥ 151,783	¥ 55,796	¥ 55,796	¥ (90,739)	¥ (90,739)
Ratio of net charge-offs during the fiscal year to average loans outstanding during the fiscal year	1.21%	1.23%	1.64%	1.64%	0.69%	0.69%	0.51%	0.51%

Notes:

- (1) Others primarily include foreign exchange translation and discontinued operations adjustments.

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(2) Charge-offs of domestic loans within the consumer category in the above table include charge-offs of loans to individuals who utilize loan proceeds to finance their proprietor activities and not for their personal financing needs. During the fiscal year ended March 31, 2004, our credit administration system was upgraded and became able to present a precise breakdown of charge-offs of such consumer loans by the type of proprietor business. This breakdown for the fiscal years ended March 31, 2004 and 2005 is presented below in accordance with our new classification:

	Manufacturing		Construction	Real estate	Services	Wholesale and retail	Banks and other financial institutions	Communication and services	Other industries	Total included in Consumer
	(in millions)									
March 31, 2004	¥ 39	¥	¥ 9,481	¥ 2,270	¥	¥ 486	¥	¥	¥ 108	¥ 12,384
March 31, 2005	¥	¥	¥ 450	¥ 137	¥	¥	¥	¥	¥ 64	¥ 651

Since the system upgrade was effective during the fiscal year ended March 31, 2004, no equivalent information is obtainable for prior fiscal years.

The following table shows an allocation of our allowance for credit losses at March 31 of each of the five fiscal years ended March 31, 2005:

**At March 31,**

Category	2002		2003				2004				2005	
	Old		Old		New		Old		New		Old	
	classification	classification	classification	classification	classification	classification	classification	classification	classification	classification	classification	classification
% of loans in each category to total loans	% of loans in each category to total loans	% of loans in each category to total loans	% of loans in each category to total loans	% of loans in each category to total loans	% of loans in each category to total loans	% of loans in each category to total loans	% of loans in each category to total loans	% of loans in each category to total loans	% of loans in each category to total loans	% of loans in each category to total loans	% of loans in each category to total loans	% of loans in each category to total loans
(Restated)	Amount	(Restated)	Amount	(Restated)	Amount	(Restated)	Amount	(Restated)	Amount	(Restated)	Amount	(Restated)
(in millions, except percentages)												
12.98%	¥ 162,828	12.72%	¥ 143,262	12.62%	¥ 141,549	12.44%	¥ 124,735	12.51%	¥ 124,262	12.36%	¥ 90,685	12.36%
3.47	168,595	3.05	139,662	2.63	139,662	2.63	31,908	2.08	31,908	2.08	44,604	2.08
10.61	541,093	9.79	231,686	8.86	231,686	8.86	111,628	9.44	111,629	9.44	89,878	10.61
9.59	175,281	9.05	124,182	10.44	129,678	10.21	77,589	9.54	82,236	8.95	148,812	9.59
13.26	216,510	11.90	209,594	11.62	198,053	11.25	112,178	10.60	103,577	10.30	100,398	13.26
7.98	59,971	8.29	51,204	7.22	51,204	7.22	33,944	7.71	33,944	7.71	22,225	7.98
5.63	48,466	7.67	74,060	10.32	62,433	7.97	46,543	13.45	44,574	12.69	62,468	5.63
14.16	95,156	14.23	99,247	15.51	99,247	15.51	85,232	16.57	85,232*	16.57	80,484	14.16
0.63	33,304	0.65	2,298	0.48	2,298	0.48	1,428	0.38	1,428	0.38	193	0.63





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	Manufacturing	Construction	Real estate	Services	Wholesale and retail	Banks and other financial institutions	Communication and information services	Other industries	Total included in Consumer
	(in millions)								
March 31, 2004	¥ 292	¥ 196	¥ 7,671	¥ 2,371	¥ 554	¥ 13	¥ 42	¥ 104	¥ 11,243
March 31, 2005	¥ 211	¥ 146	¥ 4,962	¥ 1,769	¥ 363	¥ 12	¥ 35	¥ 70	¥ 7,568

Since the system upgrade was effective during the fiscal year ended March 31, 2004, no equivalent information is obtainable for prior fiscal year-end dates.

Subsequent to the filing of our Annual Report on Form 20-F for the fiscal year ended March 31, 2005, management determined that % of loans in each category to total loans at March 31 of each of the five fiscal years ended March 31, 2005 were erroneously disclosed. As a result, such amounts have been restated from the amounts previously reported as follows :

*As Previously reported*

	2001	2002	2003		2004		2005	
	Old classification	Old classification	Old classification	New classification	Old classification	New Classification	Old classification	New Classification
	% of	% of	% of	% of	% of	% of	% of	% of
	loans in each category to total	loans in each category to total	loans in each category to total	loans in each category to total	loans in each category to total	loans in each category to total	loans in each category to total	loans in each category to total
	loans	loans	loans	loans	loans	loans	loans	loans

(in millions, except percentages)

<b>Domestic:</b>								
Banks and other financial institutions	8.19%	8.50%	7.42%	7.42%	7.90%	7.90%	7.39%	7.39%
Other industries	5.63	7.67	10.32	7.97	13.45	12.69	13.71	13.11
Consumer	13.95	14.02	15.31	15.31	16.38	16.38	15.98	15.98
<b>Foreign:</b>								
Banks and other financial institutions	1.58	1.35	1.91	1.91	2.15	2.15	2.37	2.37
Commercial and industrial	17.75	19.31	17.34	17.34	14.91	14.91	16.43	16.43

*As restated*

2001	2002	2003	2004	2005
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Old classification	Old classification	Old classification	New classification	Old classification	New Classification	Old classification	New Classification
% of	% of	% of	% of	% of	% of	% of	% of
loans in each category to total	loans in each category to total	loans in each category to total	loans in each category to total	loans in each category to total	loans in each category to total	loans in each category to total	loans in each category to total
loans	loans	loans	loans	loans	loans	loans	loans

(in millions, except percentages)

Domestic:								
Banks and other financial institutions	7.98%	8.29%	7.22%	7.22%	7.71%	7.71%	7.23%	7.23%
Other industries	5.63	7.67	10.32	7.97	13.45	12.69	13.87	13.27
Consumer	14.16	14.23	15.51	15.51	16.57	16.57	15.98	15.98
Foreign:								
Banks and other financial institutions	1.58	1.35	1.91	1.91	2.15	2.15	1.80	1.80
Commercial and industrial	17.75	19.31	17.34	17.34	14.91	14.91	17.00	17.00

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While the allowance for credit losses contains amounts allocated to components of specifically identified loans as well as a group on portfolio of loans, the allowance for credit losses is available for credit losses in the entire loan portfolio and the allocations shown above are not intended to be restricted to the specific loan category. Accordingly, as the evaluation of credit risks changes, allocations of the allowance will be changed to reflect current conditions and various other factors.

**V. Deposits**

The following table shows the average amount of, and the average rate paid on, the following deposit categories for the fiscal years ended March 31, 2003, 2004 and 2005:

	Fiscal years ended March 31,					
	2003		2004		2005	
	Average amount	Average rate	Average amount	Average rate	Average amount	Average rate
(in millions, except percentages)						
Domestic offices:						
Non-interest-bearing demand deposits	¥ 3,427,440	%	¥ 4,557,564	%	¥ 4,887,253	%
Interest-bearing demand deposits	21,255,898	0.02	23,616,838	0.02	25,065,022	0.02
Deposits at notice	1,504,532	0.75	1,697,565	0.60	1,360,089	0.72
Time deposits	24,734,506	0.29	24,344,515	0.22	24,048,365	0.25
Certificates of deposit	2,950,903	0.03	3,082,603	0.02	2,728,495	0.02
Foreign offices, principally from banks located in foreign countries:						
Non-interest-bearing demand deposits	2,053,080		2,321,091		2,676,717	
Interest-bearing deposits, principally time deposits and certificates of deposit	8,964,019	1.75	8,883,246	1.25	9,764,563	1.50
<b>Total</b>	<b>¥ 64,890,378</b>		<b>¥ 68,503,422</b>		<b>¥ 70,530,504</b>	

Deposits at notice represent interest-bearing demand deposits which require the depositor to give two or more days notice in advance of withdrawal.

The average amounts of total deposits by foreign depositors included in domestic offices for the fiscal years ended March 31, 2003, 2004 and 2005 were ¥667,129 million, ¥945,755 million and ¥705,937 million, respectively.

At March 31, 2005, the balance and remaining maturities of time deposits and certificates of deposit issued by domestic offices in amounts of ¥10 million (approximately US\$93 thousand at the Federal Reserve Bank of New York's noon buying rate on March 31, 2005) or more and total foreign deposits issued in amounts of US\$100,000 or more are shown in the following table.

	<u>Time deposits</u>	<u>Certificates of deposit</u>	<u>Total</u>
	(in millions)		
Domestic offices:			
Three months or less	¥ 5,881,299	¥ 1,694,751	¥ 7,576,050
Over three months through six months	2,169,510	181,265	2,350,775
Over six months through twelve months	2,270,874	77,774	2,348,648
Over twelve months	2,483,332	12,120	2,495,452
<b>Total</b>	<b>¥ 12,805,015</b>	<b>¥ 1,965,910</b>	<b>¥ 14,770,925</b>
Foreign offices			¥ 7,236,237

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Subsequent to the filing of our Annual Report on Form 20-F for the fiscal year ended March 31, 2004, management determined that the balance and remaining maturities of time deposits issued by domestic offices in amounts of ¥10 million (approximately US\$96 thousand at the Federal Reserve Bank of New York's noon buying rate on March 31, 2004) or more for the fiscal year ended March 31, 2004 were erroneously disclosed. As a result, such amounts have been restated from the amounts previously reported as follows:

	Time deposits	
	As previously reported	As restated
(in millions)		
<b>Domestic offices:</b>		
Three months or less	¥ 6,246,584	¥ 6,246,584
Over three months through six months	2,025,283	1,930,246
Over six months through twelve months	2,250,229	2,250,229
Over twelve months	2,690,897	2,690,897
<b>Total</b>	<b>¥ 13,212,993</b>	<b>¥ 13,117,956</b>

**VI. Short-Term Borrowings**

The following table shows certain additional information with respect to our short-term borrowings for the fiscal years ended March 31, 2003, 2004 and 2005:

	Fiscal years ended March 31,		
	2003	2004	2005 (Restated)
(in millions, except percentages)			
Call money, funds purchased, and payables under repurchase agreements and securities lending transactions:			
Average balance outstanding during the fiscal year	¥ 8,486,963	¥ 10,928,476	¥ 10,708,831
Maximum balance outstanding at any month-end during the fiscal year	17,520,365	12,891,989	11,923,247
Balance at end of fiscal year	9,319,870	9,397,338	7,057,526
Weighted average interest rate during the fiscal year	1.26%	0.77%	0.76%
Weighted average interest rate on balance at end of fiscal year	1.18%	0.65%	1.11%
Due to trust account:			
Average balance outstanding during the fiscal year	¥ 1,691,359	¥ 1,326,313	¥ 1,349,118
Maximum balance outstanding at any month-end during the fiscal year	2,188,326	1,403,734	1,411,055
Balance at end of fiscal year	1,401,618	1,380,269	1,231,050
Weighted average interest rate during the fiscal year	0.51%	0.37%	0.29%
Weighted average interest rate on balance at end of fiscal year	0.51%	0.30%	0.28%
Other short-term borrowings:			
Average balance outstanding during the fiscal year	¥ 2,763,028	¥ 3,727,461	¥ 9,413,280
Maximum balance outstanding at any month-end during the fiscal year	2,870,339	5,663,067	12,380,021

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Balance at end of fiscal year	2,854,028	5,663,067	10,724,775
Weighted average interest rate during the fiscal year	1.02%	0.40%	0.24%
Weighted average interest rate on balance at end of fiscal year	0.48%	0.12%	0.24%

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Subsequent to the filing of our Annual Report on Form 20-F for the fiscal year ended March 31, 2005, management determined that the average and maximum balance of due to trust account in selected statistical data for the fiscal year ended March 31, 2005 were erroneously disclosed. As a result, such amounts have been restated from the amounts previously reported as follows:

	<b>Due to trust account</b>	
	<b>As previously reported</b>	<b>As restated</b>
	<b>(in millions)</b>	
Average balance outstanding during the fiscal year	¥ 1,349,383	¥ 1,349,118
Maximum balance outstanding at any month-end during the fiscal year	1,411,320	1,411,055
Balance at end of fiscal year	1,231,315	1,231,050

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

Mitsubishi UFJ Financial Group, Inc.

(Formerly, Mitsubishi Tokyo Financial Group, Inc.)

(Kabushiki Kaisha Mitsubishi UFJ Financial Group

(Formerly, Kabushiki Kaisha Mitsubishi Tokyo Financial Group)):

We have audited the accompanying consolidated balance sheets of Mitsubishi UFJ Financial Group, Inc. (Kabushiki Kaisha Mitsubishi UFJ Financial Group) ( MUFG ) (formerly, Mitsubishi Tokyo Financial Group, Inc. (Kabushiki Kaisha Mitsubishi Tokyo Financial Group)) and subsidiaries as of March 31, 2004 and 2005, and the related consolidated statements of income, changes in equity from nonowner sources, shareholders' equity, and cash flows for each of the three years in the period ended March 31, 2005 (all expressed in Japanese Yen). These financial statements are the responsibility of MUFG's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. MUFG is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the MUFG's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of MUFG and subsidiaries as of March 31, 2004 and 2005, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2005, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Notes 5, 6, 10, 11, 12 and 25 to the consolidated financial statements, the accompanying consolidated balance sheet at March 31, 2005 and certain footnotes to the consolidated financial statements have been restated.

As discussed in Note 1 to the consolidated financial statements, MUFG changed its method of accounting for goodwill and other intangible assets in the fiscal year ended March 31, 2003, and its method of accounting for variable interest entities in the fiscal year ended March 31, 2005.

/s/ Deloitte Touche Tohmatsu

**DELOITTE TOUCHE TOHMATSU**

Tokyo, Japan

August 23, 2005 (February 20, 2006 as to the effects of the restatement discussed in Notes 6, 11, and 25 and reclassifications described in Notes 4, 29 and 31)

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**Table of Contents****MITSUBISHI TOKYO FINANCIAL GROUP, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS****MARCH 31, 2004 AND 2005**

	<b>2004</b>	<b>2005</b>
	<b>(in millions)</b>	
<b>ASSETS</b>		
Cash and due from banks (Note 11)	¥ 3,111,967	¥ 4,220,437
Interest-earning deposits in other banks (Note 11)	3,509,044	4,542,615
Call loans and funds sold (Note 14)	877,277	1,147,786
Receivables under resale agreements	2,237,666	976,281
Receivables under securities borrowing transactions	4,751,909	5,230,242
Trading account assets (including assets pledged that secured parties are permitted to sell or repledge of ¥2,252,489 million in 2004 and ¥2,289,234 million in 2005 (restated)) (Notes 4 and 11)	8,378,752	7,706,016
Investment securities (Notes 5 and 11):		
Securities available for sale carried at estimated fair value (including assets pledged that secured parties are permitted to sell or repledge of ¥2,352,234 million in 2004 and ¥2,330,160 million in 2005 (restated))	27,630,316	26,558,538
Securities being held to maturity carried at amortized cost (estimated fair value of ¥1,257,901 million in 2004 and ¥2,213,585 million in 2005)	1,250,759	2,191,316
Preferred stock investment in UFJ Bank Limited		700,000
Other investment securities	200,557	341,744
<b>Total investment securities</b>	<b>29,081,632</b>	<b>29,791,598</b>
Loans, net of unearned income and deferred loan fees (including assets pledged that secured parties are permitted to sell or repledge of ¥713,068 million in 2004 and ¥947,648 million in 2005) (Notes 6 and 11)	48,525,856	51,071,538
Allowance for credit losses (Notes 6 and 7)	(888,127)	(740,706)
<b>Net loans</b>	<b>47,637,729</b>	<b>50,330,832</b>
Premises and equipment net (Note 8)	580,073	569,212
Accrued interest	149,066	144,994
Customers acceptance liability	30,149	43,313
Intangible assets (Note 9)	234,139	253,840
Goodwill (Note 9)	56,690	85,834
Deferred tax assets (Note 10)	1,007,276	773,827
Other assets (Notes 6 and 18)	2,055,730	2,605,273
<b>Total</b>	<b>¥ 103,699,099</b>	<b>¥ 108,422,100</b>
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
Deposits (Notes 11 and 12):		
Domestic offices:		
Non-interest-bearing	¥ 5,082,701	¥ 7,025,570
Interest-bearing	52,452,342	51,007,526
Overseas offices:		
Non-interest-bearing	2,413,053	2,826,567
Interest-bearing	10,076,156	10,435,200
<b>Total deposits</b>	<b>70,024,252</b>	<b>71,294,863</b>
Debentures (Note 13)	265,957	
Call money and funds purchased (Notes 11 and 14)	2,871,851	1,521,057

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Payables under repurchase agreements (Note 11)	5,068,369	3,612,094
Payables under securities lending transactions (Note 11)	1,457,118	1,924,375
Due to trust account (Note 15)	1,380,269	1,231,050
Other short-term borrowings (Notes 11 and 16)	5,663,067	10,724,775
Trading account liabilities (Note 4)	2,482,146	1,959,027
Obligations to return securities received as collateral (Note 4)	2,358,420	3,025,817
Bank acceptances outstanding	30,149	43,313
Accrued interest	103,411	109,999
Long-term debt (Notes 11 and 16)	5,659,877	5,981,747
Other liabilities (Notes 10, 17 and 18)	2,489,242	2,620,886
<b>Total liabilities</b>	<b>99,854,128</b>	<b>104,049,003</b>
<b>Commitments and contingent liabilities (Notes 25 and 27)</b>		
<b>Shareholders' equity (Note 22):</b>		
<b>Capital stock (Notes 19 and 20):</b>		
<b>Preferred stock (Note 34):</b>		
Class 1 authorized, issued and outstanding, 81,400 shares in 2004 and 40,700 shares in 2005, with no stated value (aggregate liquidation preference of ¥122,100 million)	122,100	122,100
Class 2 convertible; 15,000 shares authorized, issued and outstanding in 2004 and no shares authorized, issued and outstanding in 2005	15,000	
Class 3 authorized, 120,000 shares; no shares issued nor outstanding in 2004, issued and outstanding 100,000 shares in 2005, with no stated value (aggregate liquidation preference of ¥250,000 million)		125,000
Class 4 convertible; authorized, 120,000 shares; no shares issued or outstanding		
Common stock authorized, 22,000,000 shares; issued, 6,476,100 shares in 2004 and 6,545,353 shares in 2005, with no stated value	1,069,708	1,084,708
Capital surplus (Note 20)	1,057,900	1,080,463
<b>Retained earnings (Notes 21 and 34):</b>		
Appropriated for legal reserve	239,571	239,571
Unappropriated	958,416	1,327,894
Accumulated other changes in equity from nonowner sources, net of taxes	384,719	396,582
<b>Total</b>	<b>3,847,414</b>	<b>4,376,318</b>
Less treasury stock, at cost 2,779 common shares in 2004 and 6,802 common shares in 2005	2,443	3,221
<b>Shareholders' equity net</b>	<b>3,844,971</b>	<b>4,373,097</b>
<b>Total</b>	<b>¥ 103,699,099</b>	<b>¥ 108,422,100</b>

See the accompanying notes to Consolidated Financial Statements.

**Table of Contents****MITSUBISHI TOKYO FINANCIAL GROUP, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF INCOME****FOR THE FISCAL YEARS ENDED MARCH 31, 2003, 2004 AND 2005**

	<u>2003</u>	<u>2004</u>	<u>2005</u>
	(in millions)		
<b>Interest income:</b>			
Loans, including fees (Note 6)	¥ 1,045,330	¥ 921,666	¥ 922,551
Deposits in other banks	72,610	48,093	66,698
Investment securities:			
Interest	344,422	341,062	330,387
Dividends	46,716	41,207	40,180
Trading account assets	12,040	28,451	30,829
Call loans and funds sold	7,320	5,384	6,398
Receivables under resale agreements and securities borrowing transactions	54,055	35,891	45,580
<b>Total</b>	<u>1,582,493</u>	<u>1,421,754</u>	<u>1,442,623</u>
<b>Interest expense:</b>			
Deposits	243,755	178,549	221,280
Debentures	8,508	4,035	351
Call money and funds purchased	12,708	9,910	7,199
Payables under repurchase agreements and securities lending transactions	94,247	74,043	74,081
Due to trust account	8,673	4,950	3,887
Other short-term borrowings and trading account liabilities	31,140	34,262	54,041
Long-term debt	140,239	120,765	110,392
<b>Total</b>	<u>539,270</u>	<u>426,514</u>	<u>471,231</u>
<b>Net interest income</b>	<u>1,043,223</u>	<u>995,240</u>	<u>971,392</u>
<b>Provision (credit) for credit losses</b> (Notes 6 and 7)	437,972	(114,109)	109,502
<b>Net interest income after provision (credit) for credit losses</b>	<u>605,251</u>	<u>1,109,349</u>	<u>861,890</u>
<b>Non-interest income:</b>			
Fees and commissions (Note 28)	520,767	572,668	649,210
Foreign exchange gains (losses) net (Note 4)	25,558	413,911	(47,000)
Trading account profits net (Note 4)	267,610	103,903	62,048
Investment securities gains (losses) net (Note 5)	(22,677)	118,648	198,006
Equity in earnings (losses) of equity method investees	(9,835)	5,213	26,272
Refund of the local taxes by the Tokyo Metropolitan Government (Note 10)		41,989	
Other non-interest income	59,211	51,763	106,554
<b>Total</b>	<u>840,634</u>	<u>1,308,095</u>	<u>995,090</u>
<b>Non-interest expense:</b>			
Salaries and employee benefits (Note 17)	498,467	506,710	476,258
Occupancy expenses net (Notes 8 and 27)	120,979	120,507	116,850
Fees and commission expenses	77,243	80,252	87,190
Amortization of intangible assets (Note 9)	46,505	63,582	69,531
Insurance premiums, including deposit insurance	48,259	54,392	56,962
Minority interest in income of consolidated subsidiaries	2,891	42,404	37,642

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Communications	22,038	27,623	27,940
Other non-interest expenses	366,024	340,570	263,218
<b>Total</b>	<b>1,182,406</b>	<b>1,236,040</b>	<b>1,135,591</b>
<b>Income from continuing operations before income tax expense and cumulative effect of a change in accounting principle</b>	<b>263,479</b>	<b>1,181,404</b>	<b>721,389</b>
<b>Income tax expense (Note 10)</b>	<b>69,872</b>	<b>357,817</b>	<b>305,257</b>
<b>Income from continuing operations before cumulative effect of a change in accounting principle</b>	<b>193,607</b>	<b>823,587</b>	<b>416,132</b>
<b>Income (loss) from discontinued operations net (Note 3)</b>	<b>10,370</b>	<b>(585)</b>	
<b>Cumulative effect of a change in accounting principle, net of tax (Note 1)</b>	<b>(532)</b>		<b>(977)</b>
<b>Net income</b>	<b>¥ 203,445</b>	<b>¥ 823,002</b>	<b>¥ 415,155</b>
<b>Income allocable to preferred shareholders</b>	<b>¥ 12,504</b>	<b>¥ 7,981</b>	<b>¥ 6,837</b>
<b>Net income available to common shareholders</b>	<b>¥ 190,941</b>	<b>¥ 815,021</b>	<b>¥ 408,318</b>
		<b>(in Yen)</b>	
<b>Amounts per share (*) (Notes 21 and 23):</b>			
Basic earnings per common share income from continuing operations available to common shareholders before cumulative effect of a change in accounting principle	¥ 32,240.37	¥ 128,443.00	¥ 62,867.28
Basic earnings per common share net income available to common shareholders	33,991.75	128,350.88	62,717.21
Diluted earnings per common share income from continuing operations available to common shareholders before cumulative effect of a change in accounting principle	29,486.78	125,123.73	62,626.69
Diluted earnings per common share net income available to common shareholders	31,164.84	125,033.96	62,476.76

(\*) For the fiscal years ended March 31, 2003, 2004 and 2005, Class 2 Preferred Stock was included in the computation of the diluted amounts based on the conversion price as of fiscal year-ends (see Notes 19 and 23).

See the accompanying notes to Consolidated Financial Statements.

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## MITSUBISHI TOKYO FINANCIAL GROUP, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FROM NONOWNER SOURCES

## FOR THE FISCAL YEARS ENDED MARCH 31, 2003, 2004 AND 2005

	Gains (Losses)		Gains (Losses) net of income tax expense (benefit)
	before income tax expense (benefit)	Income tax (expense) benefit	
	(in millions)		
<b>Fiscal year ended March 31, 2003:</b>			
Net income			¥ 203,445
Other changes in equity from nonowner sources:			
Net unrealized holding losses on investment securities available for sale	¥ (831,660)	¥ 332,009	(499,651)
Reclassification adjustment for losses included in net income	2,656	(714)	1,942
<b>Total</b>	<b>(829,004)</b>	<b>331,295</b>	<b>(497,709)</b>
Net unrealized gains on derivatives qualifying for cash flow hedges	10,885	(4,164)	6,721
Reclassification adjustment for gains included in net income	(9,545)	3,651	(5,894)
<b>Total</b>	<b>1,340</b>	<b>(513)</b>	<b>827</b>
Minimum pension liability adjustments	(132,113)	51,265	(80,848)
Foreign currency translation adjustments	(54,711)	3,604	(51,107)
Reclassification adjustment for losses included in net income	591	(77)	514
<b>Total</b>	<b>(54,120)</b>	<b>3,527</b>	<b>(50,593)</b>
<b>Total changes in equity from nonowner sources</b>			<b>¥ (424,878)</b>
<b>Fiscal year ended March 31, 2004:</b>			
Net income			¥ 823,002
Other changes in equity from nonowner sources:			
Net unrealized holding gains on investment securities available for sale	¥ 824,150	¥ (338,099)	486,051
Reclassification adjustment for gains included in net income	(138,371)	54,917	(83,454)
<b>Total</b>	<b>685,779</b>	<b>(283,182)</b>	<b>402,597</b>

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Net unrealized gains on derivatives qualifying for cash flow hedges	4,286	(1,740)	2,546
Reclassification adjustment for gains included in net income	(9,227)	3,529	(5,698)
<b>Total</b>	<b>(4,941)</b>	<b>1,789</b>	<b>(3,152)</b>
Minimum pension liability adjustments	167,510	(46,395)	121,115
Foreign currency translation adjustments	(38,877)	5,062	(33,815)
Reclassification adjustment for losses included in net income	9,839	(467)	9,372
<b>Total</b>	<b>(29,038)</b>	<b>4,595</b>	<b>(24,443)</b>
<b>Total changes in equity from nonowner sources</b>			<b>¥ 1,319,119</b>
<b>Fiscal year ended March 31, 2005:</b>			
Net income			¥ 415,155
Other changes in equity from nonowner sources:			
Net unrealized holding gains on investment securities available for sale	¥ 258,757	¥ (105,199)	153,558
Reclassification adjustment for gains included in net income	(251,898)	102,597	(149,301)
<b>Total</b>	<b>6,859</b>	<b>(2,602)</b>	<b>4,257</b>
Net unrealized gains on derivatives qualifying for cash flow hedges	328	(126)	202
Reclassification adjustment for gains included in net income	(847)	324	(523)
<b>Total</b>	<b>(519)</b>	<b>198</b>	<b>(321)</b>
Minimum pension liability adjustments	18,379	(6,830)	11,549
Foreign currency translation adjustments	(6,091)	(6,933)	(13,024)
Reclassification adjustment for losses included in net income	9,980	(578)	9,402
<b>Total</b>	<b>3,889</b>	<b>(7,511)</b>	<b>(3,622)</b>
<b>Total changes in equity from nonowner sources</b>			<b>¥ 427,018</b>

See the accompanying notes to Consolidated Financial Statements.



**Table of Contents****MITSUBISHI TOKYO FINANCIAL GROUP, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY****FOR THE FISCAL YEARS ENDED MARCH 31, 2003, 2004 AND 2005**

	<u>2003</u>	<u>2004</u>	<u>2005</u>
	(in millions)		
<b>Preferred stock (Class 1) (Note 19):</b>			
Balance at beginning of fiscal year	¥ 122,100	¥ 122,100	¥ 122,100
Balance at end of fiscal year	¥ 122,100	¥ 122,100	¥ 122,100
<b>Preferred stock (Class 2) (Note 19):</b>			
Balance at beginning of fiscal year	¥ 100,000	¥ 100,000	¥ 15,000
Conversion of Class 2 preferred stock to common stock		(85,000)	(15,000)
Balance at end of fiscal year	¥ 100,000	¥ 15,000	¥
<b>Preferred stock (Class 3) (Note 19):</b>			
Balance at beginning of fiscal year	¥	¥	¥
Issuance of new shares of Class 3 preferred stock			125,000
Balance at end of fiscal year	¥	¥	¥ 125,000
<b>Common stock (Note 20):</b>			
Balance at beginning of fiscal year	¥ 873,156	¥ 984,708	¥ 1,069,708
Issuance of new shares of common stock	111,552		
Issuance of new shares of common stock by conversion of Class 2 preferred stock		85,000	15,000
Balance at end of fiscal year	¥ 984,708	¥ 1,069,708	¥ 1,084,708
<b>Capital surplus (Note 20):</b>			
Balance at beginning of fiscal year	¥ 850,835	¥ 1,058,611	¥ 1,057,900
Issuance of new shares of common stock	110,620		
Recognition of tax benefit arising from treasury stock held by subsidiaries	54,008		
Issuance of new shares of Class 3 preferred stock			123,951
Issuance of new shares of common stock in exchange for the shares of Diamond Computer Service Co., Ltd. (Note 2)			20,974
Redemption of Class 1 preferred stock (Note 19)			(122,100)
Gains (losses) on sales of shares of treasury stock, net of taxes	43,148	(711)	(262)
Balance at end of fiscal year	¥ 1,058,611	¥ 1,057,900	¥ 1,080,463
<b>Retained earnings appropriated for legal reserve (Note 21):</b>			
Balance at beginning of fiscal year	¥ 236,537	¥ 237,474	¥ 239,571
Transfer from unappropriated retained earnings	937	2,097	
Balance at end of fiscal year	¥ 237,474	¥ 239,571	¥ 239,571
<b>Unappropriated retained earnings (Note 21):</b>			

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Balance at beginning of fiscal year	¥ 13,808	¥ 170,408	¥ 958,416
Net income	203,445	823,002	415,155
<b>Total</b>	<b>217,253</b>	<b>993,410</b>	<b>1,373,571</b>
<b>Deduction:</b>			
Cash dividends:			
Common share ¥6,000.00 in 2003, ¥4,000.00 in 2004 and ¥6,000.00 in 2005 per share	(33,404)	(24,916)	(38,840)
Preferred share (Class 1) ¥123,750.00 in 2003, ¥82,500.00 in 2004 and ¥82,500.00 in 2005 per share	(10,074)	(6,716)	(6,716)
Preferred share (Class 2) ¥24,300.00 in 2003, ¥16,200.00 in 2004 and ¥8,100.00 in 2005 per share	(2,430)	(1,265)	(121)
Transfer to retained earnings appropriated for legal reserve	(937)	(2,097)	
<b>Total</b>	<b>(46,845)</b>	<b>(34,994)</b>	<b>(45,677)</b>
Balance at end of fiscal year (Note 34)	¥ 170,408	¥ 958,416	¥ 1,327,894
<b>Accumulated other changes in equity from nonowner sources, net of taxes:</b>			
Net unrealized gains on investment securities available for sale (Note 5):			
Balance at beginning of fiscal year	¥ 820,974	¥ 323,265	¥ 725,862
Net change during the fiscal year	(497,709)	402,597	4,257
<b>Balance at end of fiscal year</b>	<b>¥ 323,265</b>	<b>¥ 725,862</b>	<b>¥ 730,119</b>
Net unrealized gains on derivatives qualifying for cash flow hedges (Note 24):			
Balance at beginning of fiscal year	¥ 3,696	¥ 4,523	¥ 1,371
Net change during the fiscal year	827	(3,152)	(321)
<b>Balance at end of fiscal year</b>	<b>¥ 4,523</b>	<b>¥ 1,371</b>	<b>¥ 1,050</b>
Minimum pension liability adjustments (Note 17):			
Balance at beginning of fiscal year	¥ (182,295)	¥ (263,143)	¥ (142,028)
Net change during the fiscal year	(80,848)	121,115	11,549
<b>Balance at end of fiscal year</b>	<b>¥ (263,143)</b>	<b>¥ (142,028)</b>	<b>¥ (130,479)</b>
Foreign currency translation adjustments:			
Balance at beginning of fiscal year	¥ (125,450)	¥ (176,043)	¥ (200,486)
Net change during the fiscal year	(50,593)	(24,443)	(3,622)
<b>Balance at end of fiscal year</b>	<b>¥ (176,043)</b>	<b>¥ (200,486)</b>	<b>¥ (204,108)</b>
<b>Balance at end of fiscal year</b>	<b>¥ (111,398)</b>	<b>¥ 384,719</b>	<b>¥ 396,582</b>
<b>Treasury stock:</b>			
Balance at beginning of fiscal year	¥ (91,053)	¥ (3,275)	¥ (2,443)
Purchases of shares of treasury stock	(965)	(467)	(921)
Sales of shares of treasury stock	89,976	1,081	836
Net decrease (increase) resulting from changes in voting interests in its consolidated subsidiaries and affiliated companies	(1,233)	218	(693)
<b>Balance at end of fiscal year</b>	<b>¥ (3,275)</b>	<b>¥ (2,443)</b>	<b>¥ (3,221)</b>
<b>Total shareholders' equity</b>	<b>¥ 2,558,628</b>	<b>¥ 3,844,971</b>	<b>¥ 4,373,097</b>

See the accompanying notes to Consolidated Financial Statements.

**Table of Contents****MITSUBISHI TOKYO FINANCIAL GROUP, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS****FOR THE FISCAL YEARS ENDED MARCH 31, 2003, 2004 AND 2005**

	<u>2003</u>	<u>2004</u>	<u>2005</u>
	(in millions)		
<b>Cash flows from operating activities:</b>			
Net income	¥ 203,445	¥ 823,002	¥ 415,155
Adjustments to reconcile net income to net cash provided by operating activities:			
Loss (income) from discontinued operations net	(10,370)	585	
Depreciation and amortization	109,520	119,381	116,729
Provision (credit) for credit losses	437,972	(114,109)	109,502
Investment securities losses (gains) net	22,677	(118,648)	(198,006)
Foreign exchange losses (gains) net	(302,967)	(486,898)	75,287
Provision for deferred income tax expense	8,267	308,542	234,555
Increase in trading account assets, excluding foreign exchange contracts	(1,116,568)	(430,353)	(586,923)
Increase in trading account liabilities, excluding foreign exchange contracts	1,390,349	440,857	76,059
Decrease in accrued interest receivable and other receivables	35,053	17,699	2,623
Increase (decrease) in accrued interest payable and other payables	(80,862)	(28,195)	12,198
Other net	84,213	85,808	(49,616)
	<u>780,729</u>	<u>617,671</u>	<u>207,563</u>
<b>Cash flows from investing activities:</b>			
Proceeds from sales of investment securities available for sale	27,062,165	29,334,674	38,786,642
Proceeds from maturities of investment securities available for sale	15,897,034	15,361,761	34,964,164
Purchases of investment securities available for sale	(44,832,560)	(47,106,706)	(72,931,671)
Proceeds from maturities of investment securities being held to maturity	73,279	59,790	61,741
Purchases of investment securities being held to maturity		(1,051,591)	(1,004,347)
Proceeds from sales of other investment securities	26,950	36,239	24,865
Purchases of preferred stock investment in UFJ Bank Limited (Note 5)			(700,000)
Purchases of common stock investment in ACOM Co., LTD. (Note 2)			(137,877)
Purchases of other investment securities	(62,782)	(115,637)	(218,728)
Net decrease (increase) in loans	215,607	(1,240,290)	(177,347)
Net decrease (increase) in interest-earning deposits in other banks	69,379	260,128	(873,275)
Net decrease (increase) in call loans, funds sold, and receivables under resale agreements and securities borrowing transactions	1,116,562	(4,380,801)	582,119
Proceeds from sales of premises and equipment	70,248	38,441	16,365
Capital expenditures for premises and equipment	(50,596)	(51,965)	(44,015)
Other net	15,194	(267,380)	(170,484)
	<u>(399,520)</u>	<u>(9,123,337)</u>	<u>(1,821,848)</u>
<b>Cash flows from financing activities:</b>			
Net increase in deposits	4,751,481	4,061,827	1,081,464
Decrease in debentures	(1,633,157)	(370,103)	(265,957)
Net increase (decrease) in call money, funds purchased, and payables under repurchase agreements and securities lending transactions			
	129,750	338,173	(2,457,990)
Net decrease in due to trust account	(880,607)	(21,349)	(149,219)
Net increase (decrease) in other short-term borrowings	(621,985)	2,833,091	3,820,971
Proceeds from issuance of long-term debt	1,072,400	1,300,373	1,438,251

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Repayment of long-term debt	(1,084,018)	(712,984)	(894,480)
Proceeds from issuance of new shares of common stock, net of stock issue expenses	222,172		
Proceeds from issuance of new shares of preferred stock, net of stock issue expenses			248,951
Payments for redemption of preferred stock			(122,100)
Proceeds from sales of treasury stock	82,944	942	1,164
Payments to acquire treasury stock	(965)	(467)	(921)
Dividends paid	(45,904)	(32,840)	(45,648)
Other net	132,497	5,761	74,906
	<u>2,124,608</u>	<u>7,402,424</u>	<u>2,729,392</u>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>(49,635)</b>	<b>(73,372)</b>	<b>(6,637)</b>
	<u>2,456,182</u>	<u>(1,176,614)</u>	<u>1,108,470</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>2,456,182</b>	<b>(1,176,614)</b>	<b>1,108,470</b>
<b>Cash and cash equivalents at beginning of fiscal year</b>	<b>1,832,399</b>	<b>4,288,581</b>	<b>3,111,967</b>
	<u>1,832,399</u>	<u>4,288,581</u>	<u>3,111,967</u>
<b>Cash and cash equivalents at end of fiscal year</b>	<b>¥ 4,288,581</b>	<b>¥ 3,111,967</b>	<b>¥ 4,220,437</b>
	<u>¥ 4,288,581</u>	<u>¥ 3,111,967</u>	<u>¥ 4,220,437</u>
<b>Supplemental disclosure of cash flow information:</b>			
<b>Cash paid during the fiscal year for:</b>			
Interest	¥ 619,903	¥ 454,540	¥ 453,532
Income taxes, net of refunds	50,464	58,833	95,477
<b>Non-cash investing activities:</b>			
Available-for-sale securities transferred to held-to-maturity category (Note 5)		78,343	
Marketable equity securities transferred to employee retirement benefit trusts	24,611	87,586	
Issuance of new shares of common stock in exchange for the shares of Diamond Computer Service Co., Ltd. (Note 2)			20,974
Obtaining assets by entering into capital lease	2,503	3,882	8,232

See the accompanying notes to Consolidated Financial Statements.

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**MITSUBISHI TOKYO FINANCIAL GROUP, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. BASIS OF FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Basis of Financial Statements*

On April 2, 2001, Mitsubishi Tokyo Financial Group, Inc. (Kabushiki Kaisha Mitsubishi Tokyo Financial Group) ( MTFG ) was established, as a bank holding company, through which The Bank of Tokyo-Mitsubishi, Ltd. ( BTM ), The Mitsubishi Trust and Banking Corporation ( Mitsubishi Trust ), and Nippon Trust Bank Limited ( NTB ), a former subsidiary of BTM, have become wholly-owned subsidiaries pursuant to stock-for-stock exchanges. NTB was later merged into Mitsubishi Trust. The business combination was accounted for as a pooling of interests and, accordingly, the historical information has been restated as if the combination had been in effect for all periods presented.

On October 1, 2001, as part of the business combination, NTB and The Tokyo Trust Bank, Ltd. ( TTB ), which was another one of the trust subsidiaries, merged with and into Mitsubishi Trust through a stock-for-stock exchange. This merger was recorded at historical cost as transfers and exchanges among entities under common control.

The accompanying consolidated financial statements are stated in Japanese yen, the currency of the country in which MTFG is incorporated and principally operates. The accompanying consolidated financial statements have been prepared on the basis of accounting principles generally accepted in the United States of America ( US GAAP ). In certain respects, the accompanying consolidated financial statements reflect adjustments which are not included in the consolidated financial statements issued by MTFG and certain of its subsidiaries in accordance with applicable statutory requirements and accounting practices in the countries of incorporation. The major adjustments include those relating to (1) investment securities, (2) derivative financial instruments, (3) allowance for credit losses, (4) income taxes, (5) consolidation, (6) premises and equipment, (7) transfer of financial assets, (8) pension liability, (9) goodwill, and (10) lease transactions.

Fiscal periods of certain subsidiaries, which ended on or after December 31, and MTFG's fiscal year, which ended on March 31, have been treated as coterminous. For the fiscal years ended March 31, 2003, 2004 and 2005, the effect of recording intervening events for the three-month periods ended March 31 on MTFG's proportionate equity in net income of subsidiaries with fiscal periods ending on December 31, would have resulted in an increase of ¥3.18 billion, an increase of ¥2.64 billion and a decrease of ¥0.94 billion, respectively, to net income. No intervening events occurred during each of the three-month periods ended March 31, 2003, 2004 and 2005 which, if recorded, would have had effects of more than 1% of total assets, loans, total liabilities, deposits or shareholders' equity as of March 31, 2003, 2004 and 2005.

*Description of Business*

MTFG and its subsidiaries (together, the MTFG Group) conduct domestic and international financial business through BTM, Mitsubishi Trust and Mitsubishi Securities, each of the principal subsidiaries of MTFG. BTM is a major commercial banking institution, providing a broad range

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of domestic and international banking services to consumers and corporations from its offices in Japan and around the world. Mitsubishi Trust is a trust and banking subsidiary whose primary business encompasses banking, asset management and administration, fiduciary and agency services, and real estate services. Mitsubishi Securities provides securities and investment banking services, such as mergers and acquisitions, derivatives, corporate advisory and securitizations.

Effective April 1, 2004, the MTFG Group implemented a new integrated business group system, which currently integrates the operations of BTM, Mitsubishi Trust and Mitsubishi Securities into the following three

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**MITSUBISHI TOKYO FINANCIAL GROUP, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

areas Retail, Corporate and Trust Assets resulting in a new basis of segmentation. Although this new measurement basis did not change the legal entities of MTFG, BTM, Mitsubishi Trust and Mitsubishi Securities, it is intended to create more synergies by making collaboration between the MTFG Group's subsidiaries more effective and efficient. Under this integrated business group system, the holding company formulates strategy for the group on an integrated basis, which is then executed by the subsidiaries. Through this system, the MTFG Group aims to reduce overlapping of functions within the group, thereby increasing efficiency and realizing the benefits of MTFG's group resources and scale of operations. Moreover, through a greater integration of the MTFG Group's shared expertise in banking, trust and securities businesses, the MTFG Group aims to deliver a more diverse but integrated lineup of products and services for its customers. See Note 29 for more information by business segment.

***Use of Estimates***

The preparation of consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term primarily relate to the allowance for credit losses on loans and off-balance-sheet credit instruments, deferred tax assets, financial instruments with no available market prices, goodwill, investment securities and accrued severance indemnities and pension liabilities.

***Summary of Significant Accounting Policies***

Significant accounting policies applied in the accompanying consolidated financial statements are summarized below:

***Consolidation*** The consolidated financial statements include the accounts of MTFG and its subsidiaries over which control is exercised through either majority ownership of voting stock and/or other means, including, but not limited to, the possession of the power to direct or cause the direction of the management and policies of entities. In situations in which the MTFG Group has less than 100% but greater than 50% of ownership in entities, such entities are consolidated and minority interests are also recorded in Other liabilities. Intercompany items have been eliminated. Investments in affiliated companies (companies over which the MTFG Group has the ability to exercise significant influence) are accounted for by the equity method of accounting and are reported in Other assets. The MTFG Group's equity interests in the earnings of these equity investees and gains or losses realized on disposition of such investments are reported in Equity in earnings (losses) of equity method investees.

Variable interest entities for which the MTFG Group is deemed to be the primary beneficiary are consolidated when the MTFG Group has a variable interest that will absorb a majority of the entity's expected losses, receive a majority of the entity's expected returns, or both. See *Accounting Changes Variable Interest Entities* and Note 26.

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Assets that the MTFG Group holds in an agency, fiduciary or trust capacity are not assets of the MTFG Group and, accordingly, are not included in the accompanying consolidated balance sheets.

*Cash Flows* For the purposes of reporting cash flows, cash and cash equivalents are defined as those amounts included in the consolidated balance sheets under the caption Cash and due from banks with original maturities of 90 days or less. Cash flows from qualified hedging activities are classified in the same category as the items being hedged.

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**MITSUBISHI TOKYO FINANCIAL GROUP, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

*Translation of Foreign Currency Financial Statements and Foreign Currency Transactions* Financial statements of overseas entities are translated into Japanese yen using the respective fiscal year-end exchange rates for assets and liabilities. Income and expense items are translated at average rates of exchange for the respective fiscal periods.

Except for overseas entities located in highly inflationary economies, foreign currency translation gains and losses related to the financial statements of overseas entities of the MTFG Group, net of related income tax effects, are credited or charged directly to Foreign currency translation adjustments, a component of accumulated other changes in equity from nonowner sources. Tax effects of gains and losses on foreign currency translation of financial statements of overseas entities are not recognized unless it is apparent that the temporary differences will reverse in the foreseeable future. If applicable, foreign exchange translation gains and losses pertaining to entities located in highly inflationary economies are recorded in Foreign exchange gains (losses) net, as appropriate. For these entities, premises and equipment and the related depreciation and amortization thereof are translated at exchange rates prevailing at dates of acquisition.

Foreign currency denominated assets and liabilities are translated into Japanese yen at the respective fiscal year-end foreign exchange rates. Foreign currency denominated income and expenses are translated using average rates of exchange for the respective fiscal periods. Gains and losses from such translation are included in Foreign exchange gains (losses) net, as appropriate.

*Repurchase Agreements, Securities Lending and Other Secured Financing Transactions* Securities sold with agreements to repurchase ( repurchase agreements ), securities purchased with agreements to resell ( resale agreements ) and securities lending and borrowing transactions are accounted for as sales of securities with related off-balance-sheet forward repurchase commitments or purchases of securities with related off-balance-sheet forward resale commitments, if they meet the relevant conditions for the surrender of control as provided by Statement of Financial Accounting Standards ( SFAS ) No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, a replacement of FASB Statement No. 125. If the conditions are not met, the transactions are treated as secured financing or lending.

*Collateral* For secured lending transactions, including resale agreements, securities borrowing transactions, commercial lending and derivative transactions, the MTFG Group, as a secured party, generally has the right to require the counterparties to provide collateral, including letters of credit, cash, securities and other financial assets. For most securities lending transactions, the MTFG Group maintains strict levels of collateralization governed by daily mark-to-market analysis. Financial assets pledged as collateral are generally negotiable financial instruments and are permitted to be sold or repledged by secured parties. If the MTFG Group sells these financial assets received as collateral, it recognizes the proceeds from the sale and its obligation to return the collateral. For secured borrowing transactions, principally repurchase agreements and securities lending transactions and derivative transactions, where the secured party has the right to sell or repledge financial assets pledged as collateral, the MTFG Group separately discloses those financial assets pledged as collateral in the consolidated balance sheets.

*Trading Account Securities* Securities and money market instruments held in anticipation of short-term market movements and for resale to customers are included in Trading account assets, and short trading positions of these instruments are included in Trading account liabilities. Trading positions are carried at fair value on the consolidated balance sheets and recorded on a trade date basis. Changes in the fair value of trading positions are recognized currently in Trading account profits net, as appropriate.

*Investment Securities* Debt securities for which the MTFG Group has both the positive intent and ability to hold to maturity are classified as Securities being held to maturity and carried at amortized cost. Debt securities

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**MITSUBISHI TOKYO FINANCIAL GROUP, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

that the MTFG Group may not hold to maturity and marketable equity securities, other than those classified as trading account securities, are classified as Securities available for sale, and are carried at their fair values, with unrealized gains and losses reported on a net-of-tax basis within accumulated other changes in equity from nonowner sources, which is a component of shareholders' equity. Nonmarketable equity securities are stated at cost as Other investment securities. The preferred stock investment in UFJ Bank Limited ( UFJ Bank ) is separately presented at cost in the consolidated balance sheets.

Individual debt and equity securities are written down to fair value with the resulting losses charged to operations when, in the opinion of management, a decline in estimated fair value below the cost of such securities is other than temporary. Such impairment loss is included in Investment securities gains (losses) net in the statement of income. In determining other than temporary declines in fair value to be recognized as an impairment loss on investment securities, the MTFG Group generally considers factors such as the financial condition of the issuer, the extent of decline in fair value, and the length of period that the decline in fair value below cost has existed. See Note 5 for a further discussion of other-than-temporary impairment. Interest and dividends on investment securities are reported in Interest Income. Dividends are recognized when the shareholders' right to receive the dividend is established. Gains and losses on disposition of investment securities are computed using the average cost method and are recognized on the trade date.

*Derivative Financial Instruments* The MTFG Group engages in derivative activities involving swaps, forwards and options, and other types of derivative contracts. Derivatives are used in trading activities to generate trading revenues and fee income for its own account and to respond to the customers' financial needs. Derivatives are also used to manage its exposures to fluctuations in interest and foreign exchange rates, equity and commodity prices.

Derivatives entered into for trading purposes are carried at fair value and are reported as Trading account assets or Trading account liabilities. Fair values are based on market or broker-dealer quotes when available. Valuation models such as present value and pricing models are applied to current market information to estimate fair values when such quotes are not available. The MTFG Group defers trade date gains or losses on derivatives where the fair values of those derivatives are not obtained from a quoted market price, supported by comparison to other observable market transactions, or based upon a valuation technique incorporating observable market data. The fair values of derivative contracts executed with the same counterparty under legally enforceable master netting agreements are presented on a net basis. Changes in the fair value of such contracts are recognized currently in Foreign exchange gains (losses) net with respect to foreign exchange contracts and in Trading account profits net with respect to interest rate contracts and other types of contracts.

Embedded derivatives that are not clearly and closely related to the host contracts and meet the definition of derivatives are separated from the host contracts and measured at fair value unless the contracts embedding the derivatives are measured at fair value in their entirety.

Derivatives are also used for asset and liability management to manage exposures to fluctuations in interest and foreign exchange rates arising from mismatches of asset and liability positions. Such derivatives may include contracts that qualify for hedge accounting. At inception of hedge accounting, each derivative is designated as a hedging instrument and documented with related information such as the risk management objective and strategy for the hedge, which includes the hedged item, the risk being hedged and the method used to assess the hedge's effectiveness. Derivatives are evaluated in order to determine if they qualify for hedge accounting. The hedging derivative instruments must be highly effective in achieving offsetting changes in fair values or variable cash flows from the hedged items attributable to the risk being hedged.

Any ineffectiveness, which arises during the hedging relationship, is recognized in Non-interest income or expense in the period in which it arises. All qualifying hedging derivatives are valued at fair value and included in Other assets or Other liabilities. For fair

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**MITSUBISHI TOKYO FINANCIAL GROUP, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

value hedges of interest-bearing assets or liabilities, the change in the fair value of the hedged item and the hedging instruments is recognized in net interest income to the extent that it is effective. For all other fair value hedges, the change in the fair value of the hedged item and change in fair value of the derivative are recognized in non-interest income or expense. For cash flow hedges, the unrealized changes in fair value to the extent effective are recognized in accumulated other changes in equity from nonowner sources. Amounts realized on cash flow hedges related to variable rate loans are recognized in net interest income in the period when the cash flow from the hedged item is realized. The fair value of cash flow hedges related to forecasted transactions, if any, is recognized in non-interest income or expense in the period when the forecasted transaction occurs. Any difference that arises from gains or losses on hedging derivatives offsetting corresponding gains or losses on the hedged items, and gains and losses on derivatives attributable to the risks excluded from the assessment of hedge effectiveness are currently recognized in non-interest income or expense. Derivatives that do not qualify for hedge accounting are considered trading positions and are accounted for as such.

*Loans* Loans are carried at the principal amount outstanding, adjusted for unearned income and deferred net nonrefundable loan fees and costs. Loans held and intended for dispositions or sales in secondary markets are transferred to the held-for-sale classification and carried at the lower of cost or estimated fair value generally on an individual loan basis. Loan origination fees, net of certain direct origination costs, are deferred and recognized over the contractual life of the loan as an adjustment of yield using the method that approximates the interest method. Interest income on loans that are not impaired is accrued and credited to interest income as it is earned. Unearned income and discounts or premiums on purchased loans are deferred and recognized over the contractual lives of the loans using a method that approximates the interest method.

Loans are considered impaired when, based on current information and events, it is probable that the MTFG Group will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's observable market price, or the fair value of the collateral if the loan is collateral dependent.

Loans are generally placed on nonaccrual status when substantial doubt exists as to the full and timely collection of either principal or interest, or when principal or interest is contractually past due one month or more with respect to loans of domestic banking subsidiaries, including BTM and Mitsubishi Trust, and 90 days or more with respect to loans of certain foreign banking subsidiaries. A nonaccrual loan may be restored to an accrual status when interest and principal payments become current and management expects that the borrower will make future contractual payments as scheduled. When a loan is placed on nonaccrual status, interest accrued but not received is generally reversed against interest income. Cash receipts on nonaccrual loans, for which the ultimate collectibility of principal is uncertain, are applied as principal reductions; otherwise, such collections are credited to income. The MTFG Group does not capitalize any accrued interest in its principal balances of impaired loans at each balance sheet date.

*Loan Securitization* The MTFG Group securitizes and services commercial and industrial loans in the normal course of business. The MTFG Group accounts for a transfer of loans in a securitization transaction as a sale if it meets relevant conditions for the surrender of control in accordance with SFAS No. 140. Otherwise, the transfer is accounted for as a collateralized borrowing transaction. Interests in loans sold through

a securitization

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**MITSUBISHI TOKYO FINANCIAL GROUP, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

accounted for as a sale may be retained in the form of subordinated tranches or beneficial interests. These retained interests are primarily recorded in Securities available for sale. The previous carrying amount of the loans involved in the transfer is allocated between the loans sold and the retained interests based on their relative fair values at the date of the securitization. Since quoted market prices are generally not available, the MTFG Group usually estimates fair value of these retained interests based on the present value of future expected cash flows by using modeling techniques that involve management's best estimates of key assumptions, which may include default rates, recovery rates, and discount rates. Retained interests that can contractually be prepaid or otherwise settled in such a way that the MTFG Group would not recover substantially all of its investment are accounted for as investment securities available for sale.

*Allowance for Credit Losses* The MTFG Group maintains an allowance for credit losses to absorb probable losses inherent in the loan portfolio. Actual credit losses (amounts deemed uncollectible, in whole or in part), net of recoveries, are deducted from the allowance for credit losses, as net charge-offs, generally based on detailed loan reviews and a credit assessment by management at each balance sheet date. The MTFG Group generally applies its charge-off policy to all loans in its portfolio regardless of the type of borrower. A provision for credit losses, which is a charge against earnings, is added to bring the allowance to a level which, in management's opinion, is adequate to absorb probable losses inherent in the credit portfolio.

A key element relating to the policies and discipline used in determining the allowance for credit losses is the credit classification and the related borrower categorization process. The categorization is based on conditions that may affect the ability of borrowers to service their debt, taking into consideration current financial information, historical payment experience, credit documentation, public information, analyses of relevant industry segments and current trends. In determining the appropriate level of the allowance, the MTFG Group evaluates the probable loss by category of loan based on its type and characteristics.

The allowance for credit losses for non-homogeneous loans consists of an allocated allowance for specifically identified problem loans, an allocated allowance for country risk exposure, a formula allowance and an unallocated allowance. An allocated allowance is also established for large groups of smaller-balance homogeneous loans. Non-homogeneous loans such as commercial loans are evaluated individually and the allowance for such loans is comprised of specific, country risk, formula and unallocated allowances.

The credit loss allowance for individual customers represents the impairment allowance determined in accordance with SFAS No. 114, *Accounting by Creditors for Impairment of a Loan*. The MTFG Group measures the impairment of a loan, with the exception of large groups of smaller-balance homogeneous loans that are collectively evaluated for impairment, based on the present value of expected future cash flows discounted at the loan's effective interest rate, or on the loan's observable market price, or based on the fair value of the collateral if the loan is collateral dependent, when it is probable that the MTFG Group will be unable to collect all amounts due according to the contractual terms of the loan agreement. For certain subsidiaries, some impaired loans are aggregated for the purpose of measuring impairment using historical loss factors. Generally, the MTFG Group's impaired loans include nonaccrual loans, restructured loans and other loans specifically identified as impaired.

The credit loss allowance for country risk exposure is a country-specific allowance for substandard, special mention and unclassified loans. The allowance is established to supplement the formula allowance for these loans, based on an estimate of probable losses relating to the exposure to countries that are identified by management to have a high degree of transfer risk. The measure is generally based on a function of default

probability and the recovery ratio with reference to external credit ratings. For the allowance for specifically identified cross-border problem loans, the MTFG Group incorporates transfer risk in its determination of related allowance for credit losses.



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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The formula allowance is calculated for groups of loans collectively evaluated for unidentified impairment by applying loss factors to outstanding substandard, special mention and unclassified loans. The evaluation of inherent loss for these loans involves a high degree of uncertainty, subjectivity and judgment because probable credit losses are not easily identifiable or measurable. In determining the formula allowance, the MTFG Group, therefore, relies on a statistical analysis that incorporates loss factor percentages of total loans outstanding based on historical experience. Corresponding to the periodical impairment identification and self-assessment process, the estimation of the formula allowance is back-tested by comparing the allowance with the actual results subsequent to the balance sheet date. The results of such back-testing are evaluated by management to determine whether the manner and level of formula allowance need to be changed in subsequent years.

The unallocated allowance represents an estimate of additional losses inherent in the loan portfolio and is composed of attribution factors, which are based upon management's evaluation of various conditions that are not directly or indirectly measured in the determination of the allocated allowance. The conditions evaluated in connection with the unallocated allowance may include existing general economic and business conditions affecting the key lending areas of the MTFG Group, credit quality trends, collateral values, loan volumes and concentrations, seasoning of the loan portfolio, specific industry conditions within portfolio segments, recent loss experience in particular segments of the portfolio, duration of the current business cycle, bank regulatory examination results and findings of the MTFG Group's internal credit examiners.

The credit loss allowance for large groups of smaller-balance homogeneous loans is focused on loss experience for the pool rather than on a detailed analysis of individual loans. The allowance is determined primarily based on probable net charge-offs and the probability of insolvency based on the number of delinquencies.

*Allowance for Off-Balance-Sheet Credit Instruments* The MTFG Group maintains an allowance for credit losses on off-balance-sheet credit instruments, including commitments to extend credit, guarantees, standby letters of credit and other financial instruments. The allowance is recorded as a liability and includes the specific allowance for specifically identified credit exposure and the allocated formula allowance. With regard to the specific allowance for specifically identified credit exposure and allocated formula allowance, the MTFG Group adopts the same methodology used in determining the allowance for loan credit losses. Potential credit losses related to derivatives are considered in the fair valuation of the derivatives.

Net changes in the allowance for off-balance-sheet credit instruments are accounted for as Other non-interest expenses.

*Premises and Equipment* Premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is charged to operations over the estimated useful lives of the related assets. Leasehold improvements are depreciated over the terms of the respective leases or the estimated useful lives of the improvements, whichever are shorter. Depreciation of premises and equipment is computed under the declining-balance method with respect to premises and equipment of BTM, Mitsubishi Trust and certain other subsidiaries, and under the straight-line method with respect to premises and equipment of other subsidiaries, at rates principally based on the following estimated useful lives:

	<u>Years</u>
Buildings	15 to 50
Equipment and furniture	4 to 15
Leasehold improvements	8 to 39

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Maintenance, repairs and minor improvements are charged to operations as incurred. Major improvements are capitalized. Net gains or losses on dispositions of premises and equipment are included in Other non-interest income or expense, as appropriate.

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of an asset to be held and used is measured by a comparison of the carrying amount to future undiscounted net cash flows expected to be generated by the asset. If an asset is considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds the fair value. For purposes of recognition and measurement of an impairment loss, a long-lived asset or assets are grouped with other assets and liabilities at the lowest level with independent and identifiable cash flows. Assets to be disposed of by sale are reported at the lower of the carrying amount or fair value less estimated cost to sell.

*Goodwill* The MTFG Group has classified as goodwill the excess of the cost of the MTFG Group's investments in subsidiaries over the MTFG Group's share of net assets at dates of acquisition in purchase transactions. Goodwill related to the investments in affiliated companies is included in the investments accounted for by the equity method. On April 1, 2002, the MTFG Group adopted SFAS No. 142, *Goodwill and Other Intangible Assets*, which provides goodwill acquired in a purchase business combination should not be amortized and is subject to an impairment test. Goodwill is recorded at a designated reporting unit level for the purpose of assessing impairment. An impairment loss, if any, is recognized to the extent that the carrying amount of goodwill exceeds its implied fair value.

*Software* The MTFG Group capitalizes certain costs associated with the acquisition or development of internal-use software. Costs subject to capitalization are salaries and employee benefits for employees who are directly associated with and who devote time to the internal-use computer software project, to the extent of the time spent directly on the project. Once the software is ready for its intended use, the MTFG Group begins to amortize capitalized costs on a straight-line basis over its estimated useful life.

*Accrued Severance and Pension Liabilities* BTM, Mitsubishi Trust and certain other subsidiaries have defined benefit retirement plans, including lump-sum severance indemnities plans. The costs of the plans, based on actuarial computations of current and future employee benefits, are charged to Salaries and employee benefits.

*Debentures and Long-Term Debt* Premiums, discounts and issuance costs of debentures and long-term debt are amortized based on the method that approximates the interest method over the terms of the debentures and long-term debt.

*Obligations under Guarantees* The MTFG Group provides customers with a variety of guarantees and similar arrangements, including standby letters of credit, financial and performance guarantees, credit protections, and liquidity facilities. The MTFG Group recognizes guarantee fee income over the guarantee period. It is MTFG's dominant business practice to receive such a guarantee fee at the inception of the guarantee, which approximates market value of the guarantee and is initially recorded as a liability, which is then recognized as guarantee fee income ratably over the guarantee period.

*Fees and Commissions* Revenue recognition of major components of fees and commissions is as follows:

Fees on funds transfer and collection services and fees from investment banking services are generally recognized as revenue when the related services are performed.

Fees from trade-related financing services are recognized over the period of the financing.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Trust fees are recognized on an accrual basis, generally based on the volume of trust assets under management and/or the operating performance for the accounting period of each trust account. With respect to trust accounts with guarantee of trust principal, trust fees are determined based on the profits earned by individual trust account during the trust accounting period, less deductions, including provision for reserve, impairment for individual investments and dividends paid to beneficiary certificate holders. The trust fees for these trust accounts are accrued based on the amounts expected to be earned during the accounting period of each trust account.

Annual fees and royalty and other service charges related to the credit card business are recorded on a straight-line basis as services are provided.

Interchange income from the credit card business is recognized as billed.

Service charges on deposit accounts, and fees and commissions from other services are generally recognized over the period that the service is provided.

Fees on guarantees are generally recognized over the contractual periods of the respective guarantees. Amounts initially recorded as a liability corresponding to the obligations at fair value are generally recognized as revenue over the terms of the guarantees as the MTFG Group is deemed to be released from the risk under guarantees.

*Income Taxes* The provision for income taxes is determined using the asset and liability method of accounting for income taxes. Under this method, deferred income taxes reflect the net tax effects of (1) temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes, and (2) operating loss and tax credit carryforwards. A valuation allowance is recognized for any portion of the deferred tax assets where it is considered more likely than not that it will not be realized. The provision for deferred taxes is based on the change in the net deferred tax asset or liability from period to period.

*Free Distributions of Common Shares* As permitted by the Commercial Code of Japan (the Code), Japanese companies, upon approval by the Board of Directors, may make a free distribution of shares, in the form of a stock split as defined, to shareholders. In accordance with generally accepted accounting practice in Japan, such distribution does not give rise to any change in capital stock or capital surplus accounts. Common shares distributed are recorded as shares issued on the distribution date. See Note 20.

*Amounts per Common Share* Basic earnings per share (EPS) excludes dilutive effects of potential common shares and is computed by dividing income available to common stock shareholders by the weighted average number of common shares outstanding for the period, while diluted EPS gives effect to all dilutive potential common shares that were outstanding during the period. See Note 23 for the computation of basic and diluted EPS.

*Comprehensive Income (Loss)* The MTFG Group's comprehensive income (loss) includes net income and other changes in equity from nonowner sources. All changes in unrealized gains and losses on investment securities available for sale, unrealized gains and losses on derivatives qualifying for cash flow hedges, minimum pension liability adjustments and foreign currency translation adjustments constitute the MTFG

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Group's changes in equity from nonowner sources and are presented, with related income tax effects, in the consolidated statements of changes in equity from nonowner sources.

*Stock-Based Compensation* In December 2002, the Financial Accounting Standards Board (the FASB) issued SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure, an amendment of FASB Statement No. 123, which amends SFAS No. 123, Accounting for Stock-Based Compensation, to provide

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alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. It also amends the disclosure requirements to require prominent disclosure in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The transition and annual disclosure requirements under this Statement are effective for financial statements for fiscal years ended after December 15, 2002.

Two subsidiaries of MTFG have several stock-based compensation plans, which are described more fully in Note 32. As permitted by the provisions of SFAS No. 123, they account for those employee stock-based compensation plans by the intrinsic value-based method prescribed in APB No. 25, Accounting for Stock Issued to Employees and related Interpretations. Under the intrinsic value-based method, compensation expense is measured as the amount by which quoted market price of these subsidiaries' stock at the date of grant exceeds the stock option exercise price. Non-employee stock-based compensation plans are accounted for at fair value.

Had the employee stock-based compensation plans been accounted for under the fair value method of SFAS No. 123, the MTFG Group's compensation expense, net income, and net income per share would have been the pro forma amounts indicated in the following table.

	<b>Fiscal years ended March 31,</b>		
	<b>2003</b>	<b>2004</b>	<b>2005</b>
		<b>(in millions)</b>	
Reported net income	¥ 203,445	¥ 823,002	¥ 415,155
Stock-based employee compensation expense (determined under fair value based method for all awards, net of tax)	(2,019)	(1,965)	(1,661)
Pro forma net income, after stock-based employee compensation expense	¥ 201,426	¥ 821,037	¥ 413,494
		<b>(in Yen)</b>	
Basic earnings per common share net income available to common shareholders:			
Reported	¥ 33,991.75	¥ 128,350.88	¥ 62,717.21
Pro forma	33,632.29	128,041.46	62,462.09
Diluted earnings per common share net income available to common shareholders:			
Reported	31,164.84	125,033.96	62,476.76
Pro forma	30,820.41	124,732.42	62,221.87

Stock-based compensation expense included in net income for the fiscal years ended March 31, 2003, 2004 and 2005 was not significant.

**Accounting Changes**

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*Variable Interest Entities* In January 2003, the FASB issued FASB Interpretation ( FIN ) No. 46, Consolidation of Variable Interest Entities, an interpretation of ARB No. 51. FIN No. 46 addresses consolidation by business enterprises of variable interest entities ( VIEs ). The consolidation requirements of FIN No. 46 apply immediately to VIEs created after January 31, 2003. The MTFG Group has applied, as required, FIN No. 46 to all VIEs created after January 31, 2003. The consolidation requirements apply to older entities in the first fiscal year or interim period beginning after June 15, 2003, which has been amended by the FASB as described below.

In December 2003, the FASB issued FIN No. 46 (revised December 2003), Consolidation of Variable Interest Entities, an interpretation of ARB No. 51 ( FIN No. 46R ). FIN No. 46R modifies FIN No. 46 in

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certain respects including the scope exception, the definition of VIEs, and other factors that would affect the determination of VIEs and primary beneficiaries that must consolidate VIEs. FIN No. 46R, as written, applies to VIEs created before February 1, 2003 no later than the end of the first reporting period that ends after March 15, 2004, and to all special purpose entities no later than the first reporting period that ends after December 15, 2003. Subsequent to the issuance of FIN No. 46R, the Chief Accountant of the U.S. Securities and Exchange Commission ( SEC ) stated the SEC staff's position in a letter to the American Institute of Certified Public Accountants ( AICPA ) dated March 3, 2004, that the SEC staff does not object to the conclusion that FIN No. 46R should not be required to be applied at a date earlier than the original FIN No. 46 and that foreign private issuers would be required to apply FIN No. 46R at various dates depending on the entity's year-end and the frequency of interim reporting. In accordance with the letter, the MTFG Group adopted FIN No. 46R on April 1, 2004, except for certain investment companies, for which the effective date of FIN No. 46R is deferred. Under FIN No. 46R, any difference between the net amount added to the balance sheet and the amount of any previously recognized interest in the VIE is to be recognized as a cumulative effect of a change in accounting principle. The cumulative effect of the change in accounting principle was to decrease net income by ¥977 million. See Note 26 for further discussion of VIEs in which the MTFG Group holds variable interests.

*Certain Financial Instruments with Characteristics of both Liabilities and Equity* In May 2003, the FASB issued SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*. SFAS No. 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. SFAS No. 150 is effective at the beginning of the first interim period beginning after June 15, 2003, which is the MTFG Group's fiscal year ended March 31, 2005. On November 7, 2003, FASB Staff Position No. 150-3, *Effective Date, Disclosures, and Transition for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests* under FASB Statement No. 150, *Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity*, delayed the effective date of certain provisions of SFAS No. 150 for certain mandatorily redeemable noncontrolling interests. The adoption of SFAS No. 150 did not have a material impact on the MTFG Group's financial position and results of operations.

*Disclosure about Pension and Other Postretirement Benefit* In December 2003, the FASB issued SFAS No. 132 (revised 2003), *Employers' Disclosures about Pensions and Other Postretirement Benefits*, an amendment of FASB Statements No. 87, 88, and 106 ( SFAS No. 132R ), which replaces existing FASB disclosure requirements for pensions. SFAS No. 132R requires disclosure of more details about plan assets, benefit obligations, cash flows, benefit costs and other relevant information. SFAS No. 132R is generally effective for the fiscal years ended after December 15, 2003, and for interim periods beginning after December 15, 2003. See Note 17 for the required disclosure.

*Impairment of Securities Investments* In November 2003, the FASB Emerging Issues Task Force (the EITF ) reached a consensus on Issue No. 03-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments* ( EITF 03-1 ). EITF 03-1 requires certain additional quantitative and qualitative disclosures in addition to the disclosures already required by SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*. The new disclosure requirements are applied to financial statements for the fiscal years ending after December 15, 2003. See Note 5 for the required disclosures. In March 2004, the EITF also reached a consensus on additional accounting guidance for other-than-temporary impairments, which requires an evaluation and recognition of other-than-temporary impairment by a three-step impairment test. The guidance should be applied for reporting periods beginning after June 15, 2004. On September 30, 2004, FASB Staff Position EITF Issue 03-1-1, *The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments* delayed the effective date for the measurement and recognition guidance contained in paragraphs 10 through 20 of EITF 03-1. The FASB will be issuing implementation guidance related to this topic. Once issued, the MTFG Group will evaluate the effect of the measurement and recognition provision of EITF 03-1.



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*Goodwill and Other Intangible Assets* Effective April 1, 2002, the MTFG Group adopted SFAS No. 142, Goodwill and Other Intangible Assets. SFAS No. 142 requires that goodwill, formerly amortized over its useful life, no longer be amortized but rather tested for impairment at least annually. Further, SFAS No. 142 requires that intangible assets that have finite useful lives will continue to be amortized over their useful lives while intangible assets with indefinite lives will no longer be amortized and are subject to impairment testing at least annually.

The MTFG Group performed the required transitional impairment tests of goodwill and intangible assets with indefinite lives upon adoption of SFAS No. 142. The initial adoption resulted in a cumulative adjustment charge to earnings of ¥532 million.

*Derivative Instruments and Hedging Activities* In April 2003, the FASB issued SFAS No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities. SFAS No. 149 amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133. In particular, SFAS No. 149 (1) clarifies under what circumstances a contract with an initial net investment meets the characteristics of a derivative, (2) clarifies when a derivative contains a financing component that warrants special reporting in the statement of cash flows, (3) amends the definition of underlyings, one of three characteristics of derivatives, to include the occurrence or non-occurrence of a specified event such as scheduled payments under a contract, and (4) amends certain other existing pronouncements, in particular, those related to the scope of instruments that are subject to the requirements of SFAS No. 133. SFAS No. 149 is generally effective for contracts entered into or modified after June 30, 2003. The adoption of SFAS No. 149 did not have a material impact on the MTFG Group's financial position and results of operations.

*Transfer to the Japanese Government of the Substitutional Portion of Employee Pension Fund Liabilities* In January 2003, the EITF reached a consensus on Issue No. 03-2, Accounting for the Transfer to the Japanese Government of the Substitutional Portion of Employee Pension Fund Liabilities (EITF 03-2), which was ratified by the FASB in February 2003. EITF 03-2 addresses accounting for a transfer to the Japanese government of a substitutional portion of an employee pension fund and requires employers to account for the entire separation process of the substitutional portion from an entire plan upon completion of the transfer to the government of the substitutional portion of the benefit obligation and related plan assets as the culmination of a series of steps in a single settlement transaction. It also requires that the difference between the fair value of the obligation and the assets required to be transferred to the government, if any, should be accounted for as a subsidy from the government, separately from gain or loss on settlement of the substitutional portion of the obligation, upon completion of the transfer.

In June 2003, BTM submitted to the government an application to transfer the obligation to pay benefits for future employee service related to the substitutional portion and the application was approved in August 2003. In August 2004, BTM made another application for transfer to the government of the remaining substitutional portion and the application was approved in November 2004. The substitutional obligation and related plan assets were transferred to a government agency in March 2005 and BTM was released from paying the substitutional portion of the benefits to its employees. The completion of the transfer to the Japanese Government of the substitutional portion of the employee pension plan constituted a settlement of such plan. However, since there remains a defined benefit plan and the settlement occurred subsequent to December 31, 2004 (the measurement date of such plan), the impact of the transfer / settlement of a pre-tax income of ¥36.1 billion will be recognized in the fiscal year ending March 31, 2006.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

***Reclassifications***

Certain reclassifications and format changes of the financial statements for the fiscal years ended March 31, 2003 and 2004 have been made to conform to the presentation for the fiscal year ended March 31, 2005.

***Recently Issued Accounting Pronouncements***

*Accounting for Certain Loans and Debt Securities Acquired in a Transfer* In December 2003, the AICPA issued Statement of Position ( SOP ) 03-3, *Accounting for Certain Loans or Debt Securities Acquired in a Transfer*, which supersedes AICPA Practice Bulletin 6, *Amortization of Discounts on Certain Acquired Loans* and addresses accounting for differences between contractual cash flows and cash flows expected to be collected from an investor's initial investment in loans or debt securities acquired in a transfer if those differences are attributable, at least, in part, to credit quality. SOP 03-3 requires acquired impaired loans for which it is probable that the investor will be unable to collect all contractually required payments receivable to be recorded at the present value of amounts expected to be received and prohibits carrying over or creation of valuation allowances in the initial accounting for these loans. SOP 03-3 also limits accretable yield to the excess of the investor's estimate of undiscounted cash flows over the investor's initial investment in the loan and prohibits the recognition of the non-accretable difference. Subsequent increases in cash flows expected to be collected generally should be recognized prospectively through adjustment of the loan's yield over its remaining life while any decreases in such cash flows should be recognized as impairments. SOP 03-3 also provides guidance with regard to presentation and disclosures. SOP 03-3 is effective for loans acquired in fiscal years beginning after December 15, 2004. The MTFG Group has not completed the study of what effect SOP 03-3 will have on its financial position and results of operations.

*Share-Based Payment* In December 2004, the FASB issued SFAS No. 123 (revised 2004), *Share-Based Payment* ( SFAS No. 123R ). SFAS No. 123R replaces SFAS No. 123, *Accounting for Stock-Based Compensation*, and supersedes APB No. 25, *Accounting for Stock Issued to Employees*. SFAS No. 123 preferred a fair-value-based method of accounting for share-based payment transactions with employees, but it permitted the option of continuing to apply the guidance of using intrinsic-value-based measurement method in APB No. 25, as long as the footnotes to the financial statements disclosed what net income would have been had the preferable fair-value-based method been used. SFAS No. 123R establishes fair value as the measurement objective in accounting for share-based payment arrangements and requires a fair-value-based measurement method in accounting for share-based payment transactions with employees. As a result, the cost resulting from all share-based payment transactions shall be recognized in the financial statements. SFAS No. 123R is effective as of the beginning of the interim or annual reporting periods beginning after June 15, 2005. See *Summary of Significant Accounting Policies - Stock-Based Compensation* for the pro forma information as if the fair value based method had been applied to all awards in accordance with SFAS No.123.

*Exchanges of Nonmonetary Assets* In December 2004, the FASB issued SFAS No. 153, *Exchanges of Nonmonetary Assets*, an amendment of APB Opinion No. 29. The guidance in APB No. 29, *Accounting for Nonmonetary Transactions*, is based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. The guidance in APB No. 29, however, included certain exceptions to that principle. SFAS No. 153 amends APB No. 29 to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS No. 153 is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005, with earlier adoption permitted.

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The MTFG Group has not completed the study of what effect SFAS No. 153 will have on its financial position and results of operations.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

*Accounting Changes and Error Corrections* In May 2005, the FASB issued SFAS No. 154, *Accounting Changes and Error Corrections* a replacement of APB Opinion No. 20 and FASB Statement No. 3. SFAS No. 154 replaces APB No. 20, *Accounting Changes*, and SFAS No. 3, *Reporting Accounting Changes in Interim Financial Statements*, and changes the requirements for the accounting for and reporting of a change in accounting principle. SFAS No. 154 applies to all voluntary changes in accounting principle. SFAS No. 154 also applies to changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005, with earlier adoption permitted. Accordingly, the MTFG Group can not reasonably estimate the ultimate impact of SFAS No. 154.

*Accounting for Conditional Asset Retirement Obligations* In March 2005, the FASB issued FIN No. 47, *Accounting for Conditional Asset Retirement Obligations* an interpretation of FASB Statement No. 143. FIN No.47 clarifies that the term *conditional asset retirement obligation* as used in SFAS No. 143, *Accounting for Asset Retirement Obligations*, refers to a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. The obligation to perform the asset retirement activity is unconditional even though uncertainty exists about the timing and (or) method of settlement. SFAS No. 143 acknowledges that in some cases, sufficient information may not be available to reasonably estimate the fair value of an asset retirement obligation. FIN No. 47 also clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. FIN No. 47 is effective no later than the end of fiscal years ending after December 15, 2005. The MTFG Group has not completed the study of what effect FIN No. 47 will have on its financial position and results of operations.

**2. INVESTMENTS IN ACOM AND DCS**

***ACOM CO., LTD.***

In April 2004, MTFG acquired an additional 12.9% of the common shares of ACOM CO., LTD. ( *ACOM* ), a consumer finance company in Japan, resulting in an aggregate ownership interest of 15.1% in ACOM. Prior to the acquisition, the MTFG Group held 2.2% of the common shares of ACOM and accounted for the investment as available-for-sale securities. As a result of the additional investment and a change in the MTFG Group's relationship with ACOM, including an increase in the MTFG Group's representation on ACOM's board of directors, the MTFG Group obtained the ability to exercise significant influence over the operations of ACOM and accounted for such investment under the equity method for the year ended March 31, 2005. The equity method was applied in a manner consistent with the accounting for a step-by-step acquisition of a subsidiary in accordance with APB Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock*. Accordingly, the accompanying consolidated financial statements in prior fiscal periods have been retroactively adjusted to reflect the adoption of the equity method.

The previously reported amounts and the adjusted amounts are as follows:

**March 31, 2004**

	<u>As previously reported</u>	<u>As adjusted</u>
	(in millions)	
Investment securities - Securities available for sale	¥ 27,654,310	¥ 27,630,316
Deferred tax assets	1,005,965	1,007,276
Other assets	2,035,028	2,055,730
Retained earnings - Unappropriated	955,291	958,416
Accumulated other changes in equity from nonowner sources, net of taxes	389,751	384,719
Less treasury stock, at cost	2,369	2,443

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**Table of Contents****MITSUBISHI TOKYO FINANCIAL GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

	Fiscal years ended March 31,			
	2003		2004	
	As previously reported	As adjusted*	As previously reported	As adjusted*
	(in millions, except per share data)			
Interest income-Investment securities: Dividends	¥ 46,969	¥ 46,716	¥ 41,462	¥ 41,207
Investment securities gains (losses) net	(21,574)	(22,677)	118,648	118,648
Equity in earnings (losses) of equity method investees	(11,456)	(9,835)	3,702	5,213
Other non-interest income	58,921	59,211	51,763	51,763
Income tax expense	69,474	69,872	357,314	357,817
Net income	203,288	203,445	822,249	823,002
Basic earnings per common share income from continuing operations available to common shareholders before cumulative effect of a change in accounting principle	32,212.04	32,240.37	128,323.13	128,443.00
Basic earnings per common share net income	33,963.40	33,991.75	128,231.00	128,350.88
Diluted earnings per common share income from continuing operations available to common shareholders before cumulative effect of a change in accounting principle	29,459.67	29,486.78	125,006.95	125,123.73
Diluted earnings per common share net income	31,137.71	31,164.84	124,917.18	125,033.96

\* As adjusted amounts related to the consolidated statement of income for the fiscal years ended March 31, 2003 and 2004 include the effect of adjustments for discontinued operations. See Note 3.

***Diamond Computer Service Co., Ltd.***

During the fiscal year ended March 31, 2005, MTFG acquired 100% of Diamond Computer Service Co., Ltd. (DCS), a former equity method investee of BTM, which provides data processing and IT development services, through a share exchange. 26,205 shares of MTFG's common stock were issued in exchange for all of the outstanding shares of DCS's common stock based on the exchange ratio of 0.00135 shares of MTFG's common stock for each share of DCS's common stock. Following the completion of the exchange offer, in accordance with a business alliance between DCS and a third party, MTFG sold 60% of its shares of DCS to the third party. As a result, DCS became an equity method investee at March 31, 2005.

**3. DISCONTINUED OPERATIONS**

During the fiscal year ended March 31, 2004, the MTFG Group completed the liquidation process of its domestic mortgage securities subsidiary, The Diamond Mortgage Co., Ltd. The dissolution was due to the adverse business environment for the domestic mortgage securities business, whose results were reported as a part of the Integrated Corporate Banking Business Group. In addition, during the fiscal year ended March 31,



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2004, as a part of the MTFG Group's efforts to streamline its securities business, Mitsubishi Securities, whose results were also reported as a part of the Integrated Corporate Banking Business Group, sold certain domestic subsidiaries to third parties. BTM also sold its securities subsidiary in Europe to third parties.

In accordance with SFAS No. 144, Accounting for Impairment or Disposal of Long-Lived Assets, MTFG presents the results of discontinued operations as a separate line item in the consolidated statements of income.

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The following table shows the results of discontinued operations for the fiscal years ended March 31, 2003 and 2004:

	<u>2003</u>	<u>2004</u>
	(in millions)	
Total revenue	¥ 3,077	¥ 3,240
Income (loss) from discontinued operations	¥ (16,227)	¥ 2,185
Loss on disposal		(2,026)
Income tax expense (benefit)	(26,597)	744
Income (loss) from discontinued operations net	¥ 10,370	¥ (585)

**Table of Contents****MITSUBISHI TOKYO FINANCIAL GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****4. TRADING ACCOUNT ASSETS AND LIABILITIES**

The following table shows trading account assets and liabilities, carried at estimated fair value, at March 31, 2004 and 2005. For trading derivative contracts executed under legally enforceable master netting agreements, related assets and liabilities are bilaterally offset and reported net by counterparty.

	<u>2004</u>	<u>2005</u>
	(in millions)	
Trading account assets:		
Trading securities:		
Japanese government, prefectural and municipal bonds	¥ 1,605,551	¥ 2,734,404
Commercial paper	3,142,364	1,704,046
Foreign governments bonds and other securities	1,182,408	1,319,239
<b>Total</b>	<b>5,930,323</b>	<b>5,757,689</b>
Trading derivative assets:		
Interest rate contracts:		
Forwards and futures	13,763	3,352
Swaps and swap-related products	3,197,178	2,572,512
Options purchased	94,561	97,553
<b>Total</b>	<b>3,305,502</b>	<b>2,673,417</b>
Foreign exchange contracts:		
Forwards and futures	592,904	590,517
Swaps	309,959	260,309
Options purchased	88,037	105,375
<b>Total</b>	<b>990,900</b>	<b>956,201</b>
Other contracts, mainly equity and credit-related contracts	26,858	56,532
Bilateral netting of derivatives under master netting agreements	(1,874,831)	(1,737,823)
<b>Total</b>	<b>¥ 8,378,752</b>	<b>¥ 7,706,016</b>
Trading account liabilities:		
Trading securities sold, not yet purchased	¥ 191,463	¥ 41,765
Trading derivative liabilities:		
Interest rate contracts:		
Forwards and futures	11,904	4,904

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Swaps and swap-related products	3,045,986	2,486,692
Options written	100,551	97,940
	<u>                    </u>	<u>                    </u>
Total	3,158,441	2,589,536
	<u>                    </u>	<u>                    </u>
Foreign exchange contracts:		
Forwards and futures	534,521	592,133
Swaps	327,710	308,376
Options written	87,570	89,746
	<u>                    </u>	<u>                    </u>
Total	949,801	990,255
	<u>                    </u>	<u>                    </u>
Other contracts, mainly equity and credit-related contracts	57,272	75,294
Bilateral netting of derivatives under master netting agreements	(1,874,831)	(1,737,823)
	<u>                    </u>	<u>                    </u>
Total	¥ 2,482,146	¥ 1,959,027
	<u>                    </u>	<u>                    </u>

See Note 31 for the methodologies and assumptions used to estimate fair values.

Subsequent to the issuance of the MTFG Group's consolidated financial statements for the fiscal year ended March 31, 2005, management determined that it would be more appropriate to present certain transactions to cover short sales, which were previously presented as Trading account liabilities Trading securities sold, not yet purchased, as Obligation to return securities received as collateral to accomplish a consistent presentation of similar transactions within the MTFG Group. As a result, the corresponding amounts of such transactions at March 31, 2004 and 2005 have been reclassified accordingly.

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The MTFG Group performs trading activities through market-making, sales and arbitrage, while maintaining risk levels within appropriate limits in accordance with its risk management policy. Net trading gains (losses) for the fiscal years ended March 31, 2003, 2004 and 2005 comprised the following:

	2003	2004	2005
	(in millions)		
Interest rate and other derivative contracts	¥ 254,895	¥ (1,999)	¥ 6,411
Trading account securities, excluding derivatives	12,715	105,902	55,637
Trading account profits net	267,610	103,903	62,048
Foreign exchange derivative contracts	(100,277)	68,674	(65,431)
Net trading gains (losses)	¥ 167,333	¥ 172,577	¥ (3,383)

**5. INVESTMENT SECURITIES**

The amortized costs and estimated fair values of investment securities available for sale and being held to maturity at March 31, 2004 and 2005 were as follows:

	2004				2005			
	Amortized cost (Restated)	Gross unrealized gains (Restated)	Gross unrealized losses (Restated)	Estimated fair value	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
(in millions)								
Securities available for sale:								
Debt securities:								
Japanese national government and Japanese government agency bonds	¥ 14,651,744	¥ 36,143	¥ 10,429	¥ 14,677,458	¥ 13,888,641	¥ 59,685	¥ 1,312	¥ 13,947,014
Japanese prefectural and municipal bonds	248,044	2,757	40	250,761	141,851	1,979	4	143,826
Foreign governments and official institutions bonds	4,504,401	55,641	36,093	4,523,949	2,372,775	44,760	20,095	2,397,440
Corporate bonds	2,363,519	34,010	7,364	2,390,165	2,904,577	53,704	4,715	2,953,566
Mortgage-backed securities	1,178,531	5,184	8,800	1,174,915	2,152,105	16,345	10,978	2,157,472
Other debt securities	531,537	1,136	2,795	529,878	1,004,336	5,939	4,609	1,005,666
Marketable equity securities	2,410,421	1,674,409	1,640	4,083,190	2,333,379	1,620,853	678	3,953,554
Total	¥ 25,888,197	¥ 1,809,280	¥ 67,161	¥ 27,630,316	¥ 24,797,664	¥ 1,803,265	¥ 42,391	¥ 26,558,538

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Securities being held to maturity: Debt securities:								
Japanese national government and Japanese government agency bonds	¥ 1,050,931	¥ 3,898	¥ 1,218	¥ 1,053,611	¥ 2,038,450	¥ 18,078	¥	¥ 2,056,528
Japanese prefectural and municipal bonds	108,884	3,348	2	112,230	91,366	3,704		95,070
Foreign governments and official institutions bonds	38,161	974		39,135	23,980	291	105	24,166
Corporate bonds	37,620	273	3	37,890	30,024	291		30,315
Other debt securities	15,163	12	140	15,035	7,496	10		7,506
<b>Total</b>	<b>¥ 1,250,759</b>	<b>¥ 8,505</b>	<b>¥ 1,363</b>	<b>¥ 1,257,901</b>	<b>¥ 2,191,316</b>	<b>¥ 22,374</b>	<b>¥ 105</b>	<b>¥ 2,213,585</b>

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**Table of Contents****MITSUBISHI TOKYO FINANCIAL GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Subsequent to the issuance of the MTFG Group's consolidated financial statements for the fiscal year ended March 31, 2004, management determined that amortized costs and gross unrealized gains and losses on securities available for sale for the fiscal year ended March 31, 2004 were erroneously disclosed. These errors had no impact on the consolidated financial position or results of operations. As a result, such amounts have been restated from the amounts previously reported as follows:

	2004					
	Amortized		Gross unrealized		Gross unrealized	
	cost		gains		losses	
	As previously reported	As restated	As previously reported	As restated	As previously reported	As restated
	(in millions)					
Securities available for sale:						
Debt securities:						
Foreign governments and official institutions bonds	¥ 4,488,926	¥ 4,504,401	¥ 64,990	¥ 55,641	¥ 29,967	¥ 36,093
Corporate bonds	2,345,679	2,363,519	48,452	34,010	3,966	7,364
Mortgage-backed securities	1,148,801	1,178,531	30,746	5,184	4,632	8,800
Other debt securities	530,201	531,537	2,347	1,136	2,670	2,795

Investment securities other than securities available for sale or being held to maturity (i.e., nonmarketable equity securities presented in Other investment securities) were carried at cost of ¥200,557 million and ¥341,744 million, at March 31, 2004 and 2005, respectively. In addition, the preferred stock investment in UFJ Bank was also carried at cost of ¥700,000 million at March 31, 2005. The corresponding estimated fair values at those dates were not readily determinable. The MTFG Group periodically monitors the status of each investee including the credit ratings and changes in the MTFG Group's share of net assets in the investees as compared with its shares at the time of investment, to determine if impairment losses, if any, are to be recognized on these nonmarketable securities.

See Note 31 for the methodologies and assumptions used to estimate the fair values.

The amortized cost and estimated fair values of debt securities being held to maturity and the estimated fair values of debt securities available for sale at March 31, 2005 by contractual maturity are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without penalties. Securities not due at a single maturity date and securities embedded with call or prepayment options, such as mortgage-backed securities, are included in the table below based on their original final maturities.

	Held-to-maturity		Available-for-sale
	Amortized cost	Estimated fair value	Estimated fair value
	(in millions)		
Due in one year or less	¥ 30,418	¥ 30,499	¥ 6,148,719
Due from one year to five years	2,101,683	2,121,463	10,199,508
Due from five years to ten years	54,273	56,286	2,299,161
Due after ten years	4,942	5,337	3,957,596
<b>Total</b>	<b>¥ 2,191,316</b>	<b>¥ 2,213,585</b>	<b>¥ 22,604,984</b>

For the fiscal years ended March 31, 2003, 2004 and 2005, proceeds from sales of securities available for sale were ¥27,062,165 million, ¥29,334,674 million and ¥38,786,642 million, respectively. For the fiscal years



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ended March 31, 2003, 2004 and 2005, gross realized gains on those sales were ¥575,339 million, ¥620,413 million and ¥429,583 million, respectively, and gross realized losses on those sales were ¥208,023 million, ¥260,624 million and ¥138,737 million, respectively. In September 2000, BTM changed its intent to hold securities originally classified as held-to-maturity and transferred such securities to the available-for-sale category while Mitsubishi Trust maintained its positive intent and ability to hold its held-to-maturity securities without any sales or transfers of such securities during the fiscal year ended March 31, 2001. As a result of the transfer, unrealized gains on securities available for sale were recorded against shareholders' equity and were not significant. The MTFG Group classified subsequent acquisitions of securities as either available for sale or trading until the fiscal year ended March 31, 2003. On April 1, 2003, the MTFG Group reassessed the appropriateness of the classification of the securities which had been classified as available for sale and reclassified ¥78,343 million of such securities into the held-to-maturity category. The transfer did not have a material impact on its financial position or results of operations.

For the fiscal years ended March 31, 2003, 2004 and 2005, losses resulting from write-downs of investment securities to reflect the decline in value considered to be other than temporary were ¥395,481 million, ¥230,074 million and ¥106,929 million, respectively, which were included in Investment securities gains (losses) net in the consolidated statements of income.

The following table shows the unrealized gross losses and fair values of investment securities available for sale and being held to maturity at March 31, 2005, by length of time that individual securities in each category have been in continuous loss position:

	Less than 12 months		12 months or more		Total		Number of securities
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses	
(in millions)							
Securities available for sale:							
Debt securities:							
Japanese national government and Japanese government agency bonds	¥ 4,564,632	¥ 1,312	¥	¥	¥ 4,564,632	¥ 1,312	41
Japanese prefectural and municipal bonds	1,535	4			1,535	4	1
Foreign governments and official institutions bonds	1,254,178	17,104	110,091	2,991	1,364,269	20,095	244
Corporate bonds	521,505	4,715			521,505	4,715	379
Mortgage-backed securities	597,893	7,066	207,208	3,912	805,101	10,978	247
Other debt securities	490,931	3,844	11,049	765	501,980	4,609	72
Marketable equity securities	19,845	678			19,845	678	10
<b>Total</b>	<b>¥ 7,450,519</b>	<b>¥ 34,723</b>	<b>¥ 328,348</b>	<b>¥ 7,668</b>	<b>¥ 7,778,867</b>	<b>¥ 42,391</b>	<b>994</b>
Securities being held to maturities:							
Debt securities:							
Foreign governments and official institution bonds	¥ 6,148	¥ 105	¥	¥	¥ 6,148	¥ 105	3
<b>Total</b>	<b>¥ 6,148</b>	<b>¥ 105</b>	<b>¥</b>	<b>¥</b>	<b>¥ 6,148</b>	<b>¥ 105</b>	<b>3</b>



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As a result of the restatement described above, the following table which sets forth the unrealized gross losses and fair values of investment securities available for sale at March 31, 2004, by length of time that individual securities in each category have been in continuous loss position, was also restated as follows:

	Less than 12 months					
	Fair value		Unrealized losses		Number of securities	
	As previously reported	As restated	As previously reported	As restated	As previously reported	As restated
	(in millions)					
Securities available for sale:						
Debt securities:						
Foreign governments and official institutions bonds	¥ 1,454,035	¥ 1,524,164	¥ 29,967	¥ 36,093	137	139
Corporate bonds	267,327	335,842	3,966	7,364	146	165
Mortgage-backed securities	356,098	524,737	4,632	8,800	98	137
Other debt securities	101,907	104,021	345	470	100	101

The MTFG Group holds various types of debt and equity securities as shown in the table of investment securities in the beginning part of this Note. Although, as shown in that table, substantial majority of such investments had unrealized gains at March 31, 2005, certain investments, primarily debt securities available for sale, had unrealized losses, most of which have been in continuous loss for a period less than 12 months.

The MTFG Group has determined that unrealized losses on investments at March 31, 2005 are temporary in nature based on its ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery and the results of its review conducted to identify and evaluate investments that have indications of possible impairments. The MTFG Group's review included consideration of the following criteria:

The length of time that fair value of the investment has been below cost. The MTFG Group generally deems a continued decline of fair value below cost for six months or more to be other than temporary. Certain securities held by UnionBanCal Corporation ( UNBC ), a U.S. subsidiary of BTM, which primarily consists of securities backed by the full faith and credit of the U.S. government and corporate asset-backed and debt securities, were determined not to be impaired in some cases, on the basis of a cash flow analysis of securities and/or UNBC's ability to hold such securities to maturity.

As shown in the table above, there were no material unrealized losses that have been in a continuous loss position for 12 months or more, except for unrealized losses on certain foreign governments and official institutions bonds, mortgage-backed securities, and other debt securities held by UNBC at March 31, 2005. Foreign governments and official institutions bonds in an unrealized loss position for 12 months or more were issued by one of the several Government-Sponsored Enterprises ( GSEs ). These securities were issued with a stated interest rate and mature in less than four years. All of the unrealized losses on these securities resulted from rising interest rates subsequent to purchase. Unrealized losses will decline as interest rates fall below the purchased yield and as the securities approach maturity. Since UNBC has the ability and intent to hold the

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securities until recovery of the carrying value, which could be maturity, the unrealized loss is considered temporary. Mortgage-backed securities in an unrealized loss position for 12 months or more are primarily securities guaranteed by a GSE. These securities are collateralized by residential mortgage loans and may be prepaid at par prior to maturity. All of the unrealized losses on the mortgage-backed securities resulted from rising interest rates subsequent to purchase. Because the likelihood of credit loss is remote, the securities are excluded from the periodic evaluation of other-than-temporary impairment. Other debt securities in an unrealized loss position for 12 months or more primarily consisted of collateralized loan obligations held by UNBC. Unrealized losses on such securities arise from rising interest rates, widening credit spreads, credit quality of the underlying collateral, and the market's opinion of the performance of the fund managers. Based on the cash flow analysis set out above, such unrealized losses are determined to be temporary in nature.

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The extent to which the fair value of investments has been below cost as of the end of the reporting period. The MTFG Group's investment portfolio is exposed to volatile equity prices affected by many factors including investors' perspectives as to future economic factors and the issuers' performance, as well as cyclical market price fluctuation due to changes in market interest rates, foreign exchange rates, and changes in credit spreads etc. In view of the diversity and volume of equity investments as well as the fact that the majority of investments in debt securities are in high-grade fixed-rate bonds, including sovereign bonds, the MTFG Group generally deems the decline of fair value below cost of 20% or more is a critical indicator of an other-than-temporary decline in fair value.

The financial condition and near-term prospects of the issuer. The MTFG Group considers the financial condition and near-term prospects of the issuer primarily based on the credit standing of the issuers as determined by its credit rating system.

***Exchange Traded Fund***

For the fiscal years ended March 31, 2003 and 2004, BTM transferred marketable equity securities to an exchange traded fund (ETF), sponsored by a securities firm. BTM concurrently entered into sales agreements for marketable equity securities and purchase agreements for the fund units of the ETF with the securities firm. BTM transferred its marketable equity securities to the securities firm with an aggregate cost of ¥163,861 million for ¥240,574 million, an aggregate cost of ¥54,366 million for ¥76,385 million and nil for the fiscal years ended March 31, 2003, 2004 and 2005, respectively. The securities firm contributed these marketable equity securities and additional securities purchased from the market to the ETF in order to link the ETF performance to the TOPIX (a composite index of all stocks listed on the First Section of the Tokyo Stock Exchange (TSE)). Certificates issued by the ETF (the ETF certificates) are linked to the TOPIX and have been listed on the TSE. BTM purchased the ETF certificates at the fair value of ¥361,782 million, ¥113,930 million and nil for the fiscal years ended March 31, 2003, 2004 and 2005, respectively, with an intention to sell them in the market or to the securities firm in the near future.

The MTFG Group accounted for the ETF certificates purchased from the securities firm as retained interests in the marketable equity securities transferred to the securities firm. The MTFG Group accounted for the transfer of marketable equity securities as a sale when the MTFG Group received cash or financial instruments other than the ETF certificates. For the fiscal years ended March 31, 2003, 2004 and 2005, the MTFG Group recognized gains of ¥41,883 million, ¥89,581 million and nil, respectively, on the sales of the ETF certificates. The MTFG Group held ETF certificates with fair values of ¥148,646 million at March 31, 2003 and nil at March 31, 2004 and 2005 in Securities available for sale. The ETF certificates are carried at fair value based on the market prices observed in the TSE and the fair value change is closely linked with the movement of the TOPIX.

***Banks Shareholdings Purchase Corporation***

Under a law forbidding banks from holding marketable equity securities in excess of their Tier I capital after September 30, 2006, the Banks Shareholdings Purchase Corporation (BSPC) was established in January 2002 in order to soften the impact on the stock market of sales of cross-shareholdings. BSPC began accepting share offers from financial institutions on February 15, 2002. It has been funded by financial institutions, including BTM and Mitsubishi Trust, which made initial contributions of ¥2,000 million (preferred contributions). BSPC will be

disbanded when it sells all shares that it purchased from financial institutions, or by March 31, 2017, at the latest.

BSPC has two accounts to purchase stock from financial institutions; the General Account and the Special Account. In the General Account, each selling financial institution funds the amount of purchase by BSPC without guarantees by the Japanese government, and the financial institution will assume any gains or losses on sales by BSPC of the stocks. In the Special Account, each selling financial institution was required to make

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**MITSUBISHI TOKYO FINANCIAL GROUP, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

contributions of 8% of the selling prices to BSPC for purchases made prior to the effective date of the amendment to the above-mentioned law to fund any future losses (subordinated contributions). Effective in August 2003, the requirement of subordinated contributions was eliminated under the amendment to legislation. The purchase amount in the Special Account is funded by borrowings guaranteed by the Japanese government with a limit of ¥2.0 trillion. The cumulative net loss on sales of stocks in the Special Account, which will not be determined and finalized before the liquidation of BSPC, will be compensated first by the subordinated contributions, and then by the preferred contributions. If there is a remaining loss, the government, as a guarantor, will be liable for the loss. On the other hand, if there is a cumulative net asset at the time of the liquidation, the asset is first used to repay the preferred contributions and then to repay the subordinated contributions. After that, if any remaining net assets after repayment of subordinated contributions exist, such net assets will be paid out and the amounts will be determined based on the amounts of both contributions. Any remaining net assets in excess of double the amount of the contributions will belong to the Japanese government.

At the establishment of BSPC in January 2002, BTM and Mitsubishi Trust collectively paid ¥2,000 million to BSPC as preferred contributions. BTM and Mitsubishi Trust sold marketable equity securities with aggregate market values of ¥2,289 million, ¥135,636 million and ¥112,400 million, respectively, for the fiscal years ended March 31, 2003, 2004 and 2005. At the time of the sales, BTM and Mitsubishi Trust made subordinated contribution to the Special Account of ¥1,652 million and ¥183 million for the fiscal years ended March 31, 2002 and 2003, respectively. Also, BTM and Mitsubishi Trust made loans to BSPC to fund its purchases of marketable equity securities. Such loans to BSPC, which are guaranteed by the Japanese government, amounted to ¥79,735 million, ¥7,398 million and ¥141,727 million, respectively, at March 31, 2003, 2004 and 2005. For the fiscal year ended March 31, 2003, the MTFG Group evaluated its preferred contributions of ¥2,000 million and subordinated contributions of ¥1,835 million for impairment, and recognized an impairment loss of ¥3,835 million.

The MTFG Group accounts for the transfers of marketable equity securities to the General Account, if any, as secured borrowings. With respect to the transfers of marketable equity securities to the Special Account with the requirement of subordinated contributions, if the fair value of the securities sold to the Special Account is greater than 10% of the fair value of all securities held by the Special Account, the MTFG Group accounts for the subordinated contributions as a partial retained interest in the sale. For all period presented, the MTFG Group made no sales of securities whose fair value was greater than 10% of the fair value of all securities held by the Special Account. For the fiscal years ended March 31, 2003, 2004 and 2005, the MTFG Group recognized a loss of ¥10 million, a gain of ¥27,797 million and a gain of ¥62,226 million, respectively, on the sale of marketable equity securities to the Special Account.

***The Bank of Japan***

The Bank of Japan began purchasing marketable equity securities at fair value from banks, including BTM and Mitsubishi Trust, from November 2002, aiming to enhance the stability of the Japanese financial system by reducing the amount of marketable equity securities on the balance sheets of banks. Transfers of securities to the Bank of Japan are sales transactions without transferors' continuing involvement. BTM and Mitsubishi Trust sold marketable equity securities to the Bank of Japan with aggregate market values of ¥181,570 million, ¥81,835 million and nil for the fiscal years ended March 31, 2003, 2004 and 2005, respectively. In September 2004, the Bank of Japan ended purchasing marketable equity securities from banks.

***Preferred Stock Investment in UFJ Bank***

In August 2004, four companies in the MTFG Group, MTFG, BTM, Mitsubishi Trust and Mitsubishi Securities concluded a basic agreement with four companies in the UFJ Group, UFJ Holdings, Inc. ( UFJ Holdings ), UFJ Bank, UFJ Trust Bank Limited and UFJ Tsubasa Securities Co., Ltd., regarding the

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management integration of the holding companies, banks, trust banks and securities companies of the two groups subject to the approval by the shareholders and relevant authorities. In September 2004, MTFG purchased preferred shares issued by UFJ Bank of ¥700,000 million. These preferred shares were carried at cost on the MTFG Group's balance sheet at March 31, 2005. The estimated fair value of the investment was not readily determinable at March 31, 2005.

**6. LOANS**

Loans at March 31, 2004 and 2005 by domicile and type of industry of borrower are summarized below:

Classification of loans by industry is based on the industry segment loan classification as defined by the Bank of Japan.

	2004	2005
	(Restated)	(Restated)
	(in millions)	
Domestic:		
Manufacturing	¥ 6,000,095	¥ 6,475,361
Construction	1,010,439	974,060
Real estate	4,585,299	5,266,553
Services	4,344,833	3,621,673
Wholesale and retail	4,998,952	5,228,318
Banks and other financial institutions	3,745,586	3,691,908
Communication and information services	874,564	784,301
Other industries	6,169,456	6,783,275
Consumer	8,039,797 <sup>(2)</sup>	8,162,062 <sup>(2)</sup>
Total domestic	39,769,021	40,987,511
Foreign:		
Governments and official institutions	183,117	212,750
Banks and other financial institutions	1,043,904	917,409
Commercial and industrial	7,239,896	8,687,162
Other	318,543	285,474
Total foreign	8,785,460	10,102,795
Less unearned income and deferred loan fees - net	28,625	18,768

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Total	¥ 48,525,856 <sup>(1)</sup>	¥ 51,071,538 <sup>(1)</sup>
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Notes:

- (1) The above table includes loans held for sale of ¥12,893 million and ¥36,424 million at March 31, 2004 and 2005, respectively.
- (2) Domestic loans within the consumer category in the above table include loans to individuals who utilize loan proceeds to finance their proprietor activities and not for their personal financing needs. During the fiscal year ended March 31, 2004, the MTFG Group's credit administration system was upgraded and became able to present a precise breakdown of the balance of such consumer loans by the type of proprietor business. This breakdown at March 31, 2004 and 2005 is presented below:

	Manufacturing		Construction		Real estate	Services	Wholesale and retail	Banks and other financial institutions	Communication and information services	Other industries	Total included in Consumer
	(in millions)										
March 31, 2004	¥ 28,229	¥ 19,283	¥ 738,377	¥ 230,730	¥ 52,253	¥ 1,200	¥ 4,121	¥ 10,620	¥ 1,084,813		
March 31, 2005	¥ 23,023	¥ 16,157	¥ 542,969	¥ 193,417	¥ 39,806	¥ 1,126	¥ 3,681	¥ 7,782	¥ 827,961		

**Table of Contents****MITSUBISHI TOKYO FINANCIAL GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Subsequent to the issuance of the MTFG Group's consolidated financial statements for the fiscal year ended March 31, 2005, management determined that the details of loans by domicile and type of industry of borrower for the fiscal year ended March 31, 2004 and 2005 were erroneously disclosed. These errors had no impact on the consolidated financial position or results of operations. As a result, such amounts have been restated from the amounts previously reported as follows:

	2004		2005	
	As previously reported	As restated	As previously reported	As restated
(in millions)				
Domestic:				
Banks and other financial institutions	¥ 3,834,178	¥ 3,745,586	¥ 3,774,847	¥ 3,691,908
Other industries	6,169,456	6,169,456	6,700,336	6,783,275
Consumer	7,951,205	8,039,797	8,162,062	8,162,062
Foreign:				
Banks and other financial institutions	1,043,904	1,043,904	1,212,082	917,409
Commercial and industrial	7,239,896	7,239,896	8,392,489	8,687,162

Substantially all domestic loans are made under agreements which, as is customary in Japan, provide that a bank may, under certain conditions, require the borrower to provide collateral (or additional collateral) or guarantees with respect to the loans, and that the bank may treat any collateral, whether furnished as security for loans or otherwise, as collateral for all indebtedness to the bank. At March 31, 2004 and 2005, such collateralized loans originated by the MTFG Group, which were principally collateralized by real estate, marketable securities and accounts receivable, amounted to ¥8,396,452 million and ¥7,371,556 million, respectively, which represented 21% and 18%, respectively, of the total domestic loans at March 31, 2004 and 2005.

Nonaccrual and restructured loans were ¥1,715,487 million and ¥1,276,559 million at March 31, 2004 and 2005, respectively. Had interest on these loans been accrued at the original terms of agreement, gross interest income on such loans for the fiscal years ended March 31, 2004 and 2005 would have been approximately ¥45.2 billion and ¥34.3 billion, respectively, of which approximately ¥32.6 billion and ¥26.5 billion, respectively, were included in interest income on loans in the accompanying consolidated statements of income. Accruing loans contractually past due 90 days or more were ¥15,596 million and ¥10,111 million at March 31, 2004 and 2005, respectively.

The MTFG Group had provided commitments to extend credit with customers owing restructured loans. The amounts of such commitments were ¥43,943 million and ¥20,045 million at March 31, 2004 and 2005, respectively. See Note 25 for further discussion of commitments to extend credit.

**Impaired Loans**

The MTFG Group's impaired loans primarily include nonaccrual loans and restructured loans. A summary of the recorded balances of impaired loans and related impairment allowance at March 31, 2004 and 2005 is shown below:

	2004		2005	
	Recorded loan balance	Impairment allowance	Recorded loan balance	Impairment allowance
	(in millions)			
Requiring an impairment allowance	¥ 1,405,761	¥ 563,560	¥ 1,043,458	¥ 461,229
Not requiring an impairment allowance	183,135		147,321	
<b>Total</b>	<b>¥ 1,588,896</b>	<b>¥ 563,560</b>	<b>¥ 1,190,779</b>	<b>¥ 461,229</b>

Note: In addition to impaired loans presented in the above table, there were loans held for sale that were impaired of ¥12,637 million and ¥15,327 million at March 31, 2004 and 2005, respectively.

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The average recorded investments in impaired loans were approximately ¥3,345 billion, ¥2,083 billion and ¥1,486 billion, respectively, for the fiscal years ended March 31, 2003, 2004 and 2005.

For the fiscal years ended March 31, 2003, 2004 and 2005, the MTFG Group recognized interest income of approximately ¥67.4 billion, ¥38.2 billion and ¥30.9 billion, respectively, on impaired loans. Interest income on nonaccrual loans was recognized on a cash basis when ultimate collectibility of principal is certain; otherwise, cash receipts are applied as principal reductions. Interest income on accruing impaired loans, including restructured loans, was recognized on an accrual basis to the extent that the collectibility of interest income was reasonably certain based on management's assessment.

***Lease Receivable***

As part of its financing activities, the MTFG Group enters into leasing arrangements with customers. The MTFG Group's leasing operations are performed through leasing subsidiaries and consist principally of direct financing leases involving various types of data processing equipment, office equipment and transportation equipment.

As of March 31, 2004 and 2005, the components of the investment in direct financing leases were as follows:

	<u>2004</u>	<u>2005</u>
	(in millions)	
Minimum lease payment receivable	¥ 594,974	¥ 539,180
Estimated residual values of leased property	61,100	29,509
Less unearned income	(49,920)	(47,807)
	<u>          </u>	<u>          </u>
Net investment in direct financing leases	<u>¥ 606,154</u>	<u>¥ 520,882</u>

Future minimum lease payment receivables under noncancelable leasing agreements as of March 31, 2005 are as follows:

**Direct  
financing  
leases**

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	(in millions)
Fiscal year ending March 31:	
2006	¥ 138,490
2007	107,315
2008	73,209
2009	47,865
2010	26,360
2011 and thereafter	145,941
	<hr/>
Total minimum lease payment receivables	¥ 539,180
	<hr/>

***Government-led Loan Restructuring Program***

Under the legislation enacted by the Japanese Diet in June 1996, which incorporates the restructuring program for the loans of seven failed housing-loan companies (the Jusen), the Deposit Insurance Corporation (DIC) established a Housing Loan Administration Corporation (HLAC) to collect and dispose of the loans of the liquidated Jusen. In 1999, HLAC merged with the Resolution and Collection Bank Limited to create the Resolution and Collection Corporation (RCC), which is wholly owned by the DIC.

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**MITSUBISHI TOKYO FINANCIAL GROUP, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Financial institutions, including the MTFG Group, waived the repayment of substantial amounts of the loans to the Jusen and transferred the remaining balances to HLAC. Financial institutions were requested to make loans to HLAC to finance its collection activities, and in the fiscal year ended March 31, 1997, the MTFG Group made loans of ¥407,078 million with an original maturity term of 15 years. The 15-year term loans to HLAC, which are guaranteed by the DIC under the legislation and the loan agreements, mature in 2011 and earn interest at TIBOR (Tokyo Interbank Offered Rate) plus 0.125%. At March 31, 2004 and 2005, outstanding loans to HLAC were ¥407,078 million and ¥277,406 million, respectively. During the fiscal year ended March 31, 2005, a part of the loan was repaid before the maturity.

Under this restructuring program, a Financial Stabilization Fund (the Special Fund ) was established within the DIC, and the Bank of Japan and other financial institutions established another fund (the New Fund ). These funds are principally invested in Japanese government bonds. The MTFG Group made non-interest-earning deposits of ¥176,089 million with the Special Fund and the New Fund in the fiscal year ended March 31, 1997. The deposit balances as of March 31, 2004 and 2005, which are included in Other Assets, were ¥140,828 million and ¥145,103 million, respectively, reflecting a present value discount and subsequent amortization of the discount during the period until the expected maturity date. The non-interest-earning deposits with these funds are expected to mature in 15 years from the deposit dates, which coincides with the planned operational lifespan of HLAC.

It is uncertain what losses (so-called stage two loss ), if any, may ultimately be incurred by RCC through the collection of the Jusen loans during the 15-year term. If any such losses ultimately occur, the Japanese government will be liable for half of such losses, and the investment income to be earned by the Special Fund during the 15 years is to be used to cover the remaining half of the losses. The investment income to be earned by the New Fund during the 15 years is used to compensate for a portion of the public funds used for the Jusen restructuring.

At this time management believes all loans and deposits will be collectible according to their respective terms.

***Sales of Loans***

The MTFG Group originates various types of loans to corporate and individual customers in Japan and overseas in the normal course of its business. The Financial Services Agency of Japan (the FSA ) announced in October 2002 that it will strive to reduce the aggregate ratio of nonperforming loans to total loans of major Japanese banks, including MTFG s domestic banking subsidiaries, by approximately half by March 31, 2005. Pursuant to the FSA s policy and in order to improve its loan quality, BTM and Mitsubishi Trust actively disposed of nonperforming loans. Most of such nonperforming loans were disposed of by sales to third party purchasers including RCC without any continuing involvement. Management of BTM and Mitsubishi Trust generally decide on approvals for disposals after significant sales terms, including prices, are negotiated. As such, loans are disposed of by sales shortly after the loans are transferred to the held-for-sale classification. For the fiscal year ended March 31, 2003, the loss on sales of loans, which represents an additional provision for credit losses on such decision, was ¥45,004 million. The gains on sales of loans were ¥8,678 and ¥15,417 million for the fiscal years ended March 31, 2004 and 2005, respectively. Such gains and losses are included in the provision for credit losses in the accompanying consolidated statements of income.

***Loan Securitization***

The MTFG Group had no significant transfers of loans in securitization transactions accounted for as sales for the fiscal years ended March 31, 2003 and 2004, and did not retain any significant interests associated with loans transferred in securitizations at March 31, 2004. The MTFG Group securitized mortgage loans in the fiscal year ended March 31, 2005. After securitizations of mortgage loans, the MTFG Group provides servicing and advancing line for the loans transferred to the trust. As a result of the securitization, the MTFG Group received



**Table of Contents****MITSUBISHI TOKYO FINANCIAL GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

the proceeds of ¥8,620 million and recognized gain of ¥154 million for the fiscal year ended March 31, 2005. The MTFG Group did not possess any retained interests associated with the securitization at March 31, 2005.

**Related Party Loans**

In some cases, the banking subsidiaries of MTFG make loans to related parties, including their directors and executive officers, in the course of their normal commercial banking business. At March 31, 2004 and 2005, outstanding loans to such related parties were not significant.

In the opinion of management, these related party loans were made on substantially the same terms, including interest rates and collateral requirements, as those terms prevailing at the date these loans were made. For the fiscal years ended March 31, 2003, 2004 and 2005, there were no loans to related parties that were charged-off. Additionally, at March 31, 2004 and 2005, there were no loans to related parties that were impaired.

**7. ALLOWANCE FOR CREDIT LOSSES**

Changes in the allowance for credit losses for the fiscal years ended March 31, 2003, 2004 and 2005 are shown below:

	<u>2003</u>	<u>2004</u>	<u>2005</u>
		<b>(in millions)</b>	
Balance at beginning of fiscal year	¥ 1,735,180	¥ 1,360,136	¥ 888,127
Provision (credit) for credit losses	437,972	(114,109)	109,502
Charge-offs	893,638	378,094	298,261
Less Recoveries	78,827	40,970	37,334
Net charge-offs	814,811	337,124	260,927
Others	1,795	(20,776)	4,004
Balance at end of fiscal year	¥ 1,360,136	¥ 888,127	¥ 740,706

Note: Others principally include foreign exchange translation and discontinued operations adjustments.

As explained in Note 6, nonperforming loans were actively disposed of by sales during recent years. The allocated allowance for credit losses for such loans were removed from the allowance for credit losses and transferred to the valuation allowance for loans held for sale upon a decision to sell. Net charge-offs in the above table include the decrease in the allowance for credit losses due to loan disposal activity amounting to ¥369.6 billion, ¥124.6 billion and ¥25.1 billion for the fiscal years ended March 31, 2003, 2004 and 2005, respectively.

## 8. PREMISES AND EQUIPMENT

Premises and equipment at March 31, 2004 and 2005 consisted of the following:

	2004	2005
	(in millions)	
Land	¥ 171,379	¥ 170,834
Buildings	426,691	415,611
Equipment and furniture	443,251	441,332
Leasehold improvements	228,104	230,333
Construction in progress	4,136	2,923
Total	1,273,561	1,261,033
Less accumulated depreciation	693,488	691,821
Premises and equipment net	¥ 580,073	¥ 569,212

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**MITSUBISHI TOKYO FINANCIAL GROUP, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Premises and equipment include capitalized leases, principally related to data processing equipment, which amounted to ¥40,595 million and ¥46,707 million at March 31, 2004 and 2005, respectively. Accumulated depreciation on such capitalized leases at March 31, 2004 and 2005 amounted to ¥26,752 million and ¥31,261 million, respectively.

Depreciation expense of premises and equipment for the fiscal years ended March 31, 2003, 2004 and 2005 was ¥63,015 million, ¥55,799 million and ¥47,198 million, respectively.

In March 1999, BTM sold a 50% undivided interest in its head office land and building (including structure and equipment) for ¥91,500 million and in its main office land and building (including structure and equipment) for ¥9,100 million to a real estate company. At the same time, BTM entered an agreement to lease back the 50% undivided interest in the buildings sold from the buyer over a period of 7 years. BTM accounted for these transactions as financing arrangements, and recorded the total proceeds of ¥100,600 million as a financing obligation. Under the lease agreement, BTM made non-interest-bearing deposits of ¥8,000 million with the buyer-lessor in March 1999. The lease payments are determined each year upon negotiations with the buyer-lessor, based on future market conditions and expenditures for significant improvements and the related expenses of the buildings to be born by the buyer-lessor. The lease agreement is noncancelable during the lease period of 7 years. At the end of the lease, BTM has no obligations or options specified in the lease agreement.

At March 31, 2004 and 2005, the financing obligation was ¥102,795 million and ¥103,658 million, respectively, and total rental payments amounted to ¥6,190 million, ¥6,371 million and ¥6,594 million, respectively, for the fiscal years ended March 31, 2003, 2004 and 2005.

For the fiscal years ended March 31, 2003, 2004 and 2005, the MTFG Group recognized ¥13,004 million, ¥5,822 million and ¥1,591 million of impairment losses for long-lived assets, primarily domestic real estate which was either assets formerly used for its domestic banking operations that are no longer used or assets that are used without recoverability of carrying amount. In addition, ¥2,619 million, ¥8,661 million and ¥2,612 million of impairment losses were recognized for real estate held for sale for the fiscal years ended March 31, 2003, 2004 and 2005. These losses are included in Other non-interest expenses. In computing the amount of impairment losses, fair value was determined primarily based on market prices, if any, or the estimated price based on an appraisal.

**9. GOODWILL AND OTHER INTANGIBLE ASSETS**

As discussed in Note 1, on April 1, 2002, the MTFG Group adopted SFAS No. 142 which requires that goodwill, formerly subject to amortization, no longer be amortized and be tested for impairment at least annually. Further, SFAS No. 142 requires that intangible assets with finite useful lives continue to be amortized over their useful lives while intangible assets with indefinite lives no longer be amortized but rather are subject to impairment testing at least annually.

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On April 1, 2002, the MTFG Group has performed the required transitional impairment tests of goodwill and intangible assets with indefinite lives upon adoption of SFAS No. 142. The initial adoption resulted in a cumulative adjustment charge to earnings of ¥532 million related to the impairment of goodwill. Such cumulative adjustment primarily resulted from an impairment of goodwill related to a U.S. leasing business and was measured using the discounted future cash flow method. Intangible assets with indefinite lives, which were amortized in the prior periods, were immaterial.

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**Table of Contents****MITSUBISHI TOKYO FINANCIAL GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Goodwill**

The changes in the carrying amount of goodwill by business segment during the fiscal years ended March 31, 2004 and 2005 were as follows:

	<b>Integrated Retail Banking Business Group</b>	<b>Integrated Corporate Banking Business Group</b>	<b>Integrated Trust Assets Business Group</b>	<b>UNBC</b>	<b>Total</b>
	(in millions)				
<b>For the fiscal year ended March 31, 2004</b>					
Balance at March 31, 2003	¥	¥ 15,358	¥ 14,735	¥ 18,050	¥ 48,143
Goodwill acquired during the fiscal year.	70			10,876	10,946
Goodwill written off related to sale of subsidiaries.		(280)			(280)
Foreign currency translation adjustments and other				(2,119)	(2,119)
Balance at March 31, 2004	¥ 70	¥ 15,078	¥ 14,735	¥ 26,807	¥ 56,690
<b>For the fiscal year ended March 31, 2005</b>					
Balance at March 31, 2004	¥ 70	¥ 15,078	¥ 14,735	¥ 26,807	¥ 56,690
Goodwill acquired during the fiscal year.				31,105	31,105
Goodwill written off related to decrease in shareholdings.	(70)				(70)
Foreign currency translation adjustments and other				(1,891)	(1,891)
Balance at March 31, 2005	¥	¥ 15,078	¥ 14,735	¥ 56,021	¥ 85,834

As discussed in Note 29, effective April 1, 2004, the MTFG Group implemented a new integrated business group system, which integrates the operations of BTM and Mitsubishi Trust into the following three areas Retail, Corporate and Trust Assets resulting in a new basis of segmentation. The change in the carrying amount of goodwill by business segment during the fiscal year ended March 31, 2004 has been reclassified to conform to the new basis of segmentation for the fiscal year ended March 31, 2005.

**Other Intangible Assets**

The table below presents the gross carrying amount, accumulated amortization and net carrying amount, in total and by major class of intangible assets at March 31, 2004 and 2005:

	2004			2005		
	Gross carrying amount	Accumulated amortization	Net carrying amount	Gross carrying amount	Accumulated amortization	Net carrying amount
(in millions)						
Intangible assets subject to amortization:						
Software	¥ 396,504	¥ 181,948	¥ 214,556	¥ 480,802	¥ 243,282	¥ 237,520
Core deposit intangible	4,041	1,672	2,369	7,006	3,113	3,893
Other	9,482	5,455	4,027	10,723	6,610	4,113
<b>Total</b>	<b>¥ 410,027</b>	<b>¥ 189,075</b>	<b>220,952</b>	<b>¥ 498,531</b>	<b>¥ 253,005</b>	<b>245,526</b>
Intangible assets recorded in connection with the additional minimum pension liabilities under SFAS No. 87 (See Note 17)						
			5,063			3,846
Intangible assets not subject to amortization			8,124			4,468
<b>Total</b>			<b>¥ 234,139</b>			<b>¥ 253,840</b>

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Intangible assets subject to amortization acquired during the fiscal year ended March 31, 2005 amounted to ¥83,927 million, which primarily consist of capitalized cost of software. The weighted average amortization period for capitalized software is five years, and the amount of its residual value is immaterial.

For the fiscal years ended at March 31, 2004 and 2005, the MTFG Group recognized ¥215 million and ¥2,216 million of impairment losses for intangible assets not subject to amortization, which primarily consist of leasehold and telephone subscription rights, whose carrying amount exceeded its fair value. These losses are included in Other non-interest expenses. In computing the amount of impairment losses, fair value was determined primarily based on market prices, if any, or the estimated price based on an appraisal.

The estimated aggregate amortization expense for intangible assets for the next five years is as follows:

	<u>(in millions)</u>
Fiscal year ending March 31,	
2006	¥ 81,893
2007	53,625
2008	42,373
2009	30,198
2010	18,102

**10. INCOME TAXES**

The detail of current and deferred income tax expense (benefit) for the fiscal years ended March 31, 2003, 2004 and 2005 was as follows:

	<u>2003</u>	<u>2004</u>	<u>2005</u>
		(Restated)	
	(in millions)		
Current:			
Domestic	¥ 17,971	¥ 4,225	¥ 12,209
Foreign	43,634	45,050	58,493
Total	<u>61,605</u>	<u>49,275</u>	<u>70,702</u>

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Deferred:			
Domestic	(26,150)	292,357	227,100
Foreign	34,417	16,185	7,455
	<u>          </u>	<u>          </u>	<u>          </u>
Total	8,267	308,542	234,555
	<u>          </u>	<u>          </u>	<u>          </u>
Income tax expense from continuing operations	69,872	357,817	305,257
	<u>          </u>	<u>          </u>	<u>          </u>
Income tax expense (benefit) from discontinued operations	(26,597)	744	
	<u>          </u>	<u>          </u>	<u>          </u>
Income tax expense (benefit) reported in shareholders' equity relating to:			
Investment securities available for sale	(331,295)	283,182	2,602
Derivatives qualifying for cash flow hedges	513	(1,789)	(198)
Minimum pension liability adjustments	(51,265)	46,395	6,830
Foreign currency translation adjustments	(3,527)	(4,595)	7,511
	<u>          </u>	<u>          </u>	<u>          </u>
Total	(385,574)	323,193	16,745
	<u>          </u>	<u>          </u>	<u>          </u>
Total	¥ (342,299)	¥ 681,754	¥ 322,002
	<u>          </u>	<u>          </u>	<u>          </u>

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Subsequent to the issuance of the MTFG Group's consolidated financial statements for the fiscal year ended March 31, 2004, management determined that the details of current tax expense for the fiscal year ended March 31, 2004 were erroneously disclosed. These errors had no impact on the consolidated financial position or results of operations. As a result, such amounts have been restated from the amounts previously reported as follows:

	2004	
	As previously reported	As restated
(in millions)		
Current:		
Domestic	¥ (3,689)	¥ 4,225
Foreign	52,964	45,050
Total	¥ 49,275	¥ 49,275

Income taxes in Japan applicable to the MTFG Group are imposed by the national, prefectural and municipal governments, and in the aggregate resulted in a normal effective statutory rate of approximately 39.9%, 39.9% and 40.6%, respectively, for the fiscal years ended March 31, 2003, 2004 and 2005. Foreign subsidiaries are subject to income taxes of the countries in which they operate.

**Consolidated Corporate Tax**

In March 2003, MTFG's application to file its tax returns under the consolidated corporate-tax system was approved by the Japanese tax authorities, and the consolidated corporate-tax system has become effective for the fiscal year ended March 31, 2003. The consolidated corporate-tax system allows companies to base tax payments on the combined profits or losses of a parent company and its wholly owned domestic subsidiaries. Due to the adoption of the consolidated corporate-tax system, companies are required to pay, for the fiscal years ended March 31, 2003 and 2004, a surcharge tax of 2.0% of taxable income in addition to the national corporate income tax rate. As a result, the combined normal effective statutory tax rate changed from approximately 38.0% to 39.9% for the fiscal year ended March 31, 2003. The adoption of the consolidated corporate-tax system resulted in a decrease in income tax expense of ¥37,479 million for the fiscal year ended March 31, 2003.

In February 2005, MTFG's application to suspend the consolidated corporate-tax system was approved by the Japanese tax authorities. The MTFG Group filed, for the fiscal year ended March 31, 2005, its tax returns under the consolidated corporate-tax system. Due to the suspension of the consolidated corporate-tax system, deferred income taxes have been calculated separately based on temporary differences as of March 31, 2005 and future taxable income at each company.

***Bank Tax***

On March 30, 2000, the Tokyo Metropolitan Assembly passed a new tax rule that changed the basis on which it taxes large banks conducting business in Tokyo. BTM and Mitsubishi Trust are subject to the new rule. The new rule requires large banks to pay a 3.0% local tax on their gross operating income derived from their Tokyo operations for a period of five years commencing April 1, 2000.

On May 30, 2000, the Osaka Prefectural Assembly also passed a new tax rule that is substantially the same as the rule approved by the Tokyo Metropolitan Assembly. The new rule requires large banks to pay a 3.0% local tax on their gross operating income derived from Osaka operations for a period of five years commencing April 1, 2001.

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**MITSUBISHI TOKYO FINANCIAL GROUP, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The banks subject to the new tax rule, including BTM and Mitsubishi Trust, filed a complaint in October 2000 with the Tokyo District Court, calling for nullification of the new tax, which they claimed, unfairly targets banks. On March 26, 2002, the Tokyo District Court rejected the new tax enacted by the Tokyo Metropolitan Assembly. The court ordered the Tokyo Metropolitan Government to refund ¥72.4 billion in tax payments to 18 major banks and to pay an additional ¥1.8 billion in compensation.

On March 29, 2002, the Metropolitan Government lodged an appeal at the Tokyo High Court. Following the decision of the Tokyo District Court, 16 major banks filed a lawsuit on April 4, 2002 with the Osaka District Court against the Osaka Prefectural Government, seeking to nullify the new tax rule. In response to the lawsuit, on May 30, 2002, the Osaka Prefectural Government enacted a revised tax rule that changed the taxation for the fiscal year ended March 31, 2002 and the fiscal years subject to the new tax rule. Under the revised tax rule, for the fiscal years ended March 31, 2002 and 2003, large banks became subject to local taxes based on the lower of the 3.0% local tax on their gross operating income or the local tax computed based on net income. As a result of the revisions, BTM and Mitsubishi Trust did not pay any local taxes to the Osaka Prefectural Government for the fiscal years ended March 31, 2002 and 2003. BTM and Mitsubishi Trust incurred new local taxes to the Tokyo Metropolitan Government of ¥18.4 billion, ¥18.6 billion and ¥19.6 billion for the fiscal years ended March 31, 2001, 2002 and 2003, respectively. Had BTM and Mitsubishi Trust paid the local taxes based on net income under the former rule, tax expense would have been ¥6.6 billion for the fiscal year ended March 31, 2001, and zero for the fiscal years ended March 31, 2002 and 2003.

On January 30, 2003, the Tokyo High Court also rejected the new tax rule and ordered the Tokyo Metropolitan Government to refund tax payments that the banks had paid over the past two years, which represents the difference between the 3.0% tax on the gross operating profits paid by the banks and the amount computed based on net income under the former rule. The order includes the refund of ¥30.4 billion to BTM and Mitsubishi Trust. However, the Tokyo High Court reversed the lower court on the issue of additional compensation. The Tokyo Metropolitan Government appealed this decision to the Supreme Court of Japan.

On October 8, 2003, BTM and Mitsubishi Trust made a settlement-at-court with the Tokyo Metropolitan Government and the Tokyo Governor and withdrew their complaints regarding the Tokyo Metropolitan Government's tax on large banks. The settlement included (a) a revision of the applicable tax rate to 0.9% from 3.0%, effective retroactive to the date of the enactment of the local tax in the fiscal year ended March 31, 2001 and (b) a refund representing the difference between the amount already paid by the banks and the amount computed based on the newly enacted rate plus accrued interest. On October 7, 2003, the MTFG Group received a tax refund plus accrued interest amounting to ¥42.0 billion.

In March 2003, the Japanese government amended the local tax law. Under the amended local tax law, a corporation size-based enterprise tax was effective, which superseded the current enterprise tax, including the local taxes levied by the Tokyo Metropolitan Government and Osaka Prefectural Government, from the fiscal year ended March 31, 2005. As a result, the normal effective statutory tax rate for the fiscal year ended March 31, 2005 was approximately 40.5%. The newly enacted rates were used in calculating the future expected tax effects of temporary differences as of March 31, 2003 that are expected to reverse during and subsequent to the fiscal year ended March 31, 2005. The change in tax rate resulted in a decrease of ¥75,121 million in income tax expense for the fiscal year ended March 31, 2003.

In October 2003, the Tokyo Metropolitan Government and the Osaka Prefectural Government enacted a surcharge tax on the corporation sized based enterprise tax under the local tax law amended in March 2003. As a result, the normal effective statutory tax rate increased approximately 0.1% to approximately 40.6% effective for the fiscal year ended March 31, 2005. The change in tax rate, used in calculating the future expected

tax effects of temporary differences, resulted in a decrease of ¥3,410 million in income tax expense for the fiscal year ended March 31, 2004.

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A reconciliation of the effective income tax rate reflected in the accompanying consolidated statements of income to the combined normal effective statutory tax rate for the fiscal years ended March 31, 2003, 2004 and 2005 was as follows:

	<u>2003</u>	<u>2004</u>	<u>2005</u>
Combined normal effective statutory tax rate	39.9%	39.9%	40.6%
Increase (decrease) in taxes resulting from:			
Nondeductible expenses	4.1	0.1	0.4
Dividends from foreign subsidiaries	3.0	0.7	1.1
Foreign tax credit and payments	9.5	0.5	1.6
Higher (lower) tax rates applicable to income of subsidiaries	(0.4)	0.1	(0.8)
Foreign tax assessment (refund)	(3.2)	(0.1)	
Minority interest	0.6	1.2	1.6
Change in valuation allowance	14.7	(12.6)	(2.6)
Expiration of loss carryforwards of subsidiaries	3.3		
Enacted change in tax rates	(28.4)	(0.3)	
Realization of previously unrecognized tax benefits of subsidiaries	(15.7)	(1.2)	(0.1)
Other net	(0.9)	2.0	0.5
	<u>          </u>	<u>          </u>	<u>          </u>
Effective income tax rate	26.5%	30.3%	42.3%
	<u>          </u>	<u>          </u>	<u>          </u>

Deferred tax assets and liabilities are computed for each tax jurisdiction using currently enacted tax rates applicable to periods when the temporary differences are expected to reverse. The tax effects of the items comprising the MTFG Group's net deferred tax assets at March 31, 2004 and 2005 were as follows:

	<u>2004</u>	<u>2005</u>
	<u>(in millions)</u>	
Deferred tax assets:		
Allowance for credit losses	¥ 492,269	¥ 418,641
Net operating loss carryforwards	751,591	532,166
Accrued severance indemnities and pension liabilities	112,937	99,635
Non-interest-earning deposits with the Special Fund and the New Fund (See Note 6)	14,329	12,592
Accrued liabilities and other	77,952	86,656
Sale-and-leaseback transactions	38,975	39,384
Derivative financial instruments	11,794	31,656
Depreciation	23,038	16,818
Valuation allowance	(133,803)	(112,955)
	<u>          </u>	<u>          </u>
Total deferred tax assets	1,389,082	1,124,593
	<u>          </u>	<u>          </u>

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Deferred tax liabilities:		
Investment securities	321,674	292,151
Deferred profit on property for income tax purposes	12,771	15,620
Equipment and auto leasing	81,676	89,623
Other	23,246	27,848
	<hr/>	<hr/>
Total deferred tax liabilities	439,367	425,242
	<hr/>	<hr/>
Net deferred tax assets	¥ 949,715	¥ 699,351
	<hr/>	<hr/>

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The valuation allowance was provided primarily against deferred tax assets recorded at the MTFG Group's domestic subsidiaries with operating loss carryforwards. The net changes in the valuation allowance for deferred income tax assets were decreases of ¥184,906 million and ¥20,848 million for the fiscal years ended March 31, 2004 and 2005, respectively, which primarily reflected a decrease in such operating loss carryforwards of these subsidiaries.

At March 31, 2005, the MTFG Group had operating loss carryforwards of ¥1,274,710 million and tax credit carryforwards of ¥528 million for tax purposes. Such carryforwards, if not utilized, are scheduled to expire as follows:

	<b>Operating loss carryforwards</b>	<b>Tax credit carryforwards</b>
	(in millions)	
Fiscal year ending March 31:		
2006	¥ 44,888	¥
2007	123	
2008	40	
2009	29,583	
2010	1,124,365	
2011	15,819	
2012 and thereafter	32,338	428
No definite expiration date	27,554	100
<b>Total</b>	<b>¥ 1,274,710</b>	<b>¥ 528</b>

In March 2004, the Japanese government extended the period for operating loss carryforwards from 5 years to 7 years under the corporate tax law. This applied retroactively to operating loss carryforwards since fiscal years beginning on or after April 1, 2001.

Income taxes are not provided on undistributed earnings of foreign subsidiaries, which are considered to be indefinitely reinvested in the operations of such subsidiaries. At March 31, 2005, such undistributed earnings of foreign subsidiaries amounted to approximately ¥278 billion. Determination of the amount of unrecognized deferred tax liabilities with respect to these undistributed earnings is not practicable because of the complexity associated with the hypothetical calculation including foreign withholding taxes and foreign tax credits. MTFG has neither plans nor the intention of disposing of investments in foreign subsidiaries and, accordingly, does not expect to record capital gains or losses, or otherwise monetize its foreign subsidiaries' undistributed earnings. Rather, MTFG will receive a return on investments in foreign subsidiaries by way of dividends.

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Income from continuing operations before income tax expense and cumulative effect of a change in accounting principle for the fiscal years ended March 31, 2003, 2004 and 2005 was as follows:

	2003	2004 (Restated)	2005
	(in millions)		
Domestic income	¥ 145,106	¥ 920,256	¥ 555,980
Foreign income	118,373	261,148	165,409
<b>Total</b>	<b>¥ 263,479</b>	<b>¥ 1,181,404</b>	<b>¥ 721,389</b>

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**Table of Contents****MITSUBISHI TOKYO FINANCIAL GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Subsequent to the issuance of the MTFG Group's consolidated financial statements for the fiscal year ended March 31, 2004, management determined that the details of income from continuing operations before income tax expense and cumulative effect of a change in accounting principle for the fiscal year ended March 31, 2004 were erroneously disclosed. These errors had no impact on the consolidated financial position or results of operations. As a result, such amounts have been restated from the amounts previously reported as follows:

	2004	
	As previously reported	As restated
	(in millions)	
Domestic income	¥ 1,047,231	¥ 920,256
Foreign income	134,173	261,148
<b>Total</b>	<b>¥ 1,181,404</b>	<b>¥ 1,181,404</b>

**11. PLEDGED ASSETS AND COLLATERAL***Pledged Assets*

At March 31, 2005, assets mortgaged, pledged, or otherwise subject to lien were as follows:

	(in millions)
	(Restated)
Due from banks	¥4
Trading account securities	2,244,194
Investment securities	6,054,432
Loans	5,060,230
Other	20,689
<b>Total</b>	<b>¥13,379,549</b>

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The above pledged assets are classified by type of liabilities to which they relate as follows:

	<b>(in millions)</b>
	<b>(Restated)</b>
Deposits	¥ 265,234
Call money and funds purchased	800,232
Payables under repurchase agreements and securities lending transactions	4,365,189
Other short-term borrowings and long-term debt	7,942,622
Other	6,272
	<b>¥13,379,549</b>

Subsequent to the issuance of the MTFG Group's consolidated financial statements for the fiscal year ended March 31, 2005, management determined that the amounts of assets mortgaged, pledged, or otherwise subject to lien and type of liabilities to which they relate for the fiscal year ended March 31, 2005 were erroneously disclosed. These errors had no impact on the consolidated financial position or results of operations. As a result, such amounts have been restated from the amounts previously reported as follows:

Assets mortgaged, pledged, or otherwise subject to lien:

	<b>2005</b>	
	<b>As previously reported</b>	<b>As restated</b>
	<b>(in millions)</b>	
Trading account securities	¥2,601,493	¥2,244,194
Investment securities	5,921,242	6,054,432
Loans	5,193,420	5,060,230

**Table of Contents****MITSUBISHI TOKYO FINANCIAL GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Type of liabilities to which the above pledged assets relate:

	<b>2005</b>	
	<b>As previously reported</b>	<b>As restated</b>
	<b>(in millions)</b>	
Payables under repurchase agreements and securities lending transactions	¥4,722,488	¥4,365,189

In addition, the trading account assets and investment securities pledged that secured parties are permitted to sell or repledge for the fiscal years ended March 31, 2005 were erroneously disclosed. Such amounts have been restated from the amounts previously reported as follows in the parenthetic note to the Trading account assets and Securities available for sale in the consolidated balance sheet:

	<b>2005</b>	
	<b>As previously reported</b>	<b>As restated</b>
	<b>(in millions)</b>	
Trading account assets pledged that secured parties are permitted to sell or repledge	¥2,646,533	¥2,289,234
Securities available for sale pledged that secured parties are permitted to sell or repledge	2,316,604	2,330,160

In addition, at March 31, 2005, certain investment securities, principally Japanese national government and Japanese government agency bonds, aggregating ¥7,245,820 million were pledged as collateral for acting as a collection agent of public funds, for settlement of exchange at the Bank of Japan and Tokyo Bankers Association, for derivative transactions and for certain other purposes.

Under Japanese law, Japanese banks are required to maintain certain minimum reserves on deposit with the Bank of Japan based on the amount of deposit balances and certain other factors. There are similar reserve deposit requirements for foreign offices engaged in banking businesses in foreign countries. At March 31, 2004 and 2005, the reserve funds maintained by the MTFG Group, which are included in Cash and due from banks and Interest-earning deposits in other banks, were ¥1,946,932 million and ¥3,126,141 million, respectively. Average reserves during the fiscal years ended March 31, 2004 and 2005 were ¥3,343,265 million and ¥3,745,640 million, respectively.

***Collateral***

The MTFG Group accepts and provides financial assets as collateral for transactions, principally commercial loans, repurchase agreements and securities lending transactions, call money, and derivatives. Financial assets eligible for such collateral include, among others, marketable equity securities, trade and note receivables and certificates of deposit.

Secured parties, including creditors and counterparties to certain transactions with the MTFG Group, may sell or repledge financial assets provided as collateral. Certain contracts, however, may not be specific about the secured party's right to sell or repledge collateral under the applicable statutes and, therefore, whether or not the secured party is permitted to sell or repledge a collateral would differ depending on the interpretations of specific provisions of the existing statutes, contract or certain market practices. If the MTFG Group determines, based on available information, that a financial asset provided as collateral might not be sold or repledged by the secured parties, such collateral is not separately reported in the consolidated balance sheets. If a secured party is permitted to sell or repledge financial assets provided as collateral by contract or custom under the existing statutes, the MTFG Group reports such pledged financial assets separately on the face of the consolidated balance sheets. At March 31, 2005, the MTFG Group pledged ¥15,038 billion of assets that may not be sold or repledged by the secured parties.

**Table of Contents****MITSUBISHI TOKYO FINANCIAL GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Subsequent to the issuance of the MTFG Group's consolidated financial statements for the fiscal year ended March 31, 2005, management determined that the amount of pledged assets that may not be sold or repledged by the secured parties for the fiscal year ended March 31, 2005 were erroneously disclosed. These errors had no impact on the consolidated financial position or results of operations. As a result, such amounts have been restated from the amounts previously reported as follows:

	2005	
	As previously reported	As restated
	(in billions)	
Pledged assets that may not be sold or repledged by the secured parties	¥15,048	¥15,038

Certain banking subsidiaries accept collateral for commercial loans and certain banking transactions under a standardized agreement with customers, which provides that these banking subsidiaries may require the customers to provide collateral or guarantees with respect to the loans and other banking transactions. Financial assets pledged as collateral are generally negotiable and transferable instruments, and such negotiability and transferability is authorized by applicable legislation. In principle, Japanese legislation permits these banking subsidiaries to repledge financial assets accepted as collateral unless otherwise prohibited by contract or relevant statutes. Nevertheless, the MTFG Group did not sell or repledge nor does it plan to sell or repledge such collateral accepted in connection with commercial loans before a debtor's default or other credit events specified in the agreements as it is not customary within the banking industry in Japan to dispose of collateral before a debtor's default and other specified credit events. Derivative agreements commonly used in the marketplace do not prohibit a secured party's disposition of financial assets received as collateral, and in resale agreements and securities borrowing transactions, securities accepted as collateral may be sold or repledged by the secured parties. At March 31, 2005, the fair value of the collateral accepted by the MTFG Group that is permitted to be sold or repledged was approximately ¥11,777 billion, of which approximately ¥5,560 billion was sold or repledged. The amount includes the collateral that may be repledged under the current Japanese legislation but the MTFG Group does not dispose of before counterparties' default in accordance with the customary practice within the Japanese banking industry.

Subsequent to the issuance of the MTFG Group's consolidated financial statements for the fiscal year ended March 31, 2005, management determined that the fair value of the collateral accepted by the MTFG Group which was sold or repledged for the fiscal year ended March 31, 2005 were erroneously disclosed. These errors had no impact on the consolidated financial position or results of operations. As a result, such amounts have been restated from the amounts previously reported as follows:

	2005	
	As previously reported	As restated
	(in billions)	
The fair value of the collateral accepted by the MTFG Group which was sold or repledged	¥5,425	¥5,560

## 12. DEPOSITS

The balances of time deposits, including certificates of deposit ( CDs ), issued in amounts of ¥10 million (approximately US\$93 thousand at the Federal Reserve Bank of New York's noon buying rate on March 31, 2005) or more with respect to domestic deposits and issued in amounts of US\$100,000 or more with respect to foreign deposits were ¥15,685,120 million and ¥7,080,451 million, respectively, at March 31, 2004, and ¥14,770,925 million and ¥7,236,237 million, respectively, at March 31, 2005.

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**Table of Contents****MITSUBISHI TOKYO FINANCIAL GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The maturity information at March 31, 2005 for domestic and foreign time deposits, including CDs, is summarized as follows:

	<u>Domestic</u>	<u>Foreign</u>
	(in millions)	
Due in one year or less	¥ 17,957,884	¥ 7,231,080
Due after one year through two years	3,379,894	144,259
Due after two years through three years	2,552,995	63,738
Due after three years through four years	884,115	18,468
Due after four years through five years	1,001,082	35,762
Due after five years	56,968	27,025
<b>Total</b>	<b>¥ 25,832,938</b>	<b>¥ 7,520,332</b>

Subsequent to the issuance of the Group's consolidated financial statements for the fiscal year ended March 31, 2004, management determined that the balances of time deposits, including CDs, issued in amounts of ¥10 million (approximately US\$96 thousand at the Federal Reserve Bank of New York's noon buying rate on March 31, 2004) or more with respect to domestic deposits for the fiscal year ended March 31, 2004 were erroneously disclosed. These errors had no impact on the consolidated financial position or results of operations. As a result, such amounts have been restated from the amounts previously reported as follows:

	<u>2004</u>	
	<u>As previously reported</u>	<u>As restated</u>
	(in millions)	
Domestic deposits, issued in amounts of ¥10 million or more	¥ 15,780,157	¥ 15,685,120

**13. DEBENTURES**

In Japan, certain banks, including BTM, were authorized to issue discount and coupon debentures in the domestic market under applicable banking laws. The Bank of Tokyo, Ltd., which merged with The Mitsubishi Bank, Limited to create BTM, was authorized to issue such debentures and, after the merger in 1996, BTM was also permitted to issue discount and coupon debentures in the domestic market through March 2002 under the Law concerning the Merger and Conversion of Financial Institutions of Japan.

Debentures at March 31, 2004 was comprised of the following:

	<u>2004</u>
	<u>(in millions)</u>
Three-year coupon debentures with interest of 0.02% to 0.06%	¥ 76,427
Five-year coupon debentures with interest of 0.80% to 1.30%	189,530
	<hr/>
Total	¥ 265,957
	<hr/>

All debentures of ¥265,957 million at March 31, 2004 matured in the fiscal year ended March 31, 2005.



**Table of Contents****MITSUBISHI TOKYO FINANCIAL GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****14. CALL LOANS AND FUNDS SOLD, AND CALL MONEY AND FUNDS PURCHASED**

A summary of funds transactions for the fiscal years ended March 31, 2003, 2004 and 2005 was as follows:

	<u>2003</u>	<u>2004</u>	<u>2005</u>
	(in millions)		
Average balance during the fiscal year:			
Call money and funds purchased	¥ 2,175,394	¥ 2,492,308	¥ 2,230,340
Call loans and funds sold	597,004	585,506	827,111
Net funds purchased position	¥ 1,578,390	¥ 1,906,802	¥ 1,403,229
Call money and funds purchased:			
Outstanding at end of fiscal year:			
Amount	¥ 2,689,892	¥ 2,871,851	¥ 1,521,057
Principal range of maturities	1 day to 30 days	1 day to 30 days	1 day to 30 days
Weighted average interest rate	0.30%	0.26%	0.40%
Maximum balance at any month-end during the fiscal year	¥ 2,981,442	¥ 4,437,982	¥ 3,048,831
Weighted average interest rate paid during the fiscal year	0.58%	0.40%	0.32%

Average balances are generally based on a daily average while a month-end average is used for certain average balances when it is not practicable to obtain applicable daily averages.

**15. DUE TO TRUST ACCOUNT**

Mitsubishi Trust holds assets on behalf of its customers in an agent, fiduciary or trust capacity. Such trust account assets are not the MTFG Group's proprietary assets and are managed and accounted for separately.

However, excess cash funds of individual trust accounts are often placed with Mitsubishi Trust that manages the funds together with its own funds in its proprietary account. Due to trust account reflects a temporary placement of the excess funds from individual trust accounts and, in view of the MTFG Group's funding, due to trust account is similar to short-term funding, including demand deposits and other overnight funds purchased. The balance changes in response to the day-to-day changes in the excess funds placed by the trust accounts. A summary of due to trust account transactions for the fiscal years ended March 31, 2003, 2004 and 2005 is as follows:

	<u>2003</u>	<u>2004</u>	<u>2005</u>
		(in millions)	
Average balance outstanding during the fiscal year	¥ 1,691,359	¥ 1,326,313	¥ 1,349,118
Maximum balance at any month-end during the fiscal year	2,188,326	1,403,734	1,411,055
Weighted average interest rate during the fiscal year	0.51%	0.37%	0.29%

## 16. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

At March 31, 2004 and 2005, the MTFG Group had unused lines of credit amounting to ¥3,773,476 million and ¥5,379,102 million, respectively. The amounts principally consist of the lines of collateralized intraday overdrafts without interest charges and collateralized overnight loans on bills at the official discount rate granted by the Bank of Japan, which are used to cover shortages in the Bank of Japan account and to meet liquidity needs. The MTFG Group may borrow from the Bank of Japan on demand up to the total amount of collateral eligible for credit extension.

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Other short-term borrowings at March 31, 2004 and 2005 were comprised of the following:

	<u>2004</u>	<u>2005</u>
	(in millions)	
Domestic offices:		
Loans on notes and acceptances transferred with recourse (rediscount)	¥ 4,029,196	¥ 7,665,600
Commercial paper	736,200	1,490,900
Borrowings from financial institutions	448,500	438,260
Other	211,440	71,713
	<u>5,425,336</u>	<u>9,666,473</u>
Foreign offices:		
Commercial paper	193,838	929,818
Other	44,208	128,590
	<u>238,046</u>	<u>1,058,408</u>
Total	5,663,382	10,724,881
Less unamortized discount	315	106
	<u>¥ 5,663,067</u>	<u>¥ 10,724,775</u>
Weighted average interest rate on outstanding balance at end of fiscal year	0.12%	0.24%

A summary of other short-term borrowing transactions for the fiscal years ended March 31, 2003, 2004 and 2005 was as follows:

	<u>2003</u>	<u>2004</u>	<u>2005</u>
	(in millions)		
Average balance outstanding during the fiscal year	¥ 2,763,028	¥ 3,727,461	¥ 9,413,280
Maximum balance at any month-end during the fiscal year	2,870,339	5,663,067	12,380,021
Weighted average interest rate during the fiscal year	1.02%	0.40%	0.24%

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Long-term debt (with original maturities of more than one year) at March 31, 2004 and 2005 was comprised of the following:

	2004	2005
	(in millions)	
<b>MTFG:</b>		
Unsubordinated debt:		
Fixed rate bonds, payable in Japanese yen, due 2008-2010, principally 0.41%-0.81%	¥	¥ 200,000
<b>Total</b>		<b>200,000</b>
<b>BTM:</b>		
Obligations under capital leases		
Obligation under sale-and-leaseback transactions	¥ 21,194	¥ 22,457
	102,795	103,658
Unsubordinated debt:		
Insurance companies and other institutions, maturing serially through 2035, principally 0.25%-7.49%	506,286	601,586
Fixed rate bonds, payable in Japanese yen, due 2005-2022, principally 0.22%-2.69%	2,001,860	1,881,845
Subordinated debt:		
Insurance companies and other institutions, due 2005-2010, principally 0.06%-0.42%		9,000
Fixed rate notes, payable in United States dollars, due 2010, 8.40%	211,267	214,684
Fixed rate bonds, payable in Japanese yen, due 2010-2019, principally 1.13%-2.39%	320,000	390,000
Fixed rate borrowings, payable in Japanese yen, due 2005-2014, principally 1.63%-6.20%	386,150	399,266
Adjustable rate bonds, payable in Japanese yen, due 2011-2012, principally 0.56%-1.05%	33,000	33,000
Adjustable rate borrowings, payable in Japanese yen, due 2011-2019, principally 0.69%-2.21%	176,500	184,500
Adjustable rate borrowings, payable in Yuan, due 2006, 2.80%	683	259
Floating rate borrowings, payable in Japanese yen, due 2006-2035, principally 0.02%-1.74%	9,000	509,308
Floating rate borrowings, payable in United States dollars, due 2015, 3.55%		32,217
Floating rate borrowings, payable in Euro, due 2015, 2.63%		41,661
<b>Total</b>	<b>3,768,735</b>	<b>4,423,441</b>
<b>Mitsubishi Trust:</b>		
Obligation under capital leases		
	¥ 206	¥ 172
Unsubordinated debt:		
Insurance companies and other institutions, due 2005-2015, principally 0.00%-3.90%	60,185	84,771
Subordinated debt:		
Fixed rate borrowings, payable in Japanese yen, due 2006-2015, principally 1.25%-4.60%	91,000	100,200
Adjustable rate borrowings, payable in Japanese yen, no stated maturity, principally 1.12%-3.15%		20,300
Adjustable rate borrowings, payable in Japanese yen, due 2010-2014, principally 0.52%-3.35%	34,000	87,200
Floating rate borrowings, payable in Japanese yen, due 2005-2006, principally 0.00%-0.85%	10,000	20,000
Perpetual bonds, payable in Japanese yen, principally 0.67%-2.25%	96,400	117,400
Fixed rate bonds, payable in Japanese yen, due 2010-2014, principally 1.95%-2.70%	30,000	60,000
Adjustable rate bonds, payable in Japanese yen, due 2010-2016, principally 0.30%-2.45%	116,400	126,400
<b>Total</b>	<b>438,191</b>	<b>616,443</b>



**Table of Contents****MITSUBISHI TOKYO FINANCIAL GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

	<b>2004</b>	<b>2005</b>
	<b>(in millions)</b>	
<b>Other subsidiaries:</b>		
<b>Unsubordinated debt:</b>		
Insurance companies and other institutions, due 2005-2011, principally 0.41%-11.62%	¥ 202,599	¥ 45,138
0.25% Convertible Bonds due 2014, payable in Japanese yen	50,700	49,165
Fixed rate bonds and notes, payable in United States dollars, due 2005-2023, principally 1.04%-8.44%	36,380	44,438
Fixed rate bonds and notes, payable in Japanese yen, due 2005-2012, principally 0.14%-4.60%	107,045	188,316
Adjustable rate bonds and notes, payable in United States dollars, due 2005-2011, principally 4.78%-5.45%	8,135	7,441
Adjustable rate bonds and notes, payable in Japanese yen, due 2005-2006, principally 1.58%-2.20%	10,088	1,390
Floating rate bonds and notes, payable in United States dollars, due 2005-2014, principally 2.50%-9.65%	3,386	6,564
Floating rate bonds and notes, payable in Japanese yen, due 2005-2034, principally 0.00%-20.00%	67,386	250,549
Floating rate notes, payable in Euro, due 2009, 2.59%		708
Obligations under capital leases and other miscellaneous debt	31,262	6,035
<b>Total unsubordinated debt</b>	<b>516,981</b>	<b>599,744</b>
<b>Subordinated debt:</b>		
Insurance companies and other institutions, due 2005-2010, principally 1.63%-3.39%	4,605	13,745
Undated notes, payable in Japanese yen, principally 0.40%-4.90%	58,000	
Fixed rate undated notes, payable in Japanese yen, principally 1.40%-2.60%	38,967	
Perpetual Bonds, payable in Japanese yen, principally 1.11%-3.15%	20,300	
Fixed rate bonds and notes, payable in United States dollars, due 2006-2030, principally 5.12%-10.88%	49,222	50,875
Fixed rate bonds and notes, payable in Japanese yen, due 2009-2010, principally 0.94%-1.63%	89,451	16,052
Adjustable rate undated notes, payable in Japanese yen, principally 0.77%-3.16%	299,448	
Adjustable rate bonds and notes, payable in United States dollars, due 2009, 2.00%	3,166	
Adjustable rate bonds and notes, payable in Japanese yen, due 2006-2014, principally 0.12%-5.93%	180,042	
Floating rate undated notes, payable in Japanese yen, principally 1.27%-1.57%	91,323	
Floating rate bonds and notes, payable in United States dollars, due 2009-2010, principally 0.00%-3.26%	6,421	1,560
Floating rate bonds and notes, payable in Japanese yen, due 2005-2010, principally 0.00%-1.53%	50,556	59,887
Other miscellaneous debt	5,480	
<b>Total subordinated debt</b>	<b>896,981</b>	<b>142,119</b>
Junior subordinated debt payable to subsidiary grantor trust	38,989	
<b>Total</b>	<b>1,452,951</b>	<b>741,863</b>
<b>Total</b>	<b>¥ 5,659,877</b>	<b>¥ 5,981,747</b>

**Notes:**

- Adjustable rate debts are debts where interest rates are reset in accordance with the terms of the debt agreements, and floating rate debts are debts where interest rates are repriced in accordance with movements of market indices.
- 0.25% Convertible Bonds of ¥49,165 million, unsubordinated debt of other subsidiaries, are convertible into common stock of Mitsubishi Securities.

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3. Junior subordinated debt payable to subsidiary grantor trust was issued by a wholly owned subsidiary of UNBC (see Notes 24 and 26). On February 19, 2004, it was redeemed by UNBC.

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Certain unsubordinated bonds and notes (aggregating ¥43,680 million at March 31, 2004 and nil at March 31, 2005), and certain subordinated bonds and notes (aggregating ¥819,948 million at March 31, 2004 and nil at March 31, 2005) issued by subsidiaries were guaranteed, on a subordinated basis, by BTM or Mitsubishi Trust as to payment of principal and interest. These subsidiaries were deconsolidated in accordance with FIN No.46R in the fiscal year ended March 31, 2005.

BTM, Mitsubishi Trust and certain other subsidiaries entered into interest rate and currency swaps for certain debt in order to manage exposure to interest rate and currency exchange rate movements. As a result of these swap arrangements, the effective interest rates may differ from the coupon rates reflected in the above table. The interest rates for the adjustable and floating rate debt shown in the above table are those in effect at March 31, 2004 and 2005. Certain interest rates are determined by formulas and may be subject to certain minimum and maximum rates. Floating and adjustable rate debt agreements may provide for interest rate floors to prevent negative interest payments (i.e., receipts).

Certain debt agreements permit BTM, Mitsubishi Trust and some other subsidiaries to redeem the related debt, in whole or in part, prior to maturity at the option of the issuer on terms specified in the respective agreements.

The following is a summary of maturities of long-term debt subsequent to March 31, 2005:

	<u>MTFG</u>	<u>BTM</u>	<u>Mitsubishi Trust</u>	<u>Other subsidiaries</u>	<u>Total</u>
	( in millions)				
Fiscal year ending March 31:					
2006	¥	¥ 631,388	¥ 42,697	¥ 157,771	¥ 831,856
2007		498,660	25,113	89,074	612,847
2008	100,000	371,192	4,725	114,239	590,156
2009		376,455	117	53,189	429,761
2010	100,000	213,768	2,057	85,811	401,636
2011 and thereafter		2,331,978	541,734	241,779	3,115,491
<b>Total</b>	<b>¥ 200,000</b>	<b>¥ 4,423,441</b>	<b>¥ 616,443</b>	<b>¥ 741,863</b>	<b>¥ 5,981,747</b>

**17. SEVERANCE INDEMNITIES AND PENSION PLANS**

All employees of MTFG are loaned from its domestic subsidiaries. The employees are subject to severance indemnities and pension plans of each of these subsidiaries as described below, and included in the calculation of pension costs and liabilities of these subsidiaries.



*Domestic Subsidiaries*

BTM, Mitsubishi Trust and certain other domestic subsidiaries have severance indemnities plans under which their employees in Japan, other than those who are directors, are entitled, under most circumstances, upon mandatory retirement at normal retirement age or earlier termination of employment, to lump-sum severance indemnities. Under the severance indemnities plans, benefit payments in the form of lump-sum cash payment without allowing a benefit payee an option to receive annuity payments, upon mandatory retirement at normal retirement age or earlier termination of employment, are provided. When a benefit is paid in a single payment to a benefit payee under the plans, the payment represents final relief of the obligation.

BTM, Mitsubishi Trust and certain other domestic subsidiaries also have funded contributory defined benefit pension plans (private plans) which cover substantially all of their employees in Japan and provide for

**Table of Contents****MITSUBISHI TOKYO FINANCIAL GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

lifetime annuity payments commencing at age 65 based on eligible compensation at the time of severance, years of service and other factors. These domestic subsidiaries have Employees Pension Fund plans ( EPF s), which are defined benefit pension plans established under the Japanese Welfare Pension Insurance Law ( JWPIL ). These plans are composed of (a) substitutional portion based on the pay-related part of the old-age pension benefits prescribed by JWPIL (similar to social security benefits in the United States) and (b) a corporate portion based on a contributory defined benefit pension arrangement established at the discretion of each subsidiary. The subsidiaries with an EPF and their employees are exempted from contributions to Japanese Pension Insurance ( JPI ) that would otherwise be required if they had not elected to fund the substitutional portion of the benefit through an EPF arrangement. The EPF, in turn, pays both the corporate and substitutional pension benefits to retired beneficiaries out of its plan assets. Benefits of the substitutional portion are based on a standard remuneration schedule as determined by the JWPIL, but the benefits of the corporate portion are based on a formula determined by each employer/EPF. Pension benefits and plan assets applicable to the substitutional portion are included with the corporate portion of these domestic subsidiaries in the determination of net periodic costs and funded status.

In June 2001, the JWPIL was amended to permit each employer/EPF to separate the substitutional portion from its EPF and transfer the obligation and related assets to the government. The separation process occurs in several phases.

In June 2003, BTM submitted to the government an application to transfer the obligation to pay benefits for future employee service related to the substitutional portion and the application was approved in August 2003. In August 2004, BTM made another application for transfer to the government of the remaining substitutional portion and the application was approved in November 2004. The substitutional obligation and related plan assets were transferred to a government agency in March 2005 and BTM was released from paying the substitutional portion of the benefits to its employees.

The completion of the transfer to the Japanese Government of the substitutional portion of the employee pension plan constituted a settlement of such plan. However, since there remains a defined benefit plan and the settlement occurred subsequent to December 31, 2004 (the measurement date of such plan), the impact of the transfer/settlement of a pre-tax income of ¥36.1 billion will be recognized in the fiscal year ending March 31, 2006.

The effect of the settlement of the substitutional portion of the EPF calculated pursuant to the guidance in EITF 03-2 is as follows:

	<b>(in billions)</b>
Subsidy (representing the difference between the accumulated benefit obligation over the fair value of the related assets)	¥ 108.5
Settlement loss recognized for proportionate amount of net unrecognized loss related to the entire EPF	(73.6)
Effect of the reversal of future salary progression	1.2
<b>Net settlement gain</b>	<b>¥ 36.1</b>

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BTM and Mitsubishi Trust also have closed Tax-Qualified Pension Plans ( closed TQPPs ), funded non-contributory defined benefit pension plans, providing benefits to certain retired employees, excluding directors, in Japan, based on eligible compensation at the time of severance, years of service and other factors. BTM s plan covers retired employees whose service period with BTM was 5 years or more, and provides for lifetime or certain limited period annuity payments commencing at age 60. Mitsubishi Trust s plan covers retired employees

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whose service period with Mitsubishi Trust was 20 years or more, and provides for a 10-year period annuity payment commencing in the month following retirement or, at the option of each eligible employee, at age 60.

Net periodic cost of the severance indemnities and pension plans for the fiscal years ended March 31, 2003, 2004 and 2005 included the following components:

	<u>2003</u>	<u>2004</u>	<u>2005</u>
		<b>(in millions)</b>	
Service cost benefits earned during the fiscal year	¥ 25,295	¥ 25,486	¥ 21,474
Interest costs on projected benefit obligation	24,200	20,126	21,997
Expected return on plan assets	(25,450)	(18,547)	(31,206)
Amortization of unrecognized net obligation at transition	4,086	3,943	2,498
Amortization of unrecognized prior service cost	2,132	(1,047)	(1,047)
Amortization of net actuarial loss	22,506	34,873	21,742
Loss on settlements	6,373	4,292	3,047
	<u>¥ 59,142</u>	<u>¥ 69,126</u>	<u>¥ 38,505</u>
Net periodic benefit cost			
Weighted-average assumptions used:			
Discount rates in determining expense	2.47%	1.88%	2.10%
Discount rates in determining benefit obligation	1.88	2.10	2.19
Rates of increase in future compensation level for determining expense	3.09	2.96	3.12
Rates of increase in future compensation level for determining benefit obligation	2.96	3.12	3.21
Expected rates of return on plan assets	3.73	2.67	3.45

**Table of Contents****MITSUBISHI TOKYO FINANCIAL GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following table sets forth the combined funded status and amounts recognized in the accompanying consolidated balance sheets at March 31, 2004 and 2005 for the plans of BTM, Mitsubishi Trust and certain other domestic subsidiaries. BTM and some of its domestic subsidiaries have measured plan assets and benefit obligations at December 31 each fiscal year for the purpose of financial statements, whereas Mitsubishi Trust has used March 31 each year for the measurement date. Accordingly, funded status and amounts recognized in the table below shows the combined amounts of those presented in the consolidated financial statements of these subsidiaries.

	2004			2005		
	Contributory		Total	Contributory		Total
	pension plans			pension plans		
(in millions)						
<b>Change in benefit obligation:</b>						
Benefit obligation at beginning of fiscal year	¥ 178,619	¥ 901,364	¥ 1,079,983	¥ 177,055	¥ 881,017	¥ 1,058,072
Service cost	9,198	16,288	25,486	8,611	12,863	21,474
Interest cost	3,067	17,059	20,126	3,484	18,513	21,997
Plan participants' contributions		2,447	2,447		1,404	1,404
Amendments	1,795	(2,570)	(775)			
Divestitures	(37)		(37)			
Actuarial loss (gain)	2,499	(30,345)	(27,846)	892	16,719	17,611
Benefits paid	(3,449)	(23,226)	(26,675)	(3,160)	(24,714)	(27,874)
Lump-sum payment	(14,637)		(14,637)	(13,230)		(13,230)
Benefit obligation at end of fiscal year	177,055	881,017	1,058,072	173,652	905,802	1,079,454
<b>Change in plan assets:</b>						
Fair value of plan assets at beginning of fiscal year	77,392	598,841	676,233	116,254	780,459	896,713
Actual return on plan assets	21,036	87,756	108,792	7,429	33,332	40,761
Divestitures	(24)		(24)			
Employer contributions	21,299	114,641	135,940	5,099	30,338	35,437
Plan participants' contributions		2,447	2,447		1,404	1,404
Benefits paid	(3,449)	(23,226)	(26,675)	(3,160)	(24,714)	(27,874)
Fair value of plan assets at end of fiscal year	116,254	780,459	896,713	125,622	820,819	946,441
Projected benefit obligation in excess of plan assets at end of fiscal year	(60,801)	(100,558)	(161,359)	(48,030)	(84,983)	(133,013)
Contributions to or benefits paid from plan assets during three months ended March 31, 2004 and 2005	3,824	5,134	8,958	3,035	2,675	5,710
Unrecognized net actuarial loss	48,911	304,843	353,754	39,406	297,614	337,020
Unrecognized prior service cost	(289)	(27,658)	(27,947)	(358)	(26,541)	(26,899)

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Unrecognized net (asset) obligation at transition	(210)	7,581	7,371	31	4,851	4,882
Net amount recognized	¥ (8,565)	¥ 189,342	¥ 180,777	¥ (5,916)	¥ 193,616	¥ 187,700
<b>Amounts recognized in the balance sheets:</b>						
Prepaid pension cost	¥ 8,770	¥ 98,489	¥ 107,259	¥ 11,488	¥ 110,167	¥ 121,655
Accrued pension liability	(50,535)	(124,404)	(174,939)	(40,963)	(119,780)	(160,743)
Intangible assets	3,285	1,772	5,057	2,840	916	3,756
Accumulated other changes in equity from nonowner sources	29,915	213,485	243,400	20,719	202,313	223,032
Net amount recognized	¥ (8,565)	¥ 189,342	¥ 180,777	¥ (5,916)	¥ 193,616	¥ 187,700

Note: The aggregated accumulated benefit obligations of these plans were ¥1,000,965 million and ¥1,021,427 million, respectively, at March 31, 2004 and 2005. The severance indemnities plans generally employ a multi-variable, non-linear formula based upon compensation at the time of severance, rank and years of service. Employees with service in excess of one year are qualified to receive lump-sum severance indemnities.

**Table of Contents****MITSUBISHI TOKYO FINANCIAL GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The projected benefit obligations, accumulated benefit obligations and fair value of plan assets for the plans of BTM and Mitsubishi Trust and certain domestic subsidiaries with accumulated benefit obligations in excess of plan assets were ¥802,134 million, ¥767,077 million and ¥583,180 million, respectively at March 31, 2004 and ¥821,355 million, ¥783,591 million and ¥617,138 million, respectively at March 31, 2005.

Pension plans are not fully integrated among subsidiaries of the MTFG Group and plan assets are managed separately by each plan:

**BTM***Asset allocation*

BTM's contributory pension plan asset allocations at December 31, 2003 and 2004, by asset category were as follows:

<u>Asset category</u>	<u>Contributory pension plan assets at</u>	
	<u>December 31,</u>	
	<u>2003</u>	<u>2004</u>
EPF assets	88.90%	88.52%
Fund for corporate portion	68.98	70.38
Japanese equity securities	18.51	18.86
Japanese debt securities	27.71	28.61
General account of life insurance companies*	11.12	11.06
Non-Japanese equity securities	5.92	6.66
Non-Japanese debt securities	5.48	4.96
Short-term assets	0.24	0.23
Fund for substitutional portion	19.92	18.14
Japanese short-term monetary assets**	6.06	18.14
General account of life insurance companies*	13.86	
Assets retained in employee retirement benefit trust	11.10	11.48
Japanese equity securities	11.10	11.48
	<u>100.00%</u>	<u>100.00%</u>

Notes:

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- \* General account of life insurance companies is a contract with life insurance companies that guarantees a return of approximately 0.96% (from April 2004 to March 2005), which is mainly invested in assets with low market risk such as Japanese debt securities. In terms of pension plan asset allocation, BTM regards the general account in the same category as Japanese debt securities, because it is generally believed that there is a high degree of correlation between their performances. BTM carefully monitors life insurance companies by credit rating and other assessments.
- \*\* Includes bank deposit for benefit payments at December 31, 2004.

Japanese equity securities include the MTFG Group's common stock in the amounts of ¥1,330 million (0.27% of contributory pension plan assets) and ¥1,436 million (0.27% of contributory pension plan assets) at December 31, 2003 and 2004, respectively.

Japanese debt securities include the MTFG Group's debt securities in the amounts of ¥617 million (0.12% of contributory pension plan assets) and ¥220 million (0.04% of contributory pension plan assets) at December 31, 2003 and 2004, respectively.



**Table of Contents****MITSUBISHI TOKYO FINANCIAL GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The assets of the contributory pension plan assets consisted of EPF and an employee retirement benefit trust. The process of transferring to the Japanese Government the substitutional portion of the EPF liabilities, and the delivery of the related assets to the Employees Pension Insurance were still ongoing at December 31, 2004. Accordingly, the assets related to the substitutional portion (referred to above as fund for substitutional portion ) were presented separately from the assets related to the corporate portion (referred to above as fund for corporate portion ).

The asset allocations of BTM and certain domestic subsidiaries in severance indemnities plans and non-contributory pension plans are as follows:

<u>Asset category</u>	<u>Asset ratio at December 31,</u>	
	<u>2003</u>	<u>2004</u>
Equity securities	74.23%	74.60%
Debt securities	18.26	17.20
Others	7.51	8.20
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>

Note: BTM's severance indemnities plan assets are an employee retirement benefit trust invested in Japanese equity securities.

*Investment policies*

BTM's target asset allocation for funds for the corporate portion in contributory pension plans, which is the EPF funds not including the funds for the substitutional portion, is as follows:

<u>Asset category</u>	<u>Target asset allocation</u>
Japanese equity securities	21.0%
Japanese debt securities	57.0
Non-Japanese equity securities	15.0
Non-Japanese debt securities	7.0

Total	100.0%
-------	--------

BTM regards that the purpose of contributory pension plan investments is to achieve assured benefits and stable contributions through proper risk control and return maximization. BTM attaches a great deal of importance to the long-term performance of its contributory pension plan investments to achieve assured benefits. BTM fixes the long-term asset allocation, which will be maintained for approximately five years, for efficient long-term investment return. The long-term asset allocation is based on optimal portfolios, which are estimated by expected return and risk according to each asset class, while considering BTM's risk tolerance.

As a general rule, BTM reviews its investment policies approximately every five years. Additionally, a review is made in the following situations: large fluctuations in pension plan liabilities caused by modifications of pension plans, or changes in the market environment. BTM carefully examines investment in alternative assets, such as derivatives or hedge funds, while considering BTM's investment administration structure. BTM controls risk on its pension plan portfolio by standard deviation analysis. Additionally, BTM requires and checks that investment companies tracks errors in each asset class within a designated range.

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**MITSUBISHI TOKYO FINANCIAL GROUP, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

BTM regards that the purpose of employee retirement benefit trust investment is to achieve assured benefits by contribution of assets to the trust. Employee retirement benefit trust assets are invested in Japanese equity securities. This asset allocation will be held for the mid-term, but it is undecided whether it will be held in the long term.

BTM's severance indemnities plan consists of an employee retirement benefit trust. The trust's purpose and basic policy is described above. BTM's TQPPs has closed and there are no more new beneficiaries. Therefore, to achieve assured benefit, the fund is invested in assets with low market risk.

*Basis and procedure for estimating long-term return of each asset class*

The expected long-term return on the fund for the corporate portion of the contributory pension plan is 3.7% for each asset class. The expected rate of return for each asset class is based on long-term prospects for the economy, historical performance, market environment, and some other factors. The expected rate of return on the fund for the substitutional portion of the contributory pension plan is estimated as 0.28% based on historical performance.

The expected rate of return on the employee retirement benefit trust is estimated as 0.95% based on the expected dividend yield on Japanese equity securities. Expected capital return is not taken into account, because the long-term asset allocation is undecided.

BTM's severance indemnities plan consists of an employee retirement benefit trust. The trust's expected return is as described above.

Expected rate of return on closed TQPPs is estimated as 2.46% based on the performance over the last three fiscal years.

*Cash flows*

BTM and certain other domestic subsidiaries expect to contribute approximately ¥14.4 billion to pension plans in the fiscal year ending March 31, 2006 based upon their current funded status and expected asset return assumptions.

*Estimated future benefit payments*

The following table presents benefit payments expected to be paid, which include the effect of expected future service for the years indicated:

	<b>Expected benefits</b>	
	<u>(in millions)</u>	
Fiscal year ending March 31:		
2006	¥	25,054
2007		25,572
2008		26,573
2009		27,335
2010		28,077
Thereafter (2011-2015)		152,006

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The asset allocations of Mitsubishi Trust's severance indemnities plans, contributory pension plans and non-contributory pension plans are as follows:

<u>Asset category</u>	<u>Asset ratio at</u>	
	<u>March 31,</u>	
	<u>2004</u>	<u>2005</u>
Japanese equity securities	60.9%	58.7%
Japanese debt securities	12.7	13.4
Non-Japanese equity securities	6.6	8.0
Non-Japanese debt securities	11.7	12.7
Real estate	2.3	1.9
Others	5.8	5.3
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

Note: Others include mainly short term deposit, short term money market product, and short term investment products.

Equity securities include the MTFG Group's common stock in the amounts of ¥514 million (0.16% of total plan assets) and ¥407 million (0.12% of total plan assets) at March 31, 2004 and 2005, respectively.

Debt securities include the MTFG Group's debt securities in the amounts of ¥154 million (0.05% of total plan assets) and ¥6 million (0.002% of total plan assets) at March 31, 2004 and 2005, respectively.

*Investment policies*

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Mitsubishi Trust's target asset allocation for funds is as follows:

<u>Asset category</u>	<u>Target asset allocation</u>
Japanese equity securities	55.6%
Japanese debt securities	15.0
Non-Japanese equity securities	7.8
Non-Japanese debt securities	11.7
Others	9.9
Total	100.0%

The investment policy for the pension plan assets is based on an asset liability strategy which is intended to maintain adequate liquidity for benefit payments and achieve long-term returns on assets allocation. Mitsubishi Trust does not rebalance the proportion of pension plan assets periodically. Mitsubishi Trust rebalances the allocation of pension plan assets only when it is necessary to adjust the gap between actual return and short-term return target.

Plan assets are well diversified to reduce exposure to risks and the diversification of countries and currencies are taken into account specifically in investing in foreign assets. Furthermore, Mitsubishi Trust's plan assets are intended to avoid speculative investments in the case of investing in derivative instruments.

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**MITSUBISHI TOKYO FINANCIAL GROUP, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

*Basis and procedure for estimating long-term return of each asset class*

The expected rate of return on plan assets is based on building-block method, which calculates total pension assets rate of return by aggregating the weighted rate of return of each plan asset.

Mitsubishi Trust decided the expected rate of return for each asset class as below:

Japanese equity securities: the rate for Japanese debt securities plus a premium for the risk associated with Japanese equity securities

Japanese debt securities: economic growth rate of Japan

Non-Japanese equity securities: the rate for non-Japanese debt securities plus a premium for the risk associated with non-Japanese equity securities

Non-Japanese debt securities: global economic growth rate

Others: the rate for Japanese debt securities minus interest rate spread

*Cash flows*

Mitsubishi Trust expects to contribute approximately ¥8.9 billion to pension plans in the fiscal year ending March 31, 2006 based upon their current funded status and expected asset return assumptions.

*Estimated future benefit payments*

The following table presents benefit payments expected to be paid, which include the effect of expected future service for the years indicated:

	<u>Expected benefits</u>
	(in millions)
Fiscal year ending March 31:	
2006	¥ 8,846
2007	9,198
2008	9,886
2009	10,443
2010	10,694
Thereafter (2011-2015)	58,531



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**MITSUBISHI TOKYO FINANCIAL GROUP, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

In accordance with the provisions of SFAS No. 87, the MTFG Group has recorded an additional minimum liability representing the excess of the accumulated benefit obligation over the fair value of plan assets and accrued pension liabilities previously recorded. A corresponding amount is recognized as an intangible asset to the extent of unrecognized net obligation at transition and prior service costs, with the remaining balance recorded as a separate reduction of shareholders' equity, net of income taxes.

In accordance with BTM's, Mitsubishi Trust's and certain domestic subsidiaries' employment practices, certain early-terminated employees are entitled to special lump-sum termination benefits. The amounts charged to operations for such early termination benefits for the fiscal years ended March 31, 2003, 2004 and 2005 were ¥14,150 million, ¥12,536 million and ¥10,081 million, respectively.

In accordance with amendments to the relevant welfare pension legislation, BTM amended its contributory defined benefit pension plans to change the age of commencement of lifetime annuity payments from 60 to 65 in January 2002, which was reflected in the consolidated financial statements for the fiscal year ended March 31, 2003 because of BTM's measurement date of December 31, 2001. Furthermore, in November 2002, BTM amended its pension plan to reduce employee pension benefits by amounts ranging from 7% to 20%, which will be payable to employees who retire on or after April 1, 2003. The effect of the negative amendments was a decrease of ¥44,027 million in the projected benefit obligation. Mitsubishi Securities, one of BTM's securities subsidiaries, amended its pension plan to change the lifetime annuity payments to limited period annuity payments. The amendment resulted in a decrease of ¥3,447 million in the projected benefit obligation.

For the fiscal year ended March 31, 2004, Mitsubishi Trust integrated the pension plans of Mitsubishi Trust, former NTB and former TTB. The severance indemnities plan and the government-sponsored contributory pension plan of NTB and TTB were integrated into and succeeded by the respective Mitsubishi Trust's plans (NTB and TTB did not have tax-qualified contributory pension plans). The integration increases prior service costs of NTB and TTB employees and, at the same time, Mitsubishi Trust's plans were amended to reduce pension benefits. Former employees of NTB and TTB had been treated as if they had joined the Mitsubishi Trust's plan for years of service. The net effect of the integration and amendment is recognition of ¥775 million of negative prior service cost and a decrease in the projected benefit obligation in the aggregate.

During the fiscal years ended March 31, 2003 and 2004, Mitsubishi Trust entered into retirement benefit trust agreements with a domestic trust bank and contributed marketable equity securities with a fair value of ¥24,612 million and ¥87,586 million, respectively, to the trusts designated to pay benefits for their severance indemnities plans and contributory pension plans. The contributions were accounted for as sales with an aggregate a loss of ¥1,175 million and a gain of ¥14,452 million, respectively, recognized for the fiscal years then ended. Such contributions were accounted for as sales because the transfer met the sale accounting criteria of SFAS No. 140, and the securities placed into the trust were qualified as plan assets as defined by SFAS No. 87.

***Foreign Offices and Subsidiaries***

Foreign offices and subsidiaries also have defined contribution plans and/or defined benefit plans. The cost of such plans charged to operations for the fiscal years ended March 31, 2003, 2004 and 2005 were ¥7,140 million, ¥8,285 million and ¥9,025 million, respectively, including

¥3,487 million, ¥3,635 million and ¥3,500 million, respectively, for defined contribution plans.

Foreign offices and subsidiaries have postemployment and/or postretirement plans for eligible employees and retirees. The costs charged to operations for the fiscal years ended March 31, 2003, 2004 and 2005 were ¥1,962 million, ¥3,164 million and ¥2,409 million, respectively.

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**Table of Contents****MITSUBISHI TOKYO FINANCIAL GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Certain of MTFG's subsidiaries in the United States of America maintain employees' retirement plans, which are qualified retirement plans covering substantially all of the employees of such subsidiaries. The plans are non-contributory defined benefit plans, which provide benefits upon retirement based on years of service and average compensation. The plans are funded on a current basis in compliance with the requirement of the Employee Retirement Income Security Act of the United States of America. These subsidiaries also provide certain post-employment benefits and postretirement benefits other than pensions for employees. Plan assets are generally invested in U.S. government securities, corporate bonds and mutual funds.

The net periodic cost of the employees' retirement and other benefit plans of certain offices and subsidiaries in the United States of America for the fiscal years ended March 31, 2003, 2004 and 2005 include the following components:

	<u>2003</u>	<u>2004</u>	<u>2005</u>
		(in millions)	
Service cost - benefits earned during the fiscal year	¥ 4,492	¥ 5,060	¥ 5,321
Interest costs on projected benefit obligation	7,550	7,567	7,465
Expected return on plan assets	(9,167)	(9,769)	(10,626)
Amortization of unrecognized net obligation at transition	455	307	292
Amortization of unrecognized prior service cost	(31)	(89)	1
Amortization of net actuarial loss	722	1,866	2,468
<b>Net periodic benefit cost</b>	<b>¥ 4,021</b>	<b>¥ 4,942</b>	<b>¥ 4,921</b>
<b>Weighted-average assumptions used:</b>			
Discount rates in determining expense	7.30%	6.79%	6.23%
Discount rates in determining benefit obligation	6.79	6.23	5.77
Rates of increase in future compensation level for determining expense	4.89	4.90	5.03
Rates of increase in future compensation level for determining benefit obligation	4.90	5.03	4.48
Expected rates of return on plan assets	8.35	8.24	8.27

**Table of Contents****MITSUBISHI TOKYO FINANCIAL GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following table sets forth the funded status and amounts recognized in the accompanying consolidated balance sheets at March 31, 2004 and 2005 for the employees' retirement and other benefit plans of certain offices and subsidiaries in the United States of America:

	2004	2005
	(in millions)	
<b>Change in benefit obligation:</b>		
Benefit obligation at beginning of fiscal year	¥ 119,451	¥ 120,452
Service cost	5,060	5,321
Interest cost	7,567	7,465
Plan participants' contributions	228	265
Amendments	(682)	(339)
Actuarial loss	7,774	9,965
Benefits paid	(4,983)	(4,909)
Translation adjustments	(13,963)	(3,560)
	<u>120,452</u>	<u>134,660</u>
<b>Benefit obligation at end of fiscal year</b>		
<b>Change in plan assets:</b>		
Fair value of plan assets at beginning of fiscal year	96,448	115,483
Actual return on plan assets	21,741	13,737
Employer contributions	14,755	13,029
Plan participants' contributions	228	265
Benefits paid	(4,925)	(4,909)
Translation adjustments	(12,764)	(3,746)
	<u>115,483</u>	<u>133,859</u>
<b>Fair value of plan assets at end of fiscal year</b>		
Projected benefit obligation in excess of plan assets at end of fiscal year	(4,969)	(801)
Unrecognized net actuarial loss	36,826	40,187
Unrecognized prior service cost	(412)	(316)
Unrecognized net obligation at transition	2,599	1,771
	<u>34,044</u>	<u>40,841</u>
<b>Net amount recognized</b>		
<b>Amounts recognized in the balance sheets:</b>		
Prepaid pension cost	¥ 37,147	¥ 44,318
Accrued pension liability	(3,559)	(3,917)
Intangible assets	6	90
Accumulated other changes in equity from nonowner sources	450	350
	<u>34,044</u>	<u>40,841</u>
<b>Net amount recognized</b>		
	<u>¥ 34,044</u>	<u>¥ 40,841</u>

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Note: The aggregated accumulated benefit obligations of these plans were ¥85,151 million and ¥104,405 million, respectively, at March 31, 2004 and 2005.

The projected benefit obligations, accumulated benefit obligations and fair value of plan assets for the plans of certain offices and subsidiaries in the United States of America with accumulated benefit obligations in excess of plan assets were ¥2,627 million, ¥2,435 million and ¥1,124 million, respectively at March 31, 2004 and ¥9,179 million, ¥8,745 million and ¥6,286 million, respectively at March 31, 2005.

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**Table of Contents****MITSUBISHI TOKYO FINANCIAL GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)***Asset allocation*

The asset allocations of certain offices and subsidiaries in the United States of America in severance indemnities plans, contributory pension plans and non-contributory pension plans are as follows:

<u>Asset category</u>	<u>Asset ratio at December 31,</u>	
	<u>2003</u>	<u>2004</u>
Equity securities	68.25%	71.20%
Debt securities	29.19	28.43
Others	2.56	0.37
Total	100.0%	100.0%

*Investment policies*

Target asset allocation for funds of certain offices and subsidiaries in the United States of America is as follows:

<u>Asset category</u>	<u>Target asset allocation</u>
Equity securities	69.1%
Debt securities	30.9
Total	100.0%

The investment objective for pension plan of certain offices and subsidiaries in the United States of America is to optimize total return within reasonable and prudent levels of risk. The plan's asset allocation strategy is the principal determinant in achieving expected investment returns on the plan's assets. Actual asset allocations may fluctuate within acceptable ranges due to market value variability. If market fluctuations cause an asset class to fall outside of its strategic asset allocation range, the portfolio will be rebalanced as appropriate. Plan asset performance is compared against established indices and peer groups to evaluate whether the risk associated with the portfolio is appropriate for the level of

return.

*Basis and procedure for estimating long-term return of each asset class*

Certain offices and subsidiaries in the United States of America periodically reconsider the expected long-term rate of return for plan assets. They evaluate the investment return volatility of different asset classes and compare the liability structure of their plan to those of other companies, while considering their funding policy to maintain a funded status sufficient to meet participants' benefit obligations, and reducing long-term funding requirements and pension costs. Based on this information, certain offices and subsidiaries in the United States of America update adopting an expected long-term rate of return.

*Cash flows*

Certain offices and subsidiaries in the United States of America expect to contribute approximately ¥14.8 billion to pension plans in the fiscal year ending March 31, 2006 based upon their current funded status and expected asset return assumptions.

**Table of Contents****MITSUBISHI TOKYO FINANCIAL GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)***Estimated future benefit payments*

The following table presents benefit payments expected to be paid, which include the effect of expected future service for the years indicated:

	<b>Expected benefits</b>	
	<u>(in millions)</u>	
Fiscal year ending March 31:		
2006	¥	6,066
2007		7,595
2008		8,290
2009		9,055
2010		10,540
Thereafter (2011-2015)		68,963

**18. OTHER ASSETS AND LIABILITIES**

Major components of other assets and liabilities at March 31, 2004 and 2005 were as follows:

	<b>2004</b>	<b>2005</b>
	<u>(in millions)</u>	
Other assets:		
Accounts receivable:		
Receivables from brokers, dealers and customers for securities transactions	¥ 267,155	¥ 538,880
Other	255,988	304,782
Investments in equity method investees	104,407	361,898
Non-interest-earning deposits with the Special Fund and the New Fund (See Note 6)	140,828	145,103
Other	1,287,352	1,254,610
Total	¥ 2,055,730	¥ 2,605,273
Other liabilities:		
Accounts payable:		
Payables to brokers, dealers and customers for securities transactions	¥ 734,636	¥ 614,444
Other	409,455	489,565
Deferred tax liabilities	57,561	74,476
Allowance for off-balance-sheet credit instruments	110,671	69,506



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Accrued pension liability	190,237	184,200
Minority interest	363,948	437,620
Guarantees and indemnifications	21,566	29,364
Accrued and other liabilities	601,168	721,711
	<u>                    </u>	<u>                    </u>
Total	<u>¥ 2,489,242</u>	<u>¥ 2,620,886</u>

Investments in equity method investees include marketable equity securities carried at ¥33,977 million and ¥183,447 million, respectively, at March 31, 2004 and 2005. Corresponding aggregated market values were ¥67,165 million and ¥209,365 million, respectively.

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**MITSUBISHI TOKYO FINANCIAL GROUP, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**19. PREFERRED STOCK**

By the Articles of Incorporation, MTFG was originally authorized to issue 81,400 shares of Class 1 Preferred Stock, 100,000 shares of Class 2 Preferred Stock, 120,000 shares of Class 3 Preferred Stock and 120,000 shares of Class 4 Preferred Stock, without par value.

All classes of preferred stock to be issued are non-voting and have equal preference with MTFG's common stock for the payment of dividends and the distribution of assets in the event of a liquidation or dissolution of MTFG. They are all non-cumulative and non-participating with respect to dividend payments. Shareholders of Class 1, Class 2, Class 3 and Class 4 Preferred Stock receive a liquidation distribution at ¥3,000 thousand, ¥2,000 thousand, ¥2,500 thousand and ¥2,500 thousand per share, respectively, and do not have the right to participate in any further liquidation distributions.

*Class 1 Preferred Stock*

Class 1 Preferred Stock is redeemable at the option of MTFG. An annual dividend (not to exceed ¥82,500 per share) and redemption terms, including a redemption price, are stipulated by the Articles of Incorporation.

On January 21, 1999, BTM issued 81,400 thousand shares of Class 1 preferred stock at ¥3,000 per share (¥244,200 million in the aggregate). On April 2, 2001, MTFG issued 81,400 shares of Class 1 Preferred Stock in exchange for Class 1 preferred stock of BTM at an exchange ratio of one share of MTFG's Class 1 Preferred Stock for each 1,000 shares of BTM Class 1 preferred stock.

MTFG redeemed shares of Class 1 Preferred Stock at ¥3,000 thousand per share and appropriated ¥244.2 billion of capital surplus to use in redeeming the shares of Class 1 Preferred Stock through a resolution of the Board of Directors as provided for in the Code and the Articles of Incorporation of MTFG.

On October 1, 2004, MTFG redeemed 40,700 shares of the 81,400 issued shares of Class 1 Preferred Stock by appropriating ¥122.1 billion of capital surplus, rather than capital stock increased when Class 1 Preferred Stock was issued.

On April 1, 2005, MTFG also redeemed 40,700 shares of the 81,400 issued shares of Class 1 Preferred Stock by appropriating ¥122.1 billion of capital surplus.

*Class 2 Preferred Stock*

Class 2 Preferred Stock is convertible into common stock at the option of the shareholders during a conversion period. The conversion is mandatory on the date immediately following the closing date of the conversion period. At the time of issuance, the Board of Directors determines an issue price, an annual dividend (not to exceed ¥16,200 per share), and conversion terms, including a conversion period.

On March 31, 1999, Mitsubishi Trust issued 100,000 thousand shares of Class 1 preferred stock at ¥2,000 per share (¥200,000 million in the aggregate). On April 2, 2001, MTFG issued 100,000 shares of Class 2 Preferred Stock in exchange for Class 1 preferred stock of Mitsubishi Trust at an exchange ratio of one share of MTFG's Class 2 Preferred Stock for each 1,000 shares of Mitsubishi Trust's Class 1 preferred stock.

At the option of the shareholders, Class 2 Preferred Stock is convertible into common stock during the period from July 31, 2003 to July 31, 2008 at the initial conversion price of ¥1,357,559.2 per share. The conversion price is to be revised annually on August 1 of each year from 2003 through 2007 to reflect, with certain adjustments, as defined, the average market closing price of the common stock of MTFG traded on the

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**MITSUBISHI TOKYO FINANCIAL GROUP, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Tokyo Stock Exchange for the 30 business days starting from the 45th business day prior to the date of revision of the conversion price. The conversion price will not exceed the initial conversion price of ¥1,357,559.2 nor be below ¥696,878.5 unless certain events or circumstance, as defined, arise after the issuance of Class 2 Preferred Stock shares.

Class 2 Preferred Stock shares which are not converted at the option of the shareholders will be mandatorily converted into common stock on August 1, 2008, at the conversion price determined based on the average market closing price of the common stock traded on the Tokyo Stock Exchange for the 30 business days starting from the 45th business day prior to the date of mandatory conversion. In the event that the average market closing price is below the ¥714,285.0, the conversion price will be ¥714,285.0.

During the fiscal year ended at March 31, 2003, MTFG issued 489,694 of new shares of common stock at the price of ¥475,000 per share. As a result of the issuance of new shares of common stock, the initial conversion price of Class 2 Preferred Stock has been adjusted from ¥1,391,428.0 to ¥1,357,559.2, and the upper limit and the lower limit of the conversion price that will be revised annually has been adjusted from ¥1,391,428.0 to ¥1,357,559.2 and from ¥714,285.0 to ¥696,898.5, respectively.

On July 10, 2003, MTFG announced that, pursuant to the terms and conditions of Class 2 Preferred Stock provided in the Articles of Incorporation, the conversion price of the Class 2 Preferred Stock has been reset from ¥1,357,559.2 to ¥696,898.5 reflecting the low average market price of MTFG's common stock during the period before July 10, 2003. The reset conversion price is effective from August 1, 2003 to July 31, 2004.

On July 9, 2004, MTFG announced that, pursuant to the terms and conditions of Class 2 Preferred Stock provided in the Articles of Incorporation, the conversion price of the Class 2 Preferred Stock has been reset from ¥696,898.5 to ¥971,415.0 reflecting the high average market price of MTFG's common stock during the period before July 9, 2004. The reset conversion price is effective on and after August 1, 2004.

For the fiscal year ended March 31, 2004, 85,000 shares of Class 2 Preferred Stock were converted into 243,938 shares of common stock at the option of the shareholders and the outstanding Class 2 Preferred Stock was 15,000 shares at March 31, 2004.

As a consequence of the conversion, Class 2 Preferred Stock decreased by ¥85,000 million from ¥100,000 million at March 31, 2003 to ¥15,000 million at March 31, 2004 and common stock increased by ¥85,000 million from ¥984,708 million at March 31, 2003 to ¥1,069,708 million at March 31, 2004.

For the fiscal year ended March 31, 2005, 15,000 shares of Class 2 Preferred Stock were converted into 43,048 shares of common stock at the option of the shareholders. As a consequence of the conversion, Class 2 Preferred Stock decreased by ¥15,000 million and fully converted into

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common stock during the fiscal year ended March 31, 2005, so there was no Class 2 Preferred Stock outstanding at March 31, 2005. Additionally common stock increased by ¥15,000 million from ¥1,069,708 million at March 31, 2004 to ¥1,084,708 million at March 31, 2005 by the conversion.

For the fiscal years ended March 31, 2003, 2004 and 2005, Class 2 Preferred Stock was determined to be dilutive securities and was included in the computation of diluted earnings per common share.

### *Class 3 Preferred Stock*

Class 3 Preferred Stock is redeemable at the option of MTFG. At the time of issuance, the Board of Directors determines an issue price, an annual dividend (not to exceed ¥250,000 per share), and redemption terms, including a redemption price. No shares of the Class 3 Preferred Stock were issued and outstanding at March 31, 2004.

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**Table of Contents****MITSUBISHI TOKYO FINANCIAL GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

On February 17, 2005, MTFG issued 100,000 shares of Class 3 Preferred Stock at ¥2.5 million per share, the aggregate amount of the issue price being ¥250.0 billion. Class 3 Preferred Stock was issued by means of a third party allocation to Meiji Yasuda Life Insurance Company, Tokio Marine & Nichido Fire Insurance Co., Ltd. and Nippon Life Insurance Company. The Preferred Stock does not have voting rights at any general meetings of shareholders, unless otherwise provided by applicable laws and regulations. Preferred dividends are set to be ¥60,000 per share annually, except that the preferred dividends on the Class 3 Preferred Stock for the fiscal year ended March 31, 2005 were ¥7,069 per share.

***Class 4 Preferred Stock***

Class 4 Preferred Stock is convertible into common stock at the option of preferred stock shareholders during the conversion period. The conversion is mandatorily required on the date immediately following the closing date of the conversion period. At the time of issuance, the Board of Directors determines an issue price, an annual dividend (not to exceed ¥125,000 per share), and conversion terms, including the conversion period. No shares of the Class 4 Preferred Stock were issued and outstanding at March 31, 2004 and 2005.

MTFG may, at any time, repurchase and retire, at fair value, any Classes of Preferred Stock out of earnings available for distribution to shareholders.

**20. COMMON STOCK AND CAPITAL SURPLUS**

The changes in the number of issued shares of common stock during the fiscal years ended March 31, 2003, 2004 and 2005 were as follows:

	2003	2004	2005
	_____	_____	_____
	(shares)		
Balance at beginning of fiscal year	5,742,468	6,232,162	6,476,100
Issuance of new shares of common stock	489,694		
Issuance of new shares of common stock in exchange for the shares of Diamond Computer Service Co., Ltd. (Note 2)			26,205
Issuance of new shares of common stock by conversion of Class 2 Preferred Stock		243,938	43,048
	_____	_____	_____
Balance at end of fiscal year	6,232,162	6,476,100	6,545,353
	=====	=====	=====

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Under the Code, issuances of common stock, including conversions of bonds and notes, are required to be credited to the common stock account for at least 50% of the proceeds and to the legal capital surplus account ( legal capital surplus ) for the remaining amounts.

The Code permits Japanese companies, upon approval by the Board of Directors, to issue shares in the form of a stock split, as defined in the Code (see Note 1). Also, the Code prior to April 1, 1991 permitted Japanese companies to issue free share distributions. BTM and Mitsubishi Trust from time to time made free share distributions. These free distributions usually were from 5% to 10% of outstanding common stock and publicly-owned corporations in the United States issuing shares in similar transactions would be required to account for them as stock dividends as of the shareholders' record date by reducing retained earnings and increasing the appropriate capital accounts by an amount equal to the fair value of the shares issued. The application of such United States accounting practice to the cumulative free distributions made by BTM and Mitsubishi Trust at March 31, 2005, would have increased capital accounts by ¥1,910,106 million with a corresponding decrease in unappropriated retained earnings. MTFG did not issue shares in the form of stock split in any of three fiscal years ended March 31, 2005.

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**MITSUBISHI TOKYO FINANCIAL GROUP, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The Code permits, upon approval of the Board of Directors, the transfer of amounts from the legal capital surplus to the capital stock account.

The Code, as amended effective on October 1, 2001 (the Code Amendments ) permits Japanese companies to effect purchases of their own shares pursuant to a resolution by the shareholders at an annual general meeting until the conclusion of the following ordinary general meeting of shareholders, and to hold such shares as its treasury shares indefinitely regardless of purpose. However, the Code requires the amount of treasury stock purchased be within the amount of retained earnings available for dividends. Disposition of treasury stock is subject to the approval of the Board of Directors and is to follow the procedures similar to a public offering of shares for subscription. Prior to the amendment, in principle, reacquisition of treasury shares was prohibited with the exception of reacquisition for retirement and certain limited purposes, as specified by the Code. Any treasury shares were required to be disposed of in the near term.

***Parent Company Shares Held by Subsidiaries and Affiliated Companies***

At March 31, 2005, certain subsidiaries and affiliated companies owned shares of common stock of MTFG. Such shares are included in treasury stock in the accompanying consolidated balance sheets and deducted from MTFG's shareholders' equity. For the fiscal year ended March 31, 2003, the MTFG shares held by BTM were written down for tax purposes. The tax consequence of such write-down was treated as a capital transaction and credited to capital surplus.

**21. RETAINED EARNINGS, LEGAL RESERVE AND DIVIDENDS**

In addition to the Code, Japanese banks, including BTM and Mitsubishi Trust, are required to comply with the Banking Law of Japan (the Banking Law ).

***Legal Reserve Set Aside as Appropriation of Retained Earnings and Legal Capital Surplus***

***Under the Code***

Effective October 1, 2001, the Code Amendments provide that an amount at least equal to 10% of the aggregate amount of cash dividends and certain appropriations of retained earnings associated with cash outlays applicable to each period shall be appropriated and set aside as a legal reserve until the aggregate amount of legal reserve set aside as appropriation of retained earnings and the legal capital surplus equals 25% of stated capital as defined in the Code.



Prior to the Code Amendments, the Code provided that an amount at least equal to 10% of the aggregate amount of cash dividends and certain appropriations of retained earnings associated with cash outlays applicable to each period shall be appropriated and set aside as a legal reserve until such reserve equals 25% of common stock. The retained earnings so appropriated may be used to eliminate or reduce a deficit by resolution of the shareholders or may be transferred to capital stock by resolution of the Board of Directors.

*Under the Banking Law*

In line with the Code Amendments, on June 29, 2001, amendments to the Banking Law (the Banking Law Amendments ) were promulgated and became effective on October 1, 2001. The Banking Law Amendments provide that an amount at least equal to 20% of the aggregate amount of cash dividends and certain appropriations of retained earnings associated with cash outlays applicable to each fiscal period shall be appropriated and set aside as a legal reserve until the aggregate amount of legal reserve set aside as appropriation of retained earnings and the legal capital surplus equals 100% of stated capital as defined in the Code.

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**MITSUBISHI TOKYO FINANCIAL GROUP, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Prior to the Banking Law Amendments, the Banking Law provided that an amount at least equal to 20% of the aggregate amount of cash dividends and certain appropriations of retained earnings associated with cash outlays applicable to each fiscal period shall be appropriated and set aside as a legal reserve until such reserve equals 100% of stated capital as defined in the Code. The retained earnings so appropriated may be used to eliminate or reduce a deficit by resolution of the shareholders or may be transferred to capital stock by resolution of the Board of Directors.

*Transfer of Legal Reserve*

*Under the Code Amendments*

Effective October 1, 2001, under the Code Amendments, Japanese companies, including MTFG, are permitted, pursuant to a resolution by the shareholders at a general meeting, to make legal reserve set aside as appropriation of retained earnings and legal capital surplus available for dividends until the aggregate amount of the legal reserve and legal capital surplus equals 25% of stated capital as defined in the Code, which were formerly permitted only to reduce deficit and to transfer to stated capital as defined in the Code.

*Under the Banking Law Amendments*

Effective October 1, 2001, under the Banking Law Amendments, Japanese banks, including BTM and Mitsubishi Trust, are permitted, pursuant to a resolution by the shareholders at a general meeting, to make legal reserve set aside as appropriation of retained earnings and legal capital surplus available for dividends until the aggregate amount of the legal reserve and legal capital surplus equals 100% of stated capital as defined in the Code.

The Code permits the transfer, upon approval of the shareholders, of a portion of unappropriated retained earnings available for dividends to stated capital as defined in the Code.

*Unappropriated Retained Earnings and Dividends*

Under the Code, the amount available for dividends is based on the amount recorded in MTFG's general books of account maintained in accordance with accounting principles generally accepted in Japan ( Japanese GAAP ). The adjustments included in the accompanying consolidated financial statements but not recorded in MTFG's general books of account as explained in Note 1 have no effect on the determination of retained earnings available for dividends under the Code. In addition to the provision that requires an appropriation for legal

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reserve as described above, the Code and the Banking Law impose certain limitations on the amount available for dividends. Under the Banking Law, MTFG, BTM and Mitsubishi Trust have to meet the minimum capital adequacy requirements and distributions of retained earnings of MTFG, BTM and Mitsubishi Trust, which are otherwise distributable to shareholders, are restricted in order to maintain the minimum 4.0% Tier I capital for capital adequacy purpose.

MTFG was established on April 2, 2001 with common stock of ¥924,400 million, preferred stock of ¥222,100 million, legal capital surplus of ¥2,838,693 million and no retained earnings in accordance with the Code and Japanese GAAP.

MTFG's amount available for dividends, at March 31, 2005, is ¥716,801 million, which is based on the amount recorded in MTFG's general books of account under Japanese GAAP.

Annual dividends, including those for preferred stock, are approved by the shareholders at an annual general meeting held subsequent to the fiscal year to which the dividends are applicable. In addition, a semi-annual

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**MITSUBISHI TOKYO FINANCIAL GROUP, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

interim dividend payment may be made by resolution of the Board of Directors, subject to limitations imposed by the Code and the Banking Law.

In the accompanying consolidated statements of shareholders' equity, dividends and appropriations to legal reserve shown for each fiscal year represent dividends approved and paid during the fiscal year and the related appropriation to legal reserve.

**22. REGULATORY CAPITAL REQUIREMENTS**

*Japan*

MTFG, BTM and Mitsubishi Trust are subject to various regulatory capital requirements promulgated by the regulatory authorities of the countries in which they operate. Failure to meet minimum capital requirements will initiate certain mandatory actions by regulators that, if undertaken, could have a direct material effect on MTFG's consolidated financial statements.

In Japan, MTFG, BTM, and Mitsubishi Trust are subject to regulatory capital requirements administered by the FSA in accordance with the provisions of the Banking Law and related regulations. A banking institution is subject to the minimum capital adequacy requirements both on a consolidated basis and a stand-alone basis, and is required to maintain the minimum capital irrespective of whether it operates independently or as a subsidiary under the control of another company. When a bank holding company manages operations of its banking subsidiaries, it is required to maintain the minimum capital adequacy ratio on a consolidated basis in the same manner as its subsidiary banks. The FSA provides two sets of capital adequacy guidelines. One is a set of guidelines applicable to Japanese banks and bank holding companies with foreign offices conducting international operations, as defined, and the other is applicable to Japanese banks and bank holding companies that are not engaged in international operations.

Under the capital adequacy guidelines applicable to a Japanese banking institution with international operations conducted by foreign offices, the minimum target capital ratio of 8.0% is required. The capital adequacy guidelines adopt the approach of risk-weighted capital measure based on the framework developed and proposed by the Basel Committee on Banking Supervision of the Bank for International Settlements and involve quantitative credit measures of the assets and certain off-balance-sheet items as calculated under Japanese GAAP. The MTFG Group's proprietary assets do not include trust assets under management and administration in a capacity of agent or fiduciary and, accordingly trust account assets are generally not included in the capital measure. However, guarantees for trust principal are counted as off-balance-sheet items requiring a capital charge in accordance with the capital adequacy guidelines. Also, a banking institution engaged in certain qualified trading activities, as defined, is required to calculate an additional capital charge for market risk using either the institution's own internal risk measurement model or a standardized process proposed and defined by the Bank for International Settlements. Capital is classified into three tiers, referred to as Tier I, Tier II and Tier III. Tier I generally consists of shareholders' equity (including common stock, preferred stock, capital surplus, minority interests and retained earnings) less any recorded goodwill. Tier II generally consists of general reserves for credit losses up to 1.25% of risk-weighted assets, 45% of the unrealized gains on investment securities available for sale, 45% of the land revaluation excess, the balance of perpetual subordinated debt and the balance of subordinated term debt with an original maturity of over five years subject to some

limitations, up to 50% of Tier I capital. Preferred stocks are includable in Tier I capital unless the preferred stocks have a fixed maturity, in which case, such preferred stocks will be components of Tier II capital. Tier III capital generally consists of short-term subordinated debt with an original maturity of at least two years, subject to certain limitations. At least 50% of the minimum capital requirements must be maintained in the form of Tier I capital.

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**MITSUBISHI TOKYO FINANCIAL GROUP, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

If a banking institution is not engaged in international operations conducted by foreign offices, it is subject to the other set of capital adequacy requirements with a minimum target capital ratio of 4.0%. Such guidelines incorporate measures of risk under the risk-weighted approach similar to the guidelines applicable to banking institutions with international operations. Qualifying capital is classified into Tier I and Tier II capital.

The Banking Law and related regulations require that one of three categories be assigned to banks and bank holding companies, based on its risk-adjusted capital adequacy ratio if the bank fails to meet the minimum target capital adequacy ratio. These categories indicate capital deterioration, which may be subject to certain prompt corrective action by the FSA.

MTFG, BTM and Mitsubishi Trust have international operations conducted by foreign offices, as defined, and are subject to the 8.0% capital adequacy requirement. For the purpose of calculating the additional charge for market risk, MTFG, BTM and Mitsubishi Trust have adopted the internal risk measurement model approach for general market risk calculations.

**Table of Contents****MITSUBISHI TOKYO FINANCIAL GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The risk-adjusted capital amounts and ratios of MTFG, BTM and Mitsubishi Trust presented in the following table are based on amounts calculated in accordance with Japanese GAAP as required by the FSA.

	Actual		For capital adequacy purposes	
	Amount	Ratio	Amount	Ratio
(in millions, except percentages)				
Consolidated:				
At March 31, 2004:				
Total capital (to risk-weighted assets):				
MTFG	¥ 6,992,757	12.95%	¥ 4,319,742	8.00%
BTM	5,279,586	11.97	3,527,511	8.00
Mitsubishi Trust	1,520,957	15.03	809,370	8.00
Tier I capital (to risk-weighted assets):				
MTFG	3,859,428	7.14	2,159,871	4.00
BTM	2,876,007	6.52	1,763,756	4.00
Mitsubishi Trust	785,997	7.76	404,685	4.00
At March 31, 2005:				
Total capital (to risk-weighted assets):				
MTFG	¥ 6,622,635	11.76%	¥ 4,501,646	8.00%
BTM	5,520,653	11.83	3,733,030	8.00
Mitsubishi Trust	1,258,291	12.72	791,014	8.00
Tier I capital (to risk-weighted assets):				
MTFG	4,286,766	7.62	2,250,823	4.00
BTM	3,199,568	6.86	1,866,515	4.00
Mitsubishi Trust	877,181	8.87	395,507	4.00
Stand-alone:				
At March 31, 2004:				
Total capital (to risk-weighted assets):				
BTM	¥ 4,677,718	12.18%	¥ 3,070,027	8.00%
Mitsubishi Trust	1,512,477	15.16	797,631	8.00
Tier I capital (to risk-weighted assets):				
BTM	2,437,541	6.35	1,535,014	4.00
Mitsubishi Trust	776,068	7.78	398,816	4.00
At March 31, 2005:				
Total capital (to risk-weighted assets):				
BTM	¥ 4,925,209	12.22%	¥ 3,224,668	8.00%
Mitsubishi Trust	1,242,356	12.68	783,799	8.00
Tier I capital (to risk-weighted assets):				
BTM	2,733,885	6.78	1,612,334	4.00
Mitsubishi Trust	858,439	8.76	391,899	4.00

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The MTFG Group has securities subsidiaries in Japan and overseas, which are also subject to regulatory capital requirements. In Japan, the Securities and Exchange Law and related ordinance require securities firms to maintain a minimum capital ratio of 120% calculated as a percentage of capital accounts less certain fixed assets, as determined in accordance with Japanese GAAP, against amounts equivalent to market, counterparty credit and operations risks. Specific guidelines are issued as a ministerial ordinance which details the definition of essential components of the capital ratios, including capital, deductible fixed asset items and risks, and related measures. Failure to maintain a minimum capital ratio will trigger mandatory regulatory actions. A capital ratio of less than

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**Table of Contents****MITSUBISHI TOKYO FINANCIAL GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

140% will call for regulatory reporting and a capital ratio of 100% or less may lead to a suspension of all or part of the business for a period of time and cancellation of a license. Overseas securities subsidiaries are subject to the relevant regulatory capital requirements of the countries or jurisdictions in which they operate.

Management believes, as of March 31, 2005, that MTFG, BTM, Mitsubishi Trust and other regulated securities subsidiaries meet all capital adequacy requirements to which they are subject.

*United States of America*

In the United States of America, UNBC and its banking subsidiary Union Bank of California, N.A. ( UBOC ), BTM's largest subsidiaries operating outside Japan, are subject to various regulatory capital requirements administered by U.S. Federal banking agencies, including minimum capital requirements. Under the capital adequacy guidelines and the regulatory framework for prompt corrective action, UNBC and UBOC must meet specific capital guidelines that involve quantitative measures of UNBC's and UBOC's assets, liabilities, and certain off-balance-sheet items as calculated under U.S. regulatory accounting practices. UNBC's and UBOC's capital amounts and UBOC's prompt corrective action classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require UNBC and UBOC to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier I capital (as defined) to quarterly average assets (as defined).

UNBC's and the UBOC's actual capital amounts and ratios are presented as follows:

	Actual		For capital adequacy purposes	
	Amount	Ratio	Amount	Ratio
(in millions, except percentages)				
UNBC:				
At December 31, 2003:				
Total capital (to risk-weighted assets)	\$ 4,684	14.14%	\$ 2,651	8.00%
Tier I capital (to risk-weighted assets)	3,748	11.31	1,325	4.00
Tier I capital (to quarterly average assets)	3,748	9.03	1,660	4.00
At December 31, 2004:				

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Total capital (to risk-weighted assets)	\$ 4,786	12.17%	\$ 3,146	8.00%
Tier I capital (to risk-weighted assets)	3,818	9.71	1,573	4.00
Tier I capital (to quarterly average assets)	3,818	8.09	1,887	4.00

Actual		For capital adequacy purposes		Ratios OCC requires to be well capitalized	
				Amount	Ratio

(in millions, except percentages)

UBOC:

At December 31, 2003:

Total capital (to risk-weighted assets)	\$ 3,863	11.88%	\$ 2,602	8.00%	\$ 3,253	10.00%
Tier I capital (to risk-weighted assets)	3,396	10.44	1,301	4.00	1,952	6.00
Tier I capital (to quarterly average assets)	3,396	8.30	1,637	4.00	2,046	5.00

At December 31, 2004:

Total capital (to risk-weighted assets)	\$ 4,091	10.57%	\$ 3,097	8.00%	\$ 3,871	10.00%
Tier I capital (to risk-weighted assets)	3,598	9.29	1,548	4.00	2,323	6.00
Tier I capital (to quarterly average assets)	3,598	7.72	1,864	4.00	2,329	5.00

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**Table of Contents****MITSUBISHI TOKYO FINANCIAL GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Management believes, as of December 31, 2004, that UNBC and UBOC met all capital adequacy requirements to which they are subject.

As of December 31, 2003 and 2004, the most recent notification from the U.S. Office of the Comptroller of the Currency ( OCC ) categorized UBOC as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, UBOC must maintain minimum total risk-based, Tier I risk-based, and Tier I leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed UBOC's category.

**23. EARNINGS PER COMMON SHARE**

Reconciliations of net income and weighted average number of common shares outstanding used for the computation of basic earnings per common share to the adjusted amounts for the computation of diluted earnings per common share for the fiscal years ended March 31, 2003, 2004 and 2005 were as follows:

	<u>2003</u>	<u>2004</u>	<u>2005</u>
	(in millions)		
<b>Income (Numerator):</b>			
Income from continuing operations before cumulative effect of a change in accounting principle	¥ 193,607	¥ 823,587	¥ 416,132
Income (loss) from discontinued operations	10,370	(585)	
Cumulative effect of a change in accounting principle	(532)		(977)
	<u>203,445</u>	<u>823,002</u>	<u>415,155</u>
Net income	203,445	823,002	415,155
Income allocable to preferred shareholders	(12,504)	(7,981)	(6,837)
	<u>¥ 190,941</u>	<u>¥ 815,021</u>	<u>¥ 408,318</u>
Income available to common shareholders	¥ 190,941	¥ 815,021	¥ 408,318
Effect of dilutive securities:			
Convertible preferred stock (Class 2)	¥ 2,430	¥ 1,265	¥ 121
3% Exchangeable Guaranteed Notes redeemed on November 30, 2002	(10,660)		
Convertible debt Mitsubishi Securities		(939)	(418)
Stock options Mitsubishi Securities.		(8)	(5)
Stock options UNBC		(554)	(894)
	<u>¥ 182,711</u>	<u>¥ 814,785</u>	<u>¥ 407,122</u>
Income available to common shareholders and assumed conversions	¥ 182,711	¥ 814,785	¥ 407,122
	<u>2003</u>	<u>2004</u>	<u>2005</u>
	(thousands of shares)		

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<b>Shares (Denominator):</b>			
Weighted average common shares outstanding	5,617	6,350	6,510
Effect of dilutive securities:			
Convertible preferred stock (Class 2)	147	167	6
3% Exchangeable Guaranteed Notes redeemed on November 30, 2002	99		
	<u>          </u>	<u>          </u>	<u>          </u>
Weighted average common shares for diluted computation	5,863	6,517	6,516
	<u>          </u>	<u>          </u>	<u>          </u>

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**Table of Contents****MITSUBISHI TOKYO FINANCIAL GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

	<u>2003</u>	<u>2004</u>	<u>2005</u>
	(in yen)		
<b>Amounts per share:</b>			
Basic earnings per common share:			
Income from continuing operations available to common shareholders before cumulative effect of a change in accounting principle	¥ 32,240.37	¥ 128,443.00	¥ 62,867.28
Income (loss) from discontinued operations	1,846.09	(92.12)	
Income available to common shareholders before cumulative effect of a change in accounting principle	34,086.46	128,350.88	62,867.28
Cumulative effect of a change in accounting principle	(94.71)		(150.07)
Net income available to common shareholders	<u>¥ 33,991.75</u>	<u>¥ 128,350.88</u>	<u>¥ 62,717.21</u>
Diluted earnings per common share:			
Income from continuing operations available to common shareholders before cumulative effect of a change in accounting principle	¥ 29,486.78	¥ 125,123.73	¥ 62,626.69
Income (loss) from discontinued operations	1,768.80	(89.77)	
Income available to common shareholders before cumulative effect of a change in accounting principle	31,255.58	125,033.96	62,626.69
Cumulative effect of a change in accounting principle.	(90.74)		(149.93)
Net income available to common shareholders	<u>¥ 31,164.84</u>	<u>¥ 125,033.96</u>	<u>¥ 62,476.76</u>

For the fiscal year ended March 31, 2003, Class 2 Preferred Stock and 3% Exchangeable Guaranteed Notes due 2002 that had been redeemed in November 2002 were included in the computation of diluted earnings per common share. For the fiscal year ended March 31, 2004, Class 2 Preferred Stock, convertible securities and stock options issued by the subsidiaries that could potentially dilute earnings per common share in the future were included in the computation of diluted earnings per common share. The convertible securities are 1 1/4% Convertible Bonds due 2013 and 1/4% Convertible Bonds due 2014 issued by Mitsubishi Securities. The stock options are based on the stock-based compensation plans of Mitsubishi Securities and UNBC. For the fiscal year ended March 31, 2005, Class 2 Preferred Stock, convertible securities and stock options issued by the subsidiaries that could potentially dilute earnings per common share in the future were included in the computation of diluted earnings per common share. The convertible securities are 1/4% Convertible Bonds due 2014 issued by Mitsubishi Securities. The stock options are based on the stock-based compensation plans of Mitsubishi Securities and UNBC.

In computing the number of the dilutive potential common shares for the fiscal year ended March 31, 2003 and 2004, Class 2 Preferred Stock has been based at the conversion price at each fiscal year-end date (i.e., ¥1,357,559.2 and ¥696,898.5, respectively). For the fiscal year ended March 31, 2005, Class 2 Preferred Stock has been based at the conversion price at the date of conversion of the Class 2 Preferred Stock into common stock (i.e., ¥971,415.0).

**24. DERIVATIVE FINANCIAL INSTRUMENTS**

The MTFG Group uses various derivative financial instruments both for trading purposes and for purposes other than trading (primarily risk management purposes) in the normal course of business to meet the financial needs of its customers, as a source of revenue and to manage its exposures to a variety of risks. The MTFG Group is a party to derivatives, including swaps, forwards, options and other types of derivatives, dealing

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**MITSUBISHI TOKYO FINANCIAL GROUP, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

primarily with market risk associated with interest rate, foreign currency, equity and commodity prices, and credit risk associated with counterparty's nonperformance of transactions.

Market risk is the possibility that future changes in market indices make the financial instruments less valuable. Credit risk is the possibility that a loss may result from a counterparty's failure to perform according to the terms and conditions of the contract, which may exceed the value of underlying collateral. To reduce credit risk, the MTFG Group may require collateral or guaranties based on a case-by-case assessment of creditworthiness of each customer and evaluation of the instrument. The MTFG Group also uses master netting agreements in order to mitigate overall counterparty credit risk.

***Trading Activities***

The MTFG Group's trading activities include dealing and other activities measured at fair value with gains and losses recognized currently in earnings. As part of its trading activities, the MTFG Group offers a variety of derivative financial instruments and debt instruments for managing interest rate and foreign exchange risk to its domestic and foreign corporate and financial institution customers. The MTFG Group also enters into other types of derivative transactions, including equity and credit-related contracts, for its own account.

***Risk Management Activities***

As part of risk management activities, the MTFG Group uses certain derivative financial instruments to manage its interest rate and currency exposures. The MTFG Group maintains an overall interest rate risk management strategy that incorporates the use of interest rate contracts to minimize significant unplanned fluctuations in earnings that are caused by interest rate volatility. The MTFG Group's goal is to manage interest rate sensitivity so that movements in interest rates do not adversely affect net interest income. As a result of interest rate fluctuations, hedged fixed-rate assets and liabilities appreciate or depreciate in market value. Gains or losses on the derivative instruments that are linked to the hedged fixed-rate assets and liabilities are expected to substantially offset this unrealized appreciation or depreciation. Interest income and interest expense on hedged variable-rate assets and liabilities, respectively, increase or decrease as a result of interest rate fluctuations. Gains and losses on the derivative instruments that are linked to these hedged assets and liabilities are expected to substantially offset this variability in earnings.

The MTFG Group enters into interest rate swaps and other contracts as part of its interest rate risk management strategy primarily to alter the interest rate sensitivity of its loans, investment securities and deposit liabilities. The MTFG Group's principal objectives in risk management include asset and liability management. Asset and liability management is viewed as one of the methods for the MTFG Group to manage its interest rate exposures on interest-bearing assets and liabilities. Interest rate contracts, which are generally non-leveraged generic interest rate and basis swaps, options and futures, allow the MTFG Group to effectively manage its interest rate risk position. Option contracts primarily consist of caps, floors, swaptions and options on index futures. Futures contracts used for asset and liability management activities are primarily index futures providing for cash payments based upon the movement of an underlying rate index. The MTFG Group enters into forward exchange contracts, currency swaps and other contracts in response to currency exposures resulting from on-balance-sheet assets and liabilities

denominated in foreign currencies in order to limit the net foreign exchange position by currency to an appropriate level.

The risk management activities reduce the MTFG Group's risk exposures economically, however, derivatives used for the risk management activities often fail to meet certain conditions to qualify for hedge accounting and the MTFG Group accounts for such derivatives as trading positions.



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**MITSUBISHI TOKYO FINANCIAL GROUP, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

For the fiscal years ended March 31, 2004 and 2005, except for derivative transactions conducted by certain foreign subsidiaries, the MTFG Group accounted for derivatives held for risk management purposes as trading positions and measured them at fair value.

***Embedded Derivatives***

Derivative features embedded in other non-derivative host contracts are separated from the host contracts and measured at fair value when they are not clearly and closely related to the host contract and meet the definition of a derivative. The change in the fair value of such an embedded derivative is recognized currently in earnings, unless it is qualified as a hedge. The carrying amount is reported on the consolidated balance sheet with the host contract. The MTFG Group accounts for credit-linked notes as host contracts with embedded derivatives and measures the entire contracts at fair value.

***UNBC***

Derivative positions are integral components of the UNBC's designated asset and liability management activities. UNBC uses interest rate derivatives to manage the sensitivity of the UNBC's net interest income to changes in interest rates. These instruments are used to manage interest rate risk relating to specified groups of assets and liabilities, primarily LIBOR-based commercial loans, certificates of deposit, medium-term notes and subordinated debt.

***Cash Flow Hedges Hedging Strategies for Variable Rate Loans and Certificates of Deposit***

UNBC engages in several types of cash flow hedging strategies for which the hedged transactions are forecasted future loan interest payments, and the hedged risk is the variability in those payments due to changes in the designated benchmark rate, e.g., U.S. dollar LIBOR. In these strategies, the hedging instruments are matched with groups of variable rate loans such that the tenor of the variable rate loans and that of the hedging instrument are identical. Cash flow hedging strategies include the utilization of purchased floor, cap, corridor options and interest rate swaps. At December 31, 2004, the weighted average remaining life of the currently active (excluding any forward positions) cash flow hedges was approximately 1.3 years.

UNBC uses purchased interest rate floors to hedge the variable cash flows associated with 1-month LIBOR or 3-month LIBOR indexed loans. Payments received under the floor contract offset the decline in loan interest income caused by the relevant LIBOR index falling below the floor's strike rate.

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UNBC uses interest rate floor corridors to hedge the variable cash flows associated with 1-month LIBOR or 3-month LIBOR indexed loans. Net payments to be received under the floor corridor contracts offset the decline in loan interest income caused by the relevant LIBOR index falling below the corridor's upper strike rate, but only to the extent the index falls to the lower strike rate. The corridor will not provide protection from declines in the relevant LIBOR index to the extent it falls below the corridor's lower strike rate.

UNBC uses interest rate collars to hedge the variable cash flows associated with 1-month LIBOR or 3-month LIBOR indexed loans. Net payments to be received under the collar contract offset the decline in loan interest income caused by the relevant LIBOR index falling below the collar's floor strike rate while net payments to be paid will reduce the increase in loan interest income caused by the LIBOR index rising above the collar's cap strike rate.

UNBC uses interest rate swaps to hedge the variable cash flows associated with 1-month LIBOR or 3-month LIBOR indexed loans. Payments to be received (or paid) under the swap contract will offset the fluctuations in loan interest income caused by changes in the relevant LIBOR index. As such, these instruments hedge all fluctuations in the loans' interest income caused by changes in the relevant LIBOR index.

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UNBC uses purchased interest rate caps to hedge the variable interest cash flows associated with the forecasted issuance and rollover of short-term, fixed rate, negotiable certificates of deposit ( CD ). In these hedging relationships, UNBC hedges the LIBOR component of the CD rates, which is either 3-month LIBOR or 6-month LIBOR, based on the CDs' original term to maturity, which reflects their repricing frequency. Net payments to be received under the cap contract offset the increase in interest expense caused by the relevant LIBOR index rising above the cap's strike rate.

UNBC uses interest rate cap corridors to hedge the variable cash flows associated with the forecasted issuance and rollover of short-term, fixed rate, negotiable CDs. In these hedging relationships, UNBC hedges the LIBOR component of the CD rates, either 1-month LIBOR, 3-month LIBOR, or 6-month LIBOR, based on the original term to maturity of the CDs, which reflects their repricing frequency. Net payments to be received under the cap corridor contract offset the increase in deposit interest expense caused by the relevant LIBOR index rising above the corridor's lower strike rate, but only to the extent the index rises to the upper strike rate. The corridor will not provide protection from increases in the relevant LIBOR index to the extent it rises above the corridor's upper strike rate.

Hedging transactions are structured at inception so that the notional amounts of the hedge are matched with an equal principal amount of loans or CDs, the index and repricing frequencies of the hedge matches those of the loans or CDs, and the period in which the designated hedged cash flows occurs is equal to the term of the hedge. As such, most of the ineffectiveness in the hedging relationship results from the mismatch between the timing of reset dates on the hedge versus those of the loans or CDs. In 2004, UNBC recognized a net loss of \$1.8 million due to ineffectiveness, which is recognized in Non-interest expense, compared to a net gain of \$0.9 million in 2003.

For cash flow hedges, based upon amounts included in accumulated other comprehensive income at March 31, 2005, the MTFG Group expects to realize approximately ¥1.4 billion in net interest income for the fiscal year ending March 31 2006. This amount could differ from amounts actually realized due to changes in interest rates and the addition of other hedges subsequent to March 31, 2005.

*Fair Value Hedges Hedging Strategy for Marketpath Certificates of Deposit*

UNBC engages in a hedging strategy in which interest bearing CDs issued to customers, which are tied to the changes in the Standard and Poor's 500 index, are exchanged for a fixed rate of interest. UNBC accounts for the embedded derivative in the CDs at fair value. A total return swap that encompasses the value of a series of options that had individually hedged each CD is valued at fair value and any ineffectiveness resulting from the hedge and the hedged item are recognized in non-interest expense.

*Hedging Strategy for UNBC Junior Subordinated Debt Payable to Subsidiary Grantor Trust (Trust Notes)*

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On February 19, 2004, UNBC terminated its fair value hedge and called its Trust Notes. Prior to this date, UNBC engaged in an interest rate hedging strategy in which an interest rate swap was associated with a specific interest bearing liability, UNBC's Trust Notes, in order to convert the liability from a fixed rate to a floating rate instrument. This strategy mitigated the changes in fair value of the hedged liability caused by changes in the designated benchmark interest rate, U.S. dollar LIBOR. The fair value hedging transaction was structured at inception so that the notional amount of the swap matched an associated principal amount of the Trust Notes. The interest payment dates, the expiration date, and the embedded call option of the swap matched those of the Trust Notes. The ineffectiveness on the fair value hedges in 2004 was a net gain of \$1.6 million, realized upon the termination of the swap on February 19, 2004, compared to a net gain of less than \$0.1 million in 2003.

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Liabilities of trust accounts	3,886	3,600	10	5	11	260
Other	309	309				
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total	¥ 32,043	¥ 23,365	¥ 2,878	¥ 1,632	¥ 2,196	¥ 1,972
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

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At March 31, 2005	Maximum potential/ Contractual or Notional amount (Restated)	Amount by expiration period				
		Less than	1-2	2-3	3-5	Over
		1 year (Restated)	years (Restated)	years (Restated)	years (Restated)	5 years (Restated)
(in billions)						
Standby letters of credit and financial guarantees	¥ 2,641	¥ 1,284	¥ 126	¥ 102	¥ 248	¥ 881
Performance guarantees	1,374	780	214	116	186	78
Derivative instruments	16,728	10,165	2,260	1,838	1,551	914
Guarantees for the repayment of trust principal	1,790	228	1,022	286	246	8
Liabilities of trust accounts	3,241	2,915	15	13	19	279
Other	512	512				
<b>Total</b>	<b>¥ 26,286</b>	<b>¥ 15,884</b>	<b>¥ 3,637</b>	<b>¥ 2,355</b>	<b>¥ 2,250</b>	<b>¥ 2,160</b>

Subsequent to the issuance of the MTFG Group's consolidated financial statements for the fiscal year ended March 31, 2005, management determined that the contractual amounts of obligations under guarantees for the fiscal year ended March 31, 2004 and March 31, 2005 were erroneously disclosed. These errors had no impact on the consolidated financial position or results of operations. As a result, such amounts have been restated from the amounts previously reported as follows:

	Maximum potential/ Contractual or Notional amount		Amount by expiration period									
			Less than 1 year		1-2 years		2-3 years		3-5 years		Over 5 years	
	As previously reported	As restated	As previously reported	As restated	As previously reported	As restated	As previously reported	As restated	As previously reported	As restated	As previously reported	As restated
(in billions)												
<b>At March 31, 2004</b>												
Standby letters of credit and financial guarantees	¥ 2,747	¥ 2,747	¥ 1,074	¥ 1,371	¥ 201	¥ 123	¥ 164	¥ 80	¥ 260	¥ 135	¥ 1,048	¥ 1,038
Performance guarantees	1,213	1,213	662	677	199	191	128	125	139	135	85	85
<b>At March 31, 2005</b>												
Standby letters of credit and financial guarantees	¥ 3,913	¥ 2,641	¥ 965	¥ 1,284	¥ 661	¥ 126	¥ 262	¥ 102	¥ 690	¥ 248	¥ 1,335	¥ 881
Performance guarantees	1,374	1,374	271	780	564	214	194	116	214	186	131	78

*Nature of guarantee contracts*

Standby letters of credit and financial guarantees generally include an obligation of an issuer or a designated third party to guarantee the performance of the customer to the beneficiary under the terms of contracts such as lending contracts and other similar financial transactions. The MTFG Group is required to make payments to the guaranteed parties in the events that the customers fail to fulfill the obligations under the contracts. The guarantees whose contractual maturities are over 5 years are mainly comprised of guarantees of housing loans.

Performance guarantees are the contracts that contingently require the MTFG Group to make payments to the guaranteed party based on another party's failure to perform under an obligating agreement, except financial obligation. For example, performance guarantees include guarantees of completion of construction projects.



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**MITSUBISHI TOKYO FINANCIAL GROUP, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Liquidity facilities may include a provision of guarantees of collection of contractual cash flows under an asset securitization structure, involving variable interest entities. Such guarantee provisions protect the beneficiary of an asset securitization from negative returns relating to shortfalls of cash collections on the underlying assets held by the securitization vehicle. See Note 26 for additional information on the MTFG Group's operations regarding variable interest entities.

Derivative instruments that are deemed to be included within the definition of guarantees as prescribed in FIN No. 45 include certain written options and credit default swaps. In order for the MTFG Group to determine if those derivative instruments meet the definition of guarantees as prescribed in FIN No. 45, the MTFG Group has to track whether the counterparties are actually exposed to the losses that will result from the adverse change in the underlyings. Accordingly, the MTFG Group has disclosed information on all credit default swaps and certain written options for which there is a possibility of meeting the definition of guarantees as prescribed in FIN No. 45, regardless of whether the counterparties have assets or liabilities related to the underlyings of the derivatives.

Guarantees for the repayment of trust principal include guarantees which the MTFG Group provides for the repayment of principal of certain types of trust products, including certain jointly operated designated money in trusts and loan trusts. The MTFG Group manages and administers trust assets in a capacity of agent or fiduciary on behalf of its customers and trust assets are segregated from the assets of the MTFG Group, which keeps separate records for the trust activities. The MTFG Group, in principle, does not assume any risks associated with the trust assets under management, however, as permitted by applicable laws, the MTFG Group provides guarantees for the repayment of principal of such trust products. At March 31, 2004 and 2005, the contract amounts of such guarantees for repayment of trust principal were ¥2,080 billion and ¥1,790 billion, respectively. The accounting methods used for the segregated records of trust activities are different from financial accounting principles and practices. However, the MTFG Group follows an approach similar to those used for its own assets to identify an impairment of an asset included in the trusts with guaranteed principal, with inherent variations peculiar to trust accounting. Amounts of loans deemed to be impaired are written off directly and are charged to the trust account profits earned during the trust accounting period. Write-downs of securities are also directly charged to the trust account profits. The amounts of trust assets written-off in the segregated records were ¥9,406 million and ¥3,313 million, respectively, for the fiscal years ended March 31, 2004 and 2005. These amounts of write-offs were reflected in the segregated records as deductions before net profits earned by trust accounts for the accounting period. In addition, part of trust account profits are set aside as a reserve to absorb losses in the trust asset portfolios in the segregated records in accordance with relevant legislation concerning the trust business and/or trust agreements. Statutory reserves for loan trusts are established at a rate of 4.0% of the trust fees up to the amounts of 0.5% of the trust principal in accordance with the legislation. Reserves for jointly operated designated money in trusts are established at a rate of 0.3% of the balance of loans and other assets in the trust account assets in accordance with the related trust agreement. The amounts of such reserves set aside in the segregated records were ¥6,934 million and ¥5,389 million, respectively, at March 31, 2004 and 2005. The MTFG Group is required to provide an allowance for off-balance-sheet instruments on such guarantees in the financial statements only when aggregate losses on trust assets are judged to exceed the reserve and the profit earned by the trust account, and the principal is deemed to be impaired. Management believes that the MTFG Group will not incur any losses on the guarantees.

Liabilities of trust accounts represent the trustee's potential responsibility for temporary payments to creditors of liabilities of trust accounts making use of funds of the MTFG Group, except for the certain trust agreements that have provisions limiting the MTFG Group's responsibility as a trustee to the trust account assets. A trust may incur external liabilities to finance its activities and obtain certain services during the terms of the trust arrangement. While, in principle, any liabilities of a trust are payable by the trust account and its beneficiaries, a trustee's responsibility may be interpreted to encompass temporary payments for the trust account liabilities when the trust account has insufficient liquidity available for such liabilities. At March 31,



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2004 and 2005, there were liabilities of ¥3,886 billion and ¥3,241 billion, respectively, in the segregated records of trust accounts including the amounts related to liabilities with provisions limiting of trustee responsibility. Liabilities of trust accounts principally included obligations to return collateral under security lending transactions. The MTFG Group has experienced no significant losses on such responsibilities and its exposure to the risk associated with the temporary payments is judged to be remote because trust account liabilities are covered by the corresponding trust account assets generally; the MTFG Group continuously monitors the liabilities of trust accounts and assesses the trust account's ability to perform its obligations to prevent any unfavorable outcomes; and the MTFG Group claims its recourse for its temporary payments against the trust account assets and the beneficiaries.

Other includes contingent consideration agreements and security lending indemnifications. Contingent consideration agreements provide guarantees on additional payments to acquired insurance agencies' shareholders based on the agencies' future performance in excess of established revenue and/or earnings before interest, taxes, depreciation and amortization thresholds. Security lending indemnifications are the indemnifications for institutional customers of securities lending transactions against counterparty default. All lending transactions are collateralized, primarily by cash.

*Carrying amount*

At March 31, 2004 and 2005, the carrying amounts of the liabilities related to guarantees and similar instruments set forth above were ¥240,465 million and ¥221,523 million, respectively, which are included in Other liabilities and Trading account liabilities. In addition, Other liabilities also include an allowance for off-balance-sheet instruments of ¥86,688 million and ¥48,310 million, respectively, related to these transactions.

*Other Off-Balance-Sheet Instruments*

In addition to obligations under guarantees set forth above, the MTFG Group issues other off-balance-sheet instruments for purposes other than trading. Such off-balance-sheet instruments consist of lending-related commitments, including commitments to extend credit and commercial letters of credit that the MTFG Group provides to meet the financing needs of its customers. Once the MTFG Group issues these financial instruments, the MTFG Group is required to extend credit to or make certain payments to the customers or beneficiaries specified pursuant to the underlying contracts unless otherwise provided in the contracts. Since many of these commitments expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. At March 31, 2005, approximately 76% of these commitments will expire within one year, 22% from one year to five years and 2% after five years. The table below summarizes the contractual amounts with regard to these commitments at March 31, 2004 and 2005.

2004	2005
<u>(Restated)</u>	<u>(Restated)</u>

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	(in billions)	
Commitments to extend credit	¥ 25,610	¥ 27,813
Commercial letters of credit	377	458
Resale and repurchase agreements	186	
Commitments to make investments	58	27

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Subsequent to the issuance of the MTFG Group's consolidated financial statements for the fiscal year ended March 31, 2005, management determined that the commitment amounts of resale and repurchase agreements for the fiscal year ended March 31, 2004 and March 31, 2005, were erroneously disclosed. These errors had no impact on the consolidated financial position or results of operations. As a result, such amounts have been restated from the amounts previously reported as follows:

	2004		2005	
	As previously reported	As restated	As previously reported	As restated
	(in billions)			
Resale and repurchase agreements	¥165	¥186	¥372	¥

Commitments to extend credit, which generally have fixed expiration dates or other termination clauses, are legally binding agreements to lend to customers. Commitments are different from guarantees in that the commitments are generally revocable or have provisions that enable the MTFG Group to avoid payments in the event of violations of any conditions of the contracts and certain deterioration of the potential borrowers financial condition. Commitments to extend credit may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements.

Commercial letters of credit, used for facilitating trade transactions, are generally secured by underlying goods. The MTFG Group continually monitors the type and amount of collateral and other security, and requires counterparties to provide additional collateral or guarantors as necessary.

Repurchase and resale transactions are collateralized financing agreements. In a sale of securities or other financial instruments with an agreement to repurchase them, the MTFG Group sells securities or other financial instruments at a stated price to a counterparty and agrees to repurchase identical financial instruments from the same counterparty at a later date at the predetermined price which reflect the principal amount and interest. In a purchase of securities or other financial instruments with an agreement to resell them, the MTFG Group receives securities or other financial instruments for a stated price from a counterparty and agrees to sell them to the same counterparty at a later date at the predetermined price reflecting the principal amount and interest. When certain conditions specified in SFAS No. 140 are met, the MTFG Group accounts for resale agreements as purchase of financial instruments with related off-balance-sheet forward resale commitments and repurchase agreements as sale of financial instruments with related off-balance-sheet forward repurchase agreements. The MTFG Group bears the off-balance-sheet risk related to the forward resale and repurchase commitments, including credit risk and market risk.

Commitments to make investments are legally binding contracts to make additional contributions to corporate recovery or private equity investment funds in accordance with limited partnership agreements. Some of these funds, in which the MTFG Group has significant variable interests, are described in Note 26.

*Concentration of Credit Risk*

Although the MTFG Group's portfolio of financial instruments, including on-balance-sheet instruments, is widely diversified along industry and geographic lines, a significant portion of the transactions with off-balance-sheet risk are entered into with other financial institutions.

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**Table of Contents****MITSUBISHI TOKYO FINANCIAL GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****26. VARIABLE INTEREST ENTITIES**

A variable interest entity ( VIE ) is defined as an entity with one or more of the following characteristics; (1) the equity investment at risk is not sufficient to permit the entity to finance its activities without additional subordinated financial support from other parties, (2) the equity investors lack significant decision making ability or do not absorb the expected losses or receive the expected residual returns or (3) the equity interests have voting rights that are not proportionate to their economic interests, and the activities of the entity involve or are conducted on behalf of an investor with a disproportionately small voting interest. Variable interests in a variable interest entity are contractual, ownership, or other pecuniary interests in an entity that change with changes in the fair value of the entity's net assets exclusive of variable interests. An enterprise is required to consolidate a variable interest entity if that enterprise has a variable interest that will absorb a majority of the entity's expected losses, receive a majority of the entity's expected returns, or both. An enterprise that consolidates a VIE is referred to as the primary beneficiary.

In the normal course of its business, the MTFG Group is a party to various entities which may be deemed to be variable interest entities such as asset-backed commercial paper conduits, securitization conduits of client properties, various investment funds and special purpose entities created for structured financing.

The MTFG Group adopted FIN No. 46R on April 1, 2004, except for certain investment companies, for which the effective date of FIN No. 46R is deferred. As a result, the MTFG Group has consolidated all VIEs in which it is deemed to be the primary beneficiary including those created before February 1, 2003. The adoption of FIN No. 46R resulted in a cumulative-effect adjustment reducing net income by ¥ 977 million. See Note 1 Accounting Changes for more information.

The following table presents, by type of VIE, the total assets of consolidated and non-consolidated VIEs and the maximum exposure to non-consolidated VIEs at March 31, 2005:

	Consolidated VIEs	Non-consolidated VIEs	
	Assets	Assets	Maximum exposure
		(in millions)	
Asset-backed commercial paper conduits	¥ 3,300,661	¥ 381,418	¥ 56,470
Securitization conduits of client properties		1,574,760	618,788
Investment funds	1,013,323	30,152,347	869,320
Special purpose entities created for structured financing	18,758	16,419,757	1,134,358
Repackaged instruments	153,575	34,851,630	883,166
Others	180,863	6,156,283	849,062

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Total	¥4,667,180	¥ 89,536,195	¥4,411,164
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The following table presents the carrying amount of consolidated assets that correspond to VIE obligations at March 31, 2005:

	<u>(in millions)</u>
Cash	¥ 138,910
Trading account assets	622,834
Investment securities	345,931
Loans	3,178,608
Others	380,897
Total	<u>¥ 4,667,180</u>



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**MITSUBISHI TOKYO FINANCIAL GROUP, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

A portion of the assets presented in the table above were derived from the transactions between consolidated VIEs and the MTFG Group, the primary beneficiary, and were eliminated as intercompany transactions. The eliminated amounts were ¥70,199 million of cash and ¥2,031 million of other assets.

In general, the creditors or beneficial interest holders of consolidated VIEs have recourse only to the assets of those VIEs and do not have recourse to other assets of the MTFG Group, except where the MTFG Group provides credit support as in the case of certain asset-backed commercial paper conduits.

***Asset-backed Commercial Paper Conduits***

The MTFG Group administers several multi-seller finance entities (primarily commercial paper conduits) that purchase financial assets, primarily pools of receivables, from third-party customers. Assets purchased by these conduits are generally funded by issuing commercial paper to and/or by borrowings from the MTFG Group or third parties. While customers basically continue to service the transferred trade receivables, the MTFG Group underwrites, distributes, makes a market in commercial paper issued by the conduits, and also provides liquidity and credit support facilities to the entities.

In accordance with the consolidation requirements of FIN No. 46, the MTFG Group consolidated certain of these multi-seller finance entities for the fiscal year ended March 31, 2004. The MTFG Group has subsequently consolidated other multi-seller finance entities, where the MTFG Group is deemed to be the primary beneficiary, including those created before February 1, 2003.

As a result of the consolidation of these entities on March 31, 2005, the MTFG Group's total assets, loans and commercial paper issued increased by ¥1,262,834 million, ¥2,424,527 million and ¥1,210,483 million, respectively, while the contractual or notional amounts of liquidity facilities and other off-balance-sheet credit related support were decreased by ¥1,222,838 million primarily as a result of elimination of the transactions within the MTFG Group.

The amount of total assets of the multi-seller finance entities that the MTFG Group consolidated on March 31, 2004 was ¥129,001 million.

***Securitization Conduits of Client Properties***

The MTFG Group administers several conduits that acquire client assets, primarily real estate, from third-party customers (property sellers) with the property sellers continuing to use the acquired real estate through lease-back agreements. The equity of the conduits is provided by the

property sellers but such equity holders have no ability to make decisions about the activities of the conduits. Thus, the MTFG Group considers those conduits to be VIEs. The assets acquired by these conduits are generally funded by borrowings from the MTFG Group or third parties. The MTFG Group believes it is not the primary beneficiary of any of the conduits.

***Investment Funds***

The MTFG Group holds investments in various investment funds that collectively invest in equity and debt securities including listed Japanese securities and investment grade bonds, and, to a limited extent, securities and other interests issued by companies in a start-up or restructuring stage. Such investment funds are managed by investment advisory companies or fund management companies that make investment decisions and administer the funds.

In accordance with the requirement to apply FIN No. 46, the MTFG Group consolidated investment funds with total assets of ¥129,642 million on March 31, 2004.

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**MITSUBISHI TOKYO FINANCIAL GROUP, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

***Special Purpose Entities Created for Structured Financing***

The MTFG Group extends non-recourse asset-backed loans to special purpose entities, which hold beneficial interests in real properties, to provide financing for special purpose projects including real estate development and natural resource development managed by third parties.

The MTFG Group generally acts as a member of a lending group and does not have any equity investment in the entities, which is typically provided by project owners. For most of these financings, the equity provided by the project owners is of sufficient level to absorb expected losses, while expected returns to the owners are arranged to be the most significant among all returns. Accordingly, the MTFG Group determined that the MTFG Group is not the primary beneficiary of most of these entities. However, in transactions with entities whose investment at risk is exceptionally thin and the MTFG Group provided most of the financing, the MTFG Group is ultimately required to consolidate this type of entities.

***Repackaged Instruments***

The MTFG Group has two types of relationships with special purpose entities that repackage financial instruments to create new financial instruments.

The MTFG Group provides repackaged instruments with features that meet the customer's needs and preferences through special purpose entities. The MTFG Group purchases financial instruments such as bonds and transfers them to special purpose entities which then issue new instruments. The special purpose entities may enter into derivative transactions including interest rate and currency swaps with the MTFG Group or other financial institutions to modify the cash flows of the underlying financial instruments. The MTFG Group underwrites and markets to its customers the new instruments issued by the special purpose entities.

The MTFG Group also invests in repackaged instruments arranged and issued by third parties.

In accordance with the requirement to apply FIN No. 46, the MTFG Group consolidated repackaged instruments with total assets of ¥96,895 million on March 31, 2004.

***Financing Vehicle***

UNBC deconsolidated UNBC Finance Trust I upon adoption of FIN No. 46 in UNBC's fiscal year ended December 31, 2003. Following the revisions introduced in FIN No. 46R, management considered whether the MTFG Group should deconsolidate other similar financing vehicles. As a result, the MTFG Group deconsolidated three financing vehicles, BTM (Curacao) Holdings N.V., BTM Finance (Curacao) N.V. and MTBC Finance (Aruba) A.E.C., in accordance with FIN No. 46R. Since the three finance vehicles are conduits, deconsolidation did not have a material impact on the MTFG Group's results of operations or financial condition.

*Trust Arrangements*

The MTFG Group offers a variety of asset management and administration services under trust arrangements including securities investment trusts, pension trusts and trusts used as securitization vehicles. Although in limited cases the MTFG Group may assume risks through guarantees or certain protections as provided in the agreements or relevant legislations, the MTFG Group has determined that it will not absorb a majority of expected losses in connection with such trust arrangements. In a typical trust arrangement, however, the MTFG Group manages and administers assets on behalf of the customers in an agency, fiduciary and trust capacity and does not assume risks associated with the entrusted assets. Customers receive and absorb expected

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returns and losses on the performance and operations of trust assets under management of the MTFG Group. Accordingly, the MTFG Group determined that it is generally not a primary beneficiary to any trust arrangements under management as its interests in the trust arrangements are insignificant in most cases.

***Other Type of VIEs***

The MTFG Group is also a party to other types of VIEs including special purpose entities created to hold assets on behalf of the MTFG Group as an intermediary.

The MTFG Group identified borrowers that were determined to be VIEs due to an insufficient level of equity. The MTFG Group determined that the MTFG Group is not the primary beneficiary of most of these borrowers because of its limited exposure as a lender to such borrowers. Such borrowers engage in diverse business activities of various sizes in industries such as manufacturing, merchandise trading, distribution, construction and real estate development, independently from the MTFG Group.

**27. COMMITMENTS AND CONTINGENT LIABILITIES**

The MTFG Group leases certain office space and equipment under noncancelable agreements expiring through the fiscal year 2014.

Future minimum rental commitments for noncancelable leases at March 31, 2005 were as follows:

	<b>Capitalized</b>	<b>Operating</b>
	<b>leases</b>	<b>leases</b>
	<b>(in millions)</b>	
Fiscal year ending March 31:		
2006	¥ 8,677	¥ 26,971
2007	6,461	24,883
2008	4,919	21,260
2009	2,506	18,823
2010	1,660	17,205
2011 and thereafter	6,417	45,075

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Total minimum lease payments	30,640	¥ 154,217
Amount representing interest	(2,710)	
Present value of minimum lease payments	¥ 27,930	

Total rental expense for the fiscal years ended March 31, 2003, 2004 and 2005 was ¥52,641 million, ¥51,798 million and ¥50,434 million, respectively.

The MTFG Group is involved in various litigation matters. Management, based upon their current knowledge and the results of consultation with counsel, make appropriate level of litigation reserve. Management believes that the amounts of the MTFG Group's liabilities, when ultimately determined, will not have a material adverse effect on the MTFG Group's results of operations and financial position.

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Details of fees and commissions income for the fiscal years ended March 31, 2003, 2004 and 2005 were as follows:

	<u>2003</u>	<u>2004</u>	<u>2005</u>
	(in millions)		
Trust fees	¥ 103,803	¥ 90,037	¥ 102,789
Fees on funds transfer and service charges for collections	58,146	59,826	60,189
Fees and commissions on international business	54,537	53,787	51,896
Fees and commissions on credit card business	57,083	60,456	61,710
Service charges on deposits	34,626	36,210	37,080
Fees and commissions on securities business	68,020	98,961	126,402
Fees on real estate business	19,977	20,488	31,436
Other fees and commissions	124,575	152,903	177,708
	<u>¥520,767</u>	<u>¥ 572,668</u>	<u>¥ 649,210</u>

Trust fees consist of fees earned primarily by fiduciary asset management and administration services for corporate pension plans, investment funds, etc. Fees on funds transfer and service charges for collection are 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 deposits such as checking account deposits. Fees and commissions on securities business include underwriting, brokerage and advisory services and arrangement fees on securitizations. Fees on real estate business primarily consist of fees from real estate agent services. Other fees and commissions primarily include fees and commissions on guarantees and insurance products.

**29. BUSINESS SEGMENTS**

The business segment information, set forth below, is derived from the internal management reporting system used by management to measure the performance of the MTFG Group's business segments. Unlike financial accounting, there is no authoritative body of guidance for management accounting. The business segment information, set forth below, is based on the financial information prepared in accordance with Japanese GAAP as adjusted in accordance with internal management accounting rules and practices. Accordingly, the format and information is presented primarily on the basis of Japanese GAAP and is not consistent with the consolidated financial statements prepared on the basis of US GAAP. A reconciliation is provided for the segments' total operating profit with income from continuing operations before income tax expense and cumulative effect of a change in accounting principle under US GAAP.

See Note 30 for financial information relating to the MTFG Group's operations by geographic area. The geographic financial information is consistent with the basis of the accompanying consolidated financial statements.

Effective April 1, 2004, the MTFG Group implemented a new integrated business group system, which integrates the operations of BTM and Mitsubishi Trust into the following three areas: Retail, Corporate and Trust Assets resulting in a new basis of segmentation. Although this new measurement basis did not change the legal entities of MTFG, BTM and Mitsubishi Trust, it is intended to create more synergies by making collaboration between the MTFG Group's subsidiary banks more effective and efficient. Under this integrated



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**MITSUBISHI TOKYO FINANCIAL GROUP, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

business group system, the holding company formulates strategy for the group on an integrated basis, which is then executed by its subsidiary banks. Through this system, MTFG aims to reduce overlapping of functions within the Group, thereby increasing efficiency and realizing the benefits of its group resources and scale of operations. Moreover, through a greater integration of MTFG's shared expertise in the banking, trust and securities businesses, it aims to deliver a more diverse but integrated lineup of products and services to customers.

Effective April 1, 2005, the MTFG Group has changed the classification of its business segments and included UNBC as a part of the Integrated Corporate Banking Business Group. The MTFG Group has also introduced a unified core deposit concept when measuring the performance of each business segment and made minor changes in its management accounting method. The unified core deposit concept takes into account that, based on historical data, a portion of the Japanese yen short-term deposits to the MTFG Group can be deemed as a long-term source of funding from an interest risk management perspective, and therefore the interest rate spread gained from the long-term funds should be allocated to the relevant business segments. The presentation for the fiscal years ended March 31, 2003, 2004 and 2005 has been reclassified to conform to the new basis of segmentation and managerial accounting for the six months ended September 30, 2005.

*Integrated Retail Banking Business Group* Covers all domestic retail businesses, including commercial banking, trust banking and securities businesses. This business group integrates the retail business of BTM, Mitsubishi Trust and Mitsubishi Securities as well as retail product development, promotion and marketing in a single management structure. Retail financial products and services are provided through MTFG Plaza, a new, one-stop, comprehensive financial services channel and other domestic branches.

*Integrated Corporate Banking Business Group* Covers all domestic and overseas corporate businesses, including commercial banking, investment banking, trust banking and securities businesses as well as UNBC. UNBC consists of BTM's subsidiaries in California, UnionBanCal Corporation and Union Bank of California, N.A. Through the integration of these business lines, diverse financial products and services are provided to its corporate clients. The business group has clarified strategic domains, sales channels and methods to match the different growth stages and financial needs of its corporate customers. Regarding UNBC, as of September 30, 2005, BTM owned approximately 61% of UnionBanCal Corporation, a public company listed on the New York Stock Exchange. UnionBanCal is a U.S. commercial bank holding company. Union Bank of California, N.A., UnionBanCal's bank subsidiary, is one of the largest commercial banks in California based on total assets and total deposits. UNBC provides a wide range of financial services to consumers, small businesses, middle market companies and major corporations, primarily in California, Oregon and Washington but also nationally and internationally.

*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 Mitsubishi Trust and the international strengths of BTM. The business group provides a full range of services to corporate and other pension funds, including stable and secure pension fund management and administration, advice on pension schemes, and payment of benefits to scheme members.

*Treasury* Treasury consists of the treasury business unit at BTM, which conducts asset liability management and liquidity management for BTM, and the global markets business group at Mitsubishi Trust. Treasury provides various financial operations such as money markets and foreign exchange operations and securities investments.

*Other* Other mainly consists of the corporate center of MTFG, BTM and Mitsubishi Trust. The elimination of duplicated amounts of net revenue among business segments is also reflected in Other.

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The financial performance derived from the internal management reporting system is summarized below. Management does not use information on segments' total assets to allocate resources and assess performance and has not prepared information on segment assets. Accordingly, business segment information on total assets is not available. Management measures the performance of the MTFG Group's business segments primarily by operating profit, which is a defined term in the regulatory reporting requirements of the FSA.

	Integrated		Integrated Corporate Banking			Integrated Trust	Assets	Business Group	Treasury	Other	Total
	Retail Banking Business	Group	Domestic	Overseas	UNBC						
(in billions)											
Fiscal year ended March 31, 2003:											
Net revenue:	¥ 355.3	¥ 582.1	¥ 173.3	¥ 269.7	¥ 1,025.1	¥ 37.8	¥ 436.2	¥ (44.3)	¥ 1,810.1		
BTM and Mitsubishi Trust:	261.1	509.6	117.4		627.0	27.2	430.6	(63.5)	1,282.4		
Net interest income	206.9	311.2	70.8		382.0		279.4	(50.0)	818.3		
Net fees	41.6	124.7	37.2		161.9	41.2	9.6	7.9	262.2		
Other	12.6	73.7	9.4		83.1	(14.0)	141.6	(21.4)	201.9		
Other than BTM and Mitsubishi Trust*	94.2	72.5	55.9	269.7	398.1	10.6	5.6	19.2	527.7		
Operating expenses	306.6	255.2	119.2	155.6	530.0	47.9	43.2	77.2	1,004.9		
Operating profit (loss)	¥ 48.7	¥ 326.9	¥ 54.1	¥ 114.1	¥ 495.1	¥ (10.1)	¥ 393.0	¥ (121.5)	¥ 805.2		
Fiscal year ended March 31, 2004:											
Net revenue:	¥ 411.6	¥ 656.1	¥ 147.2	¥ 253.5	¥ 1,056.8	¥ 56.7	¥ 342.0	¥ (43.7)	¥ 1,823.4		
BTM and Mitsubishi Trust:	288.9	522.8	109.4		632.2	43.0	337.0	(56.7)	1,244.4		
Net interest income	210.2	306.5	60.3		366.8	1.0	228.5	10.7	817.2		
Net fees	58.8	133.7	35.6		169.3	42.0	8.9	(0.9)	278.1		
Other	19.9	82.6	13.5		96.1		99.6	(66.5)	149.1		
Other than BTM and Mitsubishi Trust*	122.7	133.3	37.8	253.5	424.6	13.7	5.0	13.0	579.0		
Operating expenses	312.8	266.2	107.6	150.9	524.7	47.9	42.9	84.2	1,012.5		
Operating profit (loss)	¥ 98.8	¥ 389.9	¥ 39.6	¥ 102.6	¥ 532.1	¥ 8.8	¥ 299.1	¥ (127.9)	¥ 810.9		
Fiscal year ended March 31, 2005:											
Net revenue:	¥ 454.8	¥ 684.2	¥ 146.2	¥ 274.9	¥ 1,105.3	¥ 59.9	¥ 285.0	¥ (8.7)	¥ 1,896.3		
BTM and Mitsubishi Trust:	317.4	562.0	113.3		675.3	43.8	280.8	(14.7)	1,302.6		
Net interest income	209.7	302.2	56.7		358.9	0.4	231.8	(4.6)	796.2		
Net fees	79.2	157.1	36.8		193.9	43.3	15.8	7.3	339.5		
Other	28.5	102.7	19.8		122.5	0.1	33.2	(17.4)	166.9		
Other than BTM and Mitsubishi Trust*	137.4	122.2	32.9	274.9	430.0	16.1	4.2	6.0	593.7		
Operating expenses	323.7	267.6	102.2	158.8	528.6	46.6	38.9	91.3	1,029.1		
Operating profit (loss)	¥ 131.1	¥ 416.6	¥ 44.0	¥ 116.1	¥ 576.7	¥ 13.3	¥ 246.1	¥ (100.0)	¥ 867.2		

\* Includes MTFG and subsidiaries other than BTM and Mitsubishi Trust

***Reconciliation***

As set forth above, the measurement bases and the income and expenses items covered are very different between the internal management reporting system and the accompanying consolidated statements of income. Therefore, it is impracticable to present reconciliations of the business segments' total information, other than operating profit, to corresponding items in the accompanying consolidated statements of income.

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A reconciliation of the operating profit under the internal management reporting system for the fiscal years ended March 31, 2003, 2004 and 2005 above to income from continuing operations before income tax expense and cumulative effect of a change in accounting principle shown on the consolidated statements of income is as follows:

	<u>2003</u>	<u>2004</u>	<u>2005</u>
		(in billions)	
Operating profit	¥ 805	¥ 811	¥ 867
Trust fees adjusted for credit losses of trust assets	(8)	(10)	(3)
Credit (provision) for credit losses	(433)	114	(110)
Trading account profits (losses) net	47	(117)	(65)
Equity investment securities gains (losses) net	(272)	342	175
Debt investment securities gains (losses) net	162	(204)	(8)
Foreign exchange gains (losses) net	84	355	(120)
Minority interest	(1)	(42)	(37)
Other net	(121)	(68)	22
Income from continuing operations before income tax expense and cumulative effect of a change in accounting principle	<u>¥ 263</u>	<u>¥ 1,181</u>	<u>¥ 721</u>

**30. FOREIGN ACTIVITIES**

Foreign operations include the business conducted by overseas offices, as well as international business conducted from domestic offices, principally several international banking-related divisions of BTM's and Mitsubishi Trust's Head Office in Tokyo, and involve various transactions with debtors and customers residing outside Japan. Close integration of the MTFG Group's foreign and domestic activities makes precise estimates of the amounts of assets, liabilities, income and expenses attributable to foreign operations difficult and necessarily subjective. Assets, income and expenses attributable to foreign operations are allocated to geographical areas based on the domiciles of the debtors and customers.

**Table of Contents****MITSUBISHI TOKYO FINANCIAL GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Generally, interest rates with respect to funds borrowed and loaned between domestic and foreign operations are based on prevailing money market rates appropriate for the transactions. In general, the MTFG Group has allocated all direct expenses and a proportionate share of general and administrative expenses to income derived from foreign loans and other transactions by the MTFG Group's foreign operations. The following table sets forth estimated total assets at March 31, 2003, 2004 and 2005, and estimated total revenue, total expenses, income (loss) from continuing operations before income tax expense (benefit) and cumulative effect of a change in accounting principle and net income (loss) for the respective fiscal years then ended.

	Domestic	Foreign				Total
	Japan	United States of America	Europe	Asia/Oceania excluding Japan	Other areas <sup>(1)</sup>	
(in millions)						
Fiscal year ended March 31, 2003:						
Total revenue <sup>(2)</sup>	¥ 1,286,997	¥ 611,937	¥ 255,959	¥ 150,580	¥ 117,654	¥ 2,423,127
Total expenses <sup>(3)</sup>	1,362,508	438,082	203,947	89,056	66,055	2,159,648
Income (loss) from continuing operations before income tax expense (benefit) and cumulative effect of a change in accounting principle	(75,511)	173,855	52,012	61,524	51,599	263,479
Net income (loss)	(70,479)	142,954	37,273	43,315	50,382	203,445
Total assets at end of fiscal year	69,737,405	13,210,140	7,893,478	3,154,016	2,542,365	96,537,404
Fiscal year ended March 31, 2004:						
Total revenue <sup>(2)</sup>	¥ 1,651,983	¥ 575,077	¥ 277,183	¥ 78,054	¥ 147,552	¥ 2,729,849
Total expenses <sup>(3)</sup>	940,903	408,651	94,054	29,914	74,923	1,548,445
Income from continuing operations before income tax expense and cumulative effect of a change in accounting principle	711,080	166,426	183,129	48,140	72,629	1,181,404
Net income	464,256	158,275	120,751	26,485	53,235	823,002
Total assets at end of fiscal year	79,653,844	12,585,539	6,141,837	3,015,416	2,302,463	103,699,099
Fiscal year ended March 31, 2005:						
Total revenue <sup>(2)</sup>	¥ 1,610,156	¥ 487,852	¥ 153,145	¥ 108,724	¥ 77,836	¥ 2,437,713
Total expenses <sup>(3)</sup>	1,320,489	251,136	103,542	21,042	20,115	1,716,324
Income from continuing operations before income tax expense and cumulative effect of a change in accounting principle	289,667	236,716	49,603	87,682	57,721	721,389
Net income	109,960	180,520	24,242	61,742	38,691	415,155
Total assets at end of fiscal year	84,416,835	12,331,408	5,971,590	3,467,959	2,234,308	108,422,100

## Notes

- (1) Other areas primarily include Canada, Latine America and the Caribbean.
- (2) Total revenue is comprised of Interest income and Non-interest income.
- (3) Total expenses are comprised of Interest expense, Provision (credit) for credit losses and Non-interest expense.

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The following is an analysis of certain asset and liability accounts related to foreign activities at March 31, 2004 and 2005:

	<u>2004</u>	<u>2005</u>
	(in millions)	
Cash and due from banks	¥ 348,670	¥ 298,327
Interest-earning deposits in other banks	2,999,248	3,638,679
<b>Total</b>	<b>¥ 3,347,918</b>	<b>¥ 3,937,006</b>
<b>Trading account assets</b>	<b>¥ 1,737,706</b>	<b>¥ 1,744,251</b>
<b>Investment securities</b>	<b>¥ 7,276,364</b>	<b>¥ 6,912,853</b>
<b>Loans net of unearned income and deferred loan fees</b>	<b>¥ 8,756,846</b>	<b>¥ 10,083,556</b>
<b>Deposits, principally time deposits and certificates of deposit by foreign banks</b>	<b>¥ 13,779,317</b>	<b>¥ 13,261,767</b>
<b>Funds borrowed:</b>		
Call money, funds purchased, and payables under repurchase agreements and securities lending transactions	¥ 3,188,960	¥ 1,281,825
Other short-term borrowings	238,060	1,058,411
Long-term debt	1,185,060	858,387
<b>Total</b>	<b>¥ 4,612,080</b>	<b>¥ 3,198,623</b>
<b>Trading account liabilities</b>	<b>¥ 1,427,407</b>	<b>¥ 1,624,449</b>

At March 31, 2004 and 2005, the MTFG Group had no cross-border outstandings, as defined in the Securities Act Industry Guides 3 in any foreign country, which exceeded 0.75% of consolidated total assets.

**31. ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS**

Quoted market prices, when available, are used to estimate fair values of financial instruments. However, quoted market prices are not available for a substantial portion of financial instruments and, therefore, fair values for such financial instruments are estimated using discounted cash flow models or other valuation techniques. Although management uses its best judgment in estimating fair values of financial instruments, estimation methodologies and assumptions used to estimate fair values are inherently subjective. Accordingly, the estimates presented herein are not necessarily indicative of net realizable or liquidation values. The use of different estimation methodologies and/or market assumptions may

have a significant effect on the estimated fair values.

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**Table of Contents****MITSUBISHI TOKYO FINANCIAL GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following is a summary of carrying amounts and estimated fair values of financial instruments at March 31, 2004 and 2005:

	2004		2005	
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
(in billions)				
<b>Financial assets:</b>				
Cash, due from banks, call loans and funds sold, and receivables under resale agreements and securities borrowing transactions	¥ 14,488	¥ 14,488	¥ 16,118	¥ 16,118
Trading account assets, excluding derivatives	5,930	5,930	5,758	5,758
Investment securities	28,881	28,888	28,749	28,771
Loans, net of allowance for credit losses	47,638	47,880	50,331	50,521
Other financial assets	2,121	2,121	2,418	2,418
<b>Derivative financial instruments:</b>				
Trading activities	2,448	2,448	1,949	1,949
Activities qualifying for hedges	5	5	2	2
<b>Financial liabilities:</b>				
Non-interest-bearing deposits, call money and funds purchased, and payables under repurchase agreements and securities lending transactions	16,893	16,893	16,910	16,910
Interest-bearing deposits	62,528	62,512	61,443	61,424
Debentures	266	266		
Trading account liabilities, excluding derivatives	191	191	40	40
Obligations to return securities received as collateral	2,358	2,358	3,026	3,026
Due to trust account	1,380	1,380	1,231	1,231
Other short-term borrowings	5,663	5,663	10,725	10,725
Long-term debt	5,660	5,791	5,982	6,109
Other financial liabilities	1,871	1,871	1,977	1,977
<b>Derivative financial instruments:</b>				
Trading activities	2,291	2,291	1,918	1,918

As a result of the reclassification described in Note 4, certain transactions to cover short sales, which were previously presented as Trading account liabilities, excluding derivatives, have been reclassified into Obligation to return securities received as collateral.

The methodologies and assumptions used to estimate the fair value of the financial instruments are summarized below.

**Cash, due from banks, call loans and funds sold, and receivables under resale agreements and securities borrowing transactions** For cash, due from banks including interest-earning deposits, and call loans and funds sold, the carrying amounts are a reasonable estimate of the fair values because of their short-term nature and limited credit risk. For receivables under resale agreements and securities borrowing transactions, the fair values are based on quoted market prices, when available, or estimated with reference to quoted market prices for similar instruments

when quoted market prices are not available.

**Trading account securities** Trading account securities and short trading positions of securities are carried at fair value, which is principally based on quoted market prices, when available. If the quoted market prices are not available, fair values are based on quoted market prices of comparable instruments.

**Investment securities** The fair values of investment securities, where quoted market prices or secondary market prices are available, are equal to such market prices. For investment securities, when quoted market prices or secondary market prices are not available, the fair values are estimated using quoted market prices for similar securities or based on appraised value as deemed appropriate by management. The fair value of investment securities other than those classified as available for sale or being held to maturity (i.e., nonmarketable equity

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**MITSUBISHI TOKYO FINANCIAL GROUP, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

securities) at March 31, 2004 and 2005 were not readily determinable. Therefore, the above summary does not include the carrying amounts of such investment securities amounting to ¥201 billion and ¥1,042 billion at March 31, 2004 and 2005, respectively.

**Loans** The fair values of loans are estimated for groups of similar characteristics, including type of loan, credit quality and remaining maturity. In incorporating the credit risk factor, management concluded that the allowance for credit losses adequately adjusts the related book values for credit risk. For floating- or adjustable-rate loans, which mature or are repriced within a short period of time, the carrying values are considered to be a reasonable estimate of fair values. For fixed-rate loans, market prices are not generally available and the fair values are estimated by discounting the estimated future cash flows based on the contracted maturity of the loans. The discount rates are based on the current market rates corresponding to the applicable maturity. Where quoted market prices or estimated fair values are available, primarily for loans to refinancing countries, loans held for dispositions or sales and certain other foreign loans, the fair values are based on such market prices and estimated fair values, including secondary market prices. For nonperforming loans, the fair values are generally determined on an individual basis by discounting the estimated future cash flows and may be based on the appraisal value of underlying collateral as appropriate.

**Other financial assets** The estimated fair values of other financial assets, which primarily include accrued interest receivable, customers acceptance liabilities and accounts receivable, approximate their carrying amounts. The above summary does not include the carrying amounts of investments in equity method investees amounting to ¥104 billion and ¥362 billion at March 31, 2004 and 2005, respectively.

**Derivative financial instruments** The estimated fair values of derivative financial instruments are the amounts the MTFG Group would receive or pay to terminate the contracts at the balance-sheet date, taking into account the current unrealized gains or losses on open contracts. They are based on market or dealer quotes when available. Valuation models such as present value and option pricing models are applied to current market information to estimate fair values when such quotes are not available.

**Non-interest-bearing deposits, call money and funds purchased, payables under repurchase agreements and securities lending transactions, and obligations to return securities received as collateral** The fair values of non-interest-bearing deposits are equal to the amounts payable on demand. For call money and funds purchased, the carrying amounts are a reasonable estimate of the fair values because of their short-term nature. For payables under repurchase agreements and securities lending transactions and obligations to return securities received as collateral, the fair values are generally based on quoted market prices, when available, or estimated using quoted market prices for similar instruments when quoted market prices are not available.

**Interest bearing deposits** The fair values of demand deposits, deposits at notice, and certificates of deposit maturing within a short period of time are the amounts payable on demand. Fair values of time deposits and certificates of deposit maturing after a short period of time are estimated by discounting the estimated cash flows using the rates currently offered for deposits of similar remaining maturities or the applicable current market rates.

**Debentures** The fair values of debentures are estimated using a discounted cash flow model based on quoted market rates or, if available, secondary market rates currently available for debentures with similar terms and remaining maturities.

***Due to trust account*** For due to trust account, which represents a temporary placement of excess fund from individual trust accounts managed by the trust banking subsidiary in their fiduciary and trust capacity, the carrying amount is a reasonable estimate of the fair value since its nature is similar to short-term funding, including demand deposits and other overnight funds purchased, in a manner that the balance changes in response to the day-to-day changes in excess funds placed by the trust accounts.

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**MITSUBISHI TOKYO FINANCIAL GROUP, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

***Other short-term borrowings*** For most other short-term borrowings, the carrying amounts are a reasonable estimate of the fair values because of their short-term nature. For certain borrowings, fair values are estimated by discounting the estimated future cash flows using applicable current market interest rates or comparable rates for similar instruments, which represent the MTFG Group's cost to raise funds with a similar remaining maturity.

***Long-term debt*** For certain unsubordinated and subordinated debt, the fair values are estimated based on quoted market prices of the instruments. The fair values of other long-term debt are estimated using a discounted cash flow model based on rates applicable to the MTFG Group for debt with similar terms and remaining maturities.

***Other financial liabilities*** The estimated fair values of other financial liabilities, which primarily include accrued interest payable, bank acceptances, accounts payable and obligations under standby letters of credit and guarantees, approximate their carrying amounts. Effective January 1, 2003, the MTFG Group adopted the initial recognition and measurement provisions of FIN No. 45, which requires that, for guarantees within the scope of FIN No. 45 issued or amended after December 31, 2002, liabilities for the obligations undertaken in issuing the guarantees be initially measured at fair value. The fair values of obligations under standby letters of credit and guarantees are based on fees received or receivable by the MTFG Group.

The fair values of certain off-balance-sheet financial instruments held for purposes other than trading, including commitments to extend credit and commercial letters of credit, are estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the credit quality. The aggregate fair value of such instruments at March 31, 2004 and 2005 was not material.

The fair value estimates presented herein are based on pertinent information available to management at March 31, 2004 and 2005. These amounts have not been comprehensively revalued since that date and, therefore, current estimates of fair values may have changed significantly from the amounts presented herein.

**32. STOCK-BASED COMPENSATION**

Two subsidiaries of MTFG, Mitsubishi Securities and UNBC, have several stock-based compensation plans.

***Mitsubishi Securities***

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Under the Code, companies are permitted to purchase their own shares in the market in order to implement a stock option plan when approved by the shareholders.

Pursuant to resolutions approved at the general shareholders meetings, Mitsubishi Securities offers stock option plans which provide directors, executive officers, eligible employees and certain other persons with options to purchase shares (at the respective exercise prices stipulated in each plan) as follows:

<b>Date of approval at the shareholders meeting</b>	<b>Exercise period</b>	<b>Shares</b>
June 29, 2000	July 1, 2002 to June 30, 2005	2,057,000
June 28, 2001	July 1, 2003 to June 30, 2006	2,272,000
<b>Total</b>		<b>4,329,000</b>

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The plans provide for the granting of stock options having an exercise price not less than the market value of Mitsubishi Securities common stock on the date of grant. Following is the option activity for the fiscal years ended March 31, 2004 and 2005:

	2004		2005	
	Number of shares	Weighted-average exercise price	Number of shares	Weighted-average exercise price
Options outstanding, beginning of fiscal year	5,512,000	¥ 1,278	3,153,000	¥ 1,260
Granted				
Exercised	(831,000)	812	(326,000)	812
Forfeited	(1,528,000)	1,568		
Options outstanding, end of fiscal year	3,153,000	¥ 1,260	2,827,000	¥ 1,311
Options exercisable, end of fiscal year	3,153,000	¥ 1,260	2,827,000	¥ 1,311

The following table details the distribution of stock options outstanding at March 31, 2005:

Exercise prices	Options outstanding at March 31, 2005		Options exercisable at March 31, 2005
	Number outstanding	Remaining contractual life	Number exercisable
¥ 812	904,000	1.25 years	904,000
1,546	1,923,000	0.25	1,923,000
	2,827,000		2,827,000

UNBC

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UNBC has two management stock plans. The Year 2000 UnionBanCal Corporation Stock Plan, effective January 1, 2000 (the 2000 Stock Plan ), and the UnionBanCal Corporation Management Stock Plan, restated effective June 1, 1997 (the 1997 Stock Plan ), have 16.0 million and 6.6 million shares, respectively, of the UNBC's common stock authorized to be awarded to key employees and outside directors of UNBC at the discretion of the Executive Compensation and Benefits Committee of the Board of Directors (the Committee ). Employees on rotational assignment from BTM are not eligible for stock awards.

The Committee determines the term of each stock option grant, up to a maximum of ten years from the date of grant. The exercise price of the options issued under the Stock Plans shall not be less than the fair market value on the date the option is granted. Unvested restricted stock issued under the Stock Plans is accounted for as a reduction to retained earnings. The value of the restricted shares at the date of grant is amortized to compensation expense over its vesting period. All cancelled or forfeited options and restricted stock become available for future grants.

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In 2002, 2003 and 2004, UNBC granted options to non-employee directors and various key employees, including policy-making officers under the 2000 Stock Plan. Under both Stock Plans, options granted to employees vest pro-rata on each anniversary of the grant date and become fully exercisable three years from the grant date, provided that the employee has completed the specified continuous service requirement. The options vest earlier if the employee dies, is permanently disabled, or retires under certain grant, age, and service conditions. Options granted to non-employee directors are fully vested on the grant date and exercisable 33 1/3 percent on each anniversary under the 1997 Stock Plan, and fully vested and exercisable on the grant date under the 2000 Stock Plan. The following is a summary of stock option transactions under the Stock Plans.

	Fiscal years ended December 31,					
	2002		2003		2004	
	Number of shares	Weighted-average exercise price	Number of shares	Weighted-average exercise price	Number of shares	Weighted-average exercise price
Options outstanding, beginning of fiscal year	7,939,271	\$ 29.79	8,515,469	\$ 34.71	9,008,011	\$ 37.12
Granted	2,911,652	43.49	2,517,023	40.32	2,478,931	52.84
Exercised	(2,187,170)	28.57	(1,912,323)	30.52	(1,917,818)	33.68
Forfeited	(148,284)	34.05	(112,158)	38.96	(86,788)	42.87
Options outstanding, end of fiscal year	8,515,469	\$ 34.71	9,008,011	\$ 37.12	9,482,336	\$ 41.87
Options exercisable, end of fiscal year	3,031,478	\$ 31.08	3,845,520	\$ 33.99	4,733,003	\$ 36.49

The weighted-average fair value of options granted was \$16.67 during 2002, \$12.92 during 2003 and \$16.55 during 2004.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions used for grants made in 2002, 2003 and 2004:

	2002	2003	2004
Risk-free interest rate	4.9%	2.9%	2.8%
Expected lives	5 years	5 years	5 years

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Expected volatility	46%	43%	40%
Expected dividend yields	2.3%	2.8%	2.4%

The following table summarizes information about stock options outstanding.

Range of exercise prices	Options outstanding at December 31, 2004			Options exercisable at December 31, 2004	
	Number outstanding	Weighted-average		Number exercisable	Weighted-average exercise price
		remaining contractual life	Weighted-average exercise price		
\$ 18.53-27.56	71,455	4.2 years	\$ 22.94	71,455	\$ 22.94
28.44-42.40	4,535,236	6.5	35.16	3,079,232	32.94
42.69-59.74	4,875,645	8.1	48.39	1,582,316	44.00
	<u>9,482,336</u>			<u>4,733,003</u>	

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**MITSUBISHI TOKYO FINANCIAL GROUP, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

In 2002, 2003 and 2004, UNBC also granted 6,000, 6,000 and 16,000 shares of restricted stock with weighted average grant date fair values of \$45.00, \$46.95 and \$61.50, respectively, to key officers, including policy-making officers, under the 2000 Stock Plan. The awards of restricted stock vest pro-rata on each anniversary of the grant date and become fully vested four years from the grant date for awards in 2002 and 2003 and three years from the grant date for awards in 2004, provided that the employee has completed the specified continuous service requirement. They vest earlier if the employee dies, is permanently and totally disabled, or retires under certain grant, age and service conditions. Restricted shareholders have the right to vote their restricted shares and receive dividends.

At December 31, 2002, 2003 and 2004, 1,764,414 shares, 5,347,715 shares and 2,937,629 shares, respectively, were available for future grants as either stock options or restricted stock under the 2000 Stock Plan. The remaining shares under the 1997 Stock Plan are not available for future grants.

Effective January 1, 1997, UNBC established a Performance Share Plan. Eligible participants may earn performance share awards to be redeemed in cash three years after the date of grant. Performance shares are linked to shareholder value in two ways: (1) the market price of the UNBC's common stock; and (2) return on equity, a performance measure closely linked to value creation. Eligible participants generally receive grants of performance shares annually. The plan was amended in 2004 increasing the total number of shares that can be granted under the plan to 2.6 million shares. There were 384,183, 340,683 and 2,252,183 performance shares remaining for future awards as of December 31, 2002, 2003 and 2004, respectively. UNBC granted 61,500 shares in 2002, 43,500 shares in 2003, and 88,500 shares in 2004. No performance shares were forfeited in 2002, 2003 or 2004. The value of a performance share is equal to the market price of the UNBC's common stock. All cancelled or forfeited performance shares become available for future grants. Expenses related to these shares were \$3.3 million in 2002, \$6.6 million in 2003, and \$4.8 million in 2004.

**33. PARENT COMPANY ONLY FINANCIAL INFORMATION**

Distributions of retained earnings of BTM and Mitsubishi Trust are restricted in order to meet the minimum capital adequacy requirements under the Banking Law. Also, retained earnings of these banking subsidiaries are restricted in accordance with the statutory reserve requirements under the Code (see Notes 21 and 22).

The following table presents the parent company only financial information of MTFG.

*Condensed Balance Sheets*

	<b>2004</b>	<b>2005</b>
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	(in millions)	
<b>Assets:</b>		
Cash and interest-earning deposits with banks	¥ 57,571	¥ 62,285
Investments in subsidiaries and affiliated companies	3,773,229	4,389,305
Preferred stock investment in UFJ Bank Limited		700,000
Other assets	53,013	62,388
	<u>¥ 3,883,813</u>	<u>¥ 5,213,978</u>
<b>Liabilities and shareholders' equity:</b>		
Short-term borrowings from subsidiary	¥	¥ 322,100
Long-term debt from subsidiary		300,000
Long-term debt		200,000
Other liabilities	38,842	18,781
	<u>38,842</u>	<u>840,881</u>
<b>Total liabilities</b>	<u>38,842</u>	<u>840,881</u>
<b>Shareholders' equity</b>	<u>3,844,971</u>	<u>4,373,097</u>
<b>Total liabilities and shareholders' equity</b>	<u>¥ 3,883,813</u>	<u>¥ 5,213,978</u>

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**Table of Contents****MITSUBISHI TOKYO FINANCIAL GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)***Condensed Statements of Income*

	<u>2003</u>	<u>2004</u>	<u>2005</u>
	(in millions)		
Income:			
Dividends from subsidiaries	¥ 22,067	¥ 64,549	¥ 214,948
Management fees from subsidiaries	3,814	4,773	7,630
Interest income	4,736	4	2
Other income	126	30	319
Total income	<u>30,743</u>	<u>69,356</u>	<u>222,899</u>
Expense:			
Operating expenses	3,159	4,418	5,922
Interest expense to subsidiaries			6,021
Interest expense	4,730		511
Other expense	366	203	335
Total expense	<u>8,255</u>	<u>4,621</u>	<u>12,789</u>
Equity in undistributed net income of subsidiaries and affiliated companies	<u>181,907</u>	<u>758,342</u>	<u>208,087</u>
Income before income tax expense	204,395	823,077	418,197
Income tax expense	950	75	3,042
Net income	<u>¥ 203,445</u>	<u>¥ 823,002</u>	<u>415,155</u>

*Condensed Statements of Cash Flows*

	<u>2003</u>	<u>2004</u>	<u>2005</u>
	(in millions)		
Operating activities:			
Net income	¥ 203,445	¥ 823,002	¥ 415,155
Adjustments and other	(181,360)	(767,429)	(234,278)
Net cash provided by operating activities	<u>22,085</u>	<u>55,573</u>	<u>180,877</u>

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Investing activities:			
Proceeds from maturities of investments in convertible bonds of a subsidiary	243,804		
Proceeds from sales of stock investment in affiliated company			14,836
Purchase of preferred stock investment in UFJ Bank Limited			(700,000)
Purchase of equity investments in subsidiary and affiliated company	(210,277)		(390,552)
Net decrease (increase) in interest-earning deposits with banks	5,873	(20,473)	(5,706)
Other	(3,830)	1,047	(5,105)
	<u>          </u>	<u>          </u>	<u>          </u>
Net cash provided by (used in) investing activities	35,570	(19,426)	(1,086,527)
	<u>          </u>	<u>          </u>	<u>          </u>
Financing activities:			
Net increase in short-term borrowings from subsidiary			322,100
Proceeds from issuance of long-term debt to subsidiary			300,000
Proceeds from issuance of long-term debt			200,000
Proceeds from issuance of new shares of preferred stock, net of stock issue expenses			249,472
Proceeds from issuance of new shares of common stock, net of stock issue expenses	222,172		
Repayment of convertible bonds	(243,804)		
Payments for redemption of preferred stock			(122,100)
Proceeds from sales of treasury stock		137	90
Payments to acquire treasury stock	(965)	(467)	(921)
Dividends paid	(46,915)	(32,847)	(45,649)
Other	12,877	(231)	1,666
	<u>          </u>	<u>          </u>	<u>          </u>
Net cash provided by (used in) financing activities	(56,635)	(33,408)	904,658
	<u>          </u>	<u>          </u>	<u>          </u>
Net increase (decrease) in cash and cash equivalents	1,020	2,739	(992)
Cash and cash equivalents at beginning of fiscal year	512	1,532	4,271
	<u>          </u>	<u>          </u>	<u>          </u>
Cash and cash equivalents at end of fiscal year	¥ 1,532	¥ 4,271	¥ 3,279
	<u>          </u>	<u>          </u>	<u>          </u>

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**MITSUBISHI TOKYO FINANCIAL GROUP, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Concluded)**

**34. EVENTS SINCE MARCH 31, 2005**

*Approval of Dividends*

On June 29, 2005, the shareholders approved payment of cash dividends to the shareholders of record on March 31, 2005 of ¥41,250 per share of Class 1 Preferred stock, totaling ¥1,679 million, of ¥7,069 per share of Class 3 Preferred stock, totaling ¥707 million, and of ¥6,000 per share of Common stock, totaling ¥39,254 million.

*Merger Agreement of MTFG and UFJ Holdings was Approved by Shareholders*

On June 29, 2005, the shareholders of MTFG approved the merger agreement between MTFG and UFJ Holdings. Furthermore, on the same day, the shareholders of UFJ Holdings also approved the merger agreement. The merger agreement is subject to the approval of relevant authorities and includes the merger ratios, company names and other material terms. Through the merger, 0.62 shares of MTFG's common stock will be issued for each share of UFJ Holdings, common stock.

*Postponement of Bank Merger*

On August 12, 2005, MTFG announced that the merger between BTM and UFJ Bank has been postponed to January 1, 2006 in order to enable additional testing of the two banks' systems intended to minimize risks arising from the merger. The mergers between the holding companies, trust banks and securities companies of the two groups are still expected to occur on October 1, 2005.

*New Classes of Preferred Stocks*

On June 29, 2005, the shareholders approved the creation of new Classes of Preferred Stocks, namely Classes 5, 6 and 7 Preferred Stock. In addition, MTFG made amendments necessary to clarify certain procedures, including the treatment to adjust related rights among holders of these Classes of shares.

*Redemption of Class 1 Preferred Stock*

On April 1, 2005, MTFG redeemed 40,700 shares of Class 1 Preferred stock at ¥3 million per share, pursuant to the terms and conditions for Class 1 Preferred stock set forth in the articles of incorporation.

***Completion of Share Acquisition to Make Mitsubishi Securities a Directly-owned Subsidiary of MTFG***

On July 1, 2005, MTFG acquired common shares of Mitsubishi Securities owned by BTM and Mitsubishi Trust. Following the transaction, Mitsubishi Securities became a directly-owned subsidiary of MTFG, which owns 55.9% of common shares of Mitsubishi Securities.

***Purchase Agreement of BTM's Headquarters and Nihonbashi Annex***

On July 21, 2005, BTM reached an agreement to purchase from Mitsubishi Estate Co., Ltd. ( Mitsubishi Estate ) the equivalent of 50% of the land and buildings of each of BTM's headquarters and Nihonbashi annex. These are jointly owned by BTM and Mitsubishi Estate. The agreement will take place on August 31, 2005 and total purchase price is ¥111.3 billion.

***Establishment of a Special Purpose Company for Issuance of Non-dilutive Preferred Securities***

On July 28, 2005, MTFG established MTFG Capital Finance Limited, a wholly owned funding vehicle in the Cayman Islands, for the issuance of preferred securities to enhance the flexibility of its capital management. MTFG Capital Finance Limited will issue ¥165 billion in non-cumulative perpetual preferred securities in a private placement to institutional investors in August 2005. These preferred securities are non-dilutive and not convertible into MTFG's common shares. The issuance of the preferred securities is expected to increase the MTFG Group's Tier I capital under its capital adequacy requirements.

\* \* \* \* \*

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**EXHIBIT INDEX**

<b><u>Exhibit</u></b>	<b><u>Description</u></b>
12	Certifications required by Rule 13a-14(a) (17 CFR 240.13a-14(a)) or Rule 15d-14(a) (17 CFR 240.15d-14(a)).
13	Certifications required by Rule 13a-14(b) (17 CFR 240.13a-14(b)) or Rule 15d-14(b) (17 CFR 240.15d-14(b)) and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. 1350).