UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 6-K

Report of Foreign Private Issuer

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

the Securities Exchange Act of 1934

For the month of February, 2006

Commission File Number 1-10277

MITSUBISHI UFJ FINANCIAL GROUP, INC.

(Translation of registrant s name into English)

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

Tokyo 100-8330, Japan

(Address of principal executive office)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F __X__ Form 40-F ______

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes ______ No __X__

SIGNATURES

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

Date: February 28, 2006

MITSUBISHI UFJ FINANCIAL GROUP, INC.

By: /s/ Ryutaro Kusama
Name: Ryutaro Kusama

Title: Chief Manager, General Affairs

Corporate Administration Division

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FINANCIAL REVIEW OF UFJ HOLDINGS, INC.

The following is a description of the business and operations of UFJ Holdings, Inc., or UFJ Holdings, prior to the merger to create Mitsubishi UFJ Financial Group, Inc., or MUFG, on October 1, 2005. As the surviving entity, MUFG is currently in the process of integrating the business and operations of UFJ Holdings. Unless otherwise noted, the following discussion refers to the financial results of UFJ Holdings prepared in accordance with generally accepted accounting principles in the United States, or U.S. GAAP.

Introduction

General

UFJ Holdings was the bank holding company for the UFJ group. Through its subsidiaries and affiliated companies, UFJ Holdings engaged in a broad range of financial operations including retail banking, corporate banking, investment banking, trust banking and securities related-businesses. UFJ Holdings was merged into Mitsubishi Tokyo Financial Group, Inc., or MTFG, on October 1, 2005, with MTFG as the surviving entity. MTFG was subsequently renamed Mitsubishi UFJ Financial Group, Inc., or MUFG. The following discussion is an operating and financial review of UFJ Holdings for the fiscal years ended March 31, 2003, 2004 and 2005, and for the six months ended September 30, 2004 and 2005.

UFJ Holdings on a consolidated basis had total assets of ¥82.0 trillion as of September 30, 2005 and net income of ¥219.8 billion for the six months ended September 30, 2005. UFJ Holdings provided its products and services through UFJ Bank, UFJ Trust Bank, UFJ Tsubasa Securities and UFJ Asset Management Co. Ltd. as well as other group companies. As of September 30, 2005, UFJ Bank had approximately 15.5 million retail banking customers and a network of 412 branches, 78 sub-branches and 1,619 fully automated service outlets. These branches and service outlets were concentrated principally in Japan s three largest metropolitan areas of Tokyo, Osaka and Nagoya. UFJ Bank also served a broad corporate customer base with approximately 68,000 corporate borrowers as of September 30, 2005.

UFJ Holdings was established in April 2001 to serve as the holding company for three major Japanese banking institutions, The Sanwa Bank, Limited, The Tokai Bank, Limited and The Toyo Trust and Banking Company, Limited. This business combination was accounted for under U.S. GAAP as a purchase by Sanwa Bank of Tokai Bank and Toyo Trust Bank. UFJ Holdings took steps to integrate and consolidate its subsidiaries and affiliates in order to increase efficiency as well as to improve and expand its service offerings in response to ongoing deregulation in the Japanese banking market. These steps included the January 2002 merger of Sanwa Bank and Tokai Bank to form UFJ Bank Limited, rebranding Toyo Trust Bank as UFJ Trust Bank Limited and the June 2002 merger of the group s largest securities subsidiary, UFJ Capital Markets Securities Co., Ltd., with Tsubasa Securities Co., Ltd. to form UFJ Tsubasa Securities Co., Ltd.

UFJ Bank had identified small- and medium-sized companies as the primary market for its commercial loans, and developed and marketed new loan products for that market. Although large corporate clients remained an important part of its overall business, commercial lending and the provision of other financial services to small- and medium-sized companies were the primary focus for growth for its corporate banking business unit. UFJ Trust Bank administered various trusts, such as investment trusts and pension trusts, and offered other trust-related services. UFJ Trust Bank had identified loan trusts, jointly operated money trusts, pension trusts, securities related services, corporate agency services and the securitization business as its core trust businesses. UFJ Holdings provided brokerage and trading and other securities businesses principally through its majority-owned subsidiary UFJ Tsubasa Securities and provided asset management services through UFJ Trust Bank and UFJ Asset Management.

Following the establishment of UFJ Holdings, the group strove to improve the profitability of its core operations through increasing revenue and reducing costs. In particular, UFJ Holdings positioned itself to be a leading provider of financial services to retail customers and small- and medium-sized businesses in the Japanese market.

Additional revenue generating activities included:

- increasing consumer and small- and medium-sized corporate lending, which typically carried higher interest rates than large-sized corporate lending,
- UFJ Bank s UFJ24 initiative, which improved the accessibility of its services, increased utilization of its ATM network and generated additional fee income,
- utilizing referrals from housing operators to increase mortgage lending, and
- cross-selling of products between UFJ Holdings banking, trust banking and securities subsidiaries.

Cost reduction measures taken at the time of the business combination of Sanwa Bank, Tokai Bank and Toyo Trust included:

- rationalizing the combined branch network to reduce overlap of operations and costs, and
- reducing headcount through streamlining UFJ Holdings organizational structure.

Recent Regulatory Problems and Financial Difficulties

In recent years, deregulation and structural reforms in the financial services industry have increased competition, and adverse market conditions in many sectors have exacerbated asset quality problems and led to a marked deterioration in the financial condition and capital base of many Japanese financial institutions, including UFJ Holdings. Extremely low interest rates and low levels of capital investment by corporate customers have contributed to declines in net interest income and outstanding loan balances.

Adverse conditions in the Japanese economy have also contributed to high levels of nonperforming loans. In this environment, UFJ Holdings recorded large net losses under Japanese GAAP for the years ended March 31, 2003, 2004 and 2005. These losses and the continuing restructuring of major borrowers created a risk that UFJ Holdings would be unable to maintain the 8% capital adequacy ratio (calculated in accordance with Japanese banking regulations and based on Japanese GAAP financial statements) required of Japanese banks with international operations as of September 30, 2004 prior to the UFJ group s receipt of a capital injection from MTFG.

UFJ Holdings served as the main bank for many of its corporate borrowers. The Japanese banking system has traditionally been characterized as a main bank system, where a main bank is conventionally defined as a bank that holds the largest single share of loans made to a borrower. In many cases, these main bank relationships are the result of historical links or other long-standing relationships with borrowers.

Due to its main bank relationships and, in some cases, previous unsuccessful attempts at restructuring major borrowers, UFJ Holdings had a particularly concentrated risk exposure to a small group of very large borrowers experiencing weak economic performance. The significance of these borrowers was such that they accounted for the majority of impaired loans and changes in the economic condition of these borrowers disproportionately affected levels of loan loss allowance, charge-offs and impaired loans in UFJ Holdings consolidated loan portfolio.

In the course of inspections of the classification of large borrowers by Japanese banks, the Financial Services Agency in 2004 concluded that members of the UFJ group s management had obstructed the Financial Services Agency s inspection into the classification of such borrowers by systematically withholding relevant information on the borrowers financial condition and falsely responding to requests for information from inspectors. In June 2004, the Financial Services Agency issued administrative orders requiring UFJ Bank to:

strengthen its operations and internal controls to respond appropriately to the Financial Services Agency s inspections, strengthen internal controls in order to enhance compliance functions and to ensure the proper management of operations,

submit a business improvement plan to the Financial Services Agency by July 20, 2004, and

report the progress in the implementation of the plan to the Financial Services Agency on a quarterly basis.

In response to these administrative orders, the UFJ group took various measures, including the following:

UFJ Bank established in June 2004 a new credit risk management committee to strengthen risk management systems. Made up of experts from outside the UFJ group, this committee examined the suitability of regulations, standards and other items involving credit risk. The committee s recommendations were then considered in decisions reached by the board of directors and other management bodies regarding credit risk management.

At UFJ Bank, an audit team dedicated exclusively to large borrowers was formed in July 2004 within the internal audit department to strengthen the system of checks and balances with regard to credit risk management for large borrowers. Furthermore, in October 2004, the internal audit departments of UFJ Bank and UFJ Trust Bank were placed under the direct supervision of the respective audit and compliance committees to bolster their effectiveness, and audit planning offices were established under the supervision of the respective audit and compliance committees. By managing and supervising internal audits, these offices were intended to enhance auditing functions.

The top management of UFJ Holdings, UFJ Bank and UFJ Trust Bank resigned in May 2004. Subsequently, in October 2004, the Financial Services Agency filed criminal indictments against UFJ Bank and former members of its management with the Tokyo District Public Prosecutors Office. At the same time, the Financial Services Agency ordered the suspension of loan origination for new customers by UFJ Bank s Tokyo corporate office and Osaka corporate office for the period from October 18, 2004 to April 17, 2005. In conjunction with these indictments, the Tokyo District Public Prosecutors Office announced in December 2004 that it would seek to prosecute UFJ Bank, its former executives and a former employee on suspicion of violations of the Banking Law. On April 25, 2005, UFJ Bank and its former executives were convicted of breaches of the Banking Law. UFJ Bank was fined ¥90 million, a former executive officer was sentenced to ten months imprisonment with a stay of execution for three years and two other former executive officers were sentenced to eight months imprisonment with a stay of execution for three years.

Key Financial Figures

The following are some key figures in accordance with U.S. GAAP relating to UFJ Holdings business:

	Fiscal Year Ended March 31,			Six Months Ended September 30,	
	2003	**2004**	**2005**	**2004**	**2005**
			(in billions)		
Net interest income	¥ 917.2	¥ 849.4	¥ 962.0	¥ 477.2	¥ 466.7
Provision for loan losses	¥ 511.9	¥ 313.1	¥ 91.9	¥ 202.4	¥ 75.7
Non-interest income	¥ 544.4	¥ 1,149.9	¥ 1,171.4	¥ 524.5	¥ 488.3

Non-interest expense	¥ 1,214.1	¥ 979.9	¥ 1,182.7	¥ 550.6	¥ 617.6
Net income (loss)	¥ (337.8)	¥ 607.7	¥ 718.8	¥ 245.7	¥ 219.8
Total assets	¥ 77,337.4	¥ 80,639.7	¥ 83,195.9	¥ 82,621.7	¥ 82,036.5

UFJ Holdings revenues consisted of net interest income and non-interest income. Net interest income is a function of:

- the amount of interest-earning assets,
- 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,
- the general level of interest rates, and
- the proportion of interest-earning assets financed by non-interest-bearing liabilities and equity.

Non-interest income consisted of:

- fees and commissions, including
  - trust fees,
  - fees on fund transfers and service charges for collections,
  - fees and commissions on international business, credit card business, securities business, stock transfer agency services, guarantee business and other, and
  - service charges on deposits;
- net foreign exchange gains (losses), 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;
- net trading account profits, which primarily include net gains (losses) on trading securities and interest rate derivative instruments entered into for trading purposes;
- net investment securities gains (losses), which primarily include net gains (losses) on sales of marketable securities, particularly marketable equity securities; and
- other non-interest income.

Provision for loan losses was charged to operations to maintain the allowance for loan losses at a level deemed appropriate by management.

Business Segments

UFJ Holdings was organized into the following business segments: retail banking, corporate banking, global banking and trading, planning and administration, UFJ Trust Bank and other. UFJ Holdings reported its segment information based on Japanese GAAP, which is not consistent with its financial statements prepared on the basis of U.S. GAAP. The following charts illustrate the relative contributions to net revenue for the fiscal year ended March 31, 2005 and for the six months ended September 30, 2005 of the business segments:

Fiscal Year Ended March 31, 2005

Six Months Ended September 30, 2005

Business Trends and Challenges

Reduction of nonperforming loans. The following table sets forth a summary of UFJ Holdings nonaccrual and restructured loans, and accruing loans that were contractually past due 90 days or more, and allowance for loan losses at March 31, 2003, 2004 and 2005 and at September 30, 2005:

	March 31, 2003	March 31, 2004	March 31, 2005	September 30, 2005
	(in billions, except percentages)			
Nonaccrual loans	¥ 6,954.6	¥ 4,905.9	¥ 1,813.6	¥ 1,804.7
Restructured loans	192.3	159.2	501.5	414.5
Accruing loans contractually past due 90 days or more	22.9	19.8	11.8	6.7
Nonaccrual loans and restructured loans, and accruing loans contractually past due 90 days or more, as a percentage of total loans	15.4%	11.2%	5.6%	5.2%
Allowance for loan losses	3,195.2	2,438.3	1,041.8	1,029.2
Allowance as a percentage of loans	6.8%	5.4%	2.5%	2.4%
Allowance as a percentage of nonaccrual loans and restructured loans, and accruing loans contractually past due 90 days or more	44.6%	48.0%	44.8%	46.2%

Broader range of products. The reduction of barriers since the late 1990s among the banking, securities and insurance businesses enabled UFJ Holdings to engage in businesses that it had not been permitted to conduct previously. In addition, deregulation of interest rates on yen deposits and other factors enabled UFJ Holdings to offer customers an increasingly attractive and diversified range of products. UFJ Holdings sought to increase its fees and commissions by taking advantage of the reduction of barriers and other deregulatory trends.

Greater competition. UFJ Holdings faced strong competition in all of its principal areas of operation as a result of the relaxation of regulations relating to Japanese financial institutions. Deregulation eliminated barriers between different types of Japanese financial institutions, enabling them to compete directly against one another. Deregulation and market factors also facilitated the entry of various large foreign financial institutions into the Japanese domestic market.

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. UFJ Holdings operations were 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, UFJ Holdings held a significant number of shares in some of its customers for strategic purposes, which it was reducing over time. Accordingly, UFJ Holdings results of operations varied significantly from period to period because of unpredictable events, including unexpected failures of large corporate borrowers and market volatility.

Strategic Alliance with Nippon Shinpan

In March 2004, UFJ Bank purchased 200 million shares of preferred stock in the aggregate liquidation preference amount of ¥200 billion issued by Nippon Shinpan Co., Ltd., a large Japanese consumer credit company, whose common shares are listed on the First Section of the Tokyo Stock Exchange. The investment was part of a strategic alliance between the two institutions in the credit card business intended to strengthen the competitiveness of UFJ Bank s retail business. UFJ Holdings planned to position Nippon Shinpan as a core company in UFJ Bank s retail strategy, together with UFJ Bank s subsidiary UFJ Card Co., Ltd.

The preferred stock was convertible into common stock of Nippon Shinpan at the option of UFJ Holdings at any date from September 1, 2004 until September 1, 2014, and at or after September 2, 2014 it will

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be mandatorily converted into common stock. The conversion price is subject to anti-dilution adjustments and a semiannual adjustment based on market prices up to a maximum of ¥304.1 per common share and a minimum of ¥212.9 per common share. Dividends receivable on the preferred stock are non-cumulative and payable out of distributable profits at a rate equal to the Japanese Yen six-month TIBOR plus 1.0%. The preferred stock is non-voting except in the event that Nippon Shinpan has sufficient distributable profits but does not declare and pay dividends on the preferred stock as well as in certain situations requiring a class vote under the Commercial Code of Japan. 150 million shares of the 200 million shares of preferred stock were converted into Nippon Shinpan common stock on October 1, 2005.

UFJ Holdings was Nippon Shinpan s main bank and owned 7.7% and 10.0% of Nippon Shinpan s common shares as of September 30, 2005 and March 31, 2005, respectively. Under Japanese GAAP, Nippon Shinpan was not deemed a consolidated subsidiary of UFJ Holdings until UFJ Bank converted a certain portion of the preferred stock into common shares at the time of the merger. However, under U.S. GAAP, Nippon Shinpan was a subsidiary as of April 1, 2004 as UFJ Holdings was deemed to be the primary beneficiary of Nippon Shinpan, as that term was defined in Financial Accounting Standards Board Interpretation No. 46 (Revised), or FIN 46R, Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51, and was included in UFJ Holdings consolidated financial statements as of and for the fiscal year ended March 31, 2005 as a result of applying the guidance in FIN 46R. For periods prior to April 1, 2004, Nippon Shinpan was an equity-method affiliate of UFJ Holdings.

UFJ Card and Nippon Shinpan merged in October 2005 at a merger ratio of 4.1 shares of Nippon Shinpan common stock for each share of UFJ Card common stock to form UFJ NICOS Co., Ltd. Following the merger and the conversion of 150 million shares of preferred stock, MUFG holds 69.0% of Nippon Shinpan s common stock.

Nippon Shinpan s operations consisted primarily of consumer loans, credit cards, guarantees of personal credit and shopping loans for automobile and other consumer products, which it provided under the brand name NICOS. Nippon Shinpan s consumer loan business provided cardholders with personal loans, including cash withdrawals at designated ATMs, and generated revenue in the form of interest payments, fees and commissions. The credit card business generated revenues through merchant discount fees, finance charges and membership fees. Nippon Shinpan s guarantee business provided guarantees for consumers applying for loans with its affiliated financial institutions, and generated revenue through commissions and other fees. The shopping loan business provided loans for consumers seeking to purchase merchandise and services, and generated revenue in the form of finance charges and merchant discount fees.

On a consolidated basis Nippon Shinpan had total assets of ¥1,950.5 billion as of September 30, 2005 and a net loss of ¥3.6 billion for the six months ended September 30, 2005 under U.S. GAAP.

The Financial Services Agency s Inspections of Troubled Borrowers of Major Banks

Amid concerns over the impact of problem loans on the Japanese financial system as a whole, the Financial Services Agency announced a policy in October 2002 that banks should reduce by about half the ratio of problem loans to total loans reported as of March 31, 2005 as calculated under Japanese banking regulations. In addition, the Financial Services Agency has strengthened its review process of problem loans by supplementing its regular inspections of the problem loans of Japanese banks with special inspections. The scope of these special inspections included the financial condition and internal classifications of certain large troubled borrowers of major banks, including UFJ Bank and UFJ Trust Bank. These inspections were conducted periodically since the fiscal year ended March 31, 2002. These inspections, including the regular inspections, resulted in the banks re-rating a number of borrowers classifications during the periods presented. The results of these inspections were consistent with the credit analyses performed and judgments made by management in determining UFJ Holdings U.S. GAAP loan loss allowance against borrowers in the periods presented.

Restructurings of Certain Large Borrowers

In recent periods, UFJ Holdings had increased efforts to address its exposure to large borrowers experiencing weak economic performance through charge-offs of loans and the utilization of government-sponsored revitalization initiatives. The Industrial Revitalization Corporation of Japan, or IRCJ, was established in April 2003 jointly by the public and private sectors to provide revitalization assistance to the industrial and financial sectors in Japan. The IRCJ assists companies to formulate business revitalization plans and identify sponsors, such as private equity funds, investment banks or other entities, to invest in the companies and assist them with restructuring. The IRCJ assists these companies by purchasing their debt and entering into debt-for-equity swaps. The sponsors then purchase the debt and equity from the IRCJ, contribute new funds and assist the companies with implementing their business revitalization plans.

Some of UFJ Holdings large borrowers experiencing weak economic performance initiated business revitalization plans with the assistance of the IRCJ. As a main bank for these borrowers, UFJ Bank jointly submitted the plans to the IRCJ and extended financial support as follows:

Daiei. Daiei Inc. and its related group companies are one of Japan s largest general retailers and supermarket operators. UFJ Bank and other co-main banks jointly submitted an application for support of a business revitalization plan to the IRCJ with Daiei and received approval in December 2004. Under the plan, the IRCJ invested ¥40 billion in the form of a debt-for-equity swap and ¥10 billion in cash, and two sponsors, Advantage Partners and the Marubeni group, invested ¥62 billion. The IRCJ and the sponsors acquired more than a one-third interest in Daiei. In addition, ¥400.4 billion in debt was forgiven and ¥192 billion, or approximately 82.8%, of the preferred stock of Daiei held by its three main banks, was cancelled. Of these amounts, UFJ Holdings forgave ¥203.1 billion of debt and wrote-off ¥96 billion of preferred stock. An additional ¥40 billion of preferred stock that was outside the scope of the cancellation was, after compulsory conversion to ordinary shares, subjected to a 10:1 reverse stock split conducted on Daiei s ordinary shares.

Daikyo. Daikyo Incorporated and its related group companies are one of Japan s leading apartment building developers and managers. Under Daikyo s revitalization plan, accepted by the IRCJ in September 2004 and amended in January 2005, a total of ¥133.5 billion in financial support in the form of debt forgiveness and debt-for-equity swaps was provided by financial institutions as well as a 50% write-off of preferred stock issued by Daikyo. Of these amounts, UFJ Holdings forgave ¥81.5 billion of debt and entered into a debt-for-equity swap for ¥30 billion of preferred stock. The debt-for-equity swap resulted in a charge-off of ¥30 billion against the debt and recognition of an investment in Daikyo s preferred stock at its fair value. In addition, a capital reduction of approximately 99.2% was implemented. Furthermore, a capital increase through a third party share issue of ¥23 billion to Orix Corporation was conducted in March 2005, which reduced the relative position of existing shareholders.

Misawa Homes. Misawa Homes Holdings, Inc. and its related group companies are one of Japan s leading residential housing operators. Under the revitalization plan, announced in December 2004 and amended in June 2005, a total of ¥133 billion in financial support was provided by financial institutions in the form of debt forgiveness for ¥113 billion and debt-for-equity swaps for ¥20 billion. Of this amount, UFJ Bank forgave ¥84 billion of debt and entered into a debt-for-equity swap for ¥20 billion of preferred stock. UFJ Bank also wrote-off ¥108 billion of preferred stock of Misawa Homes. The debt-for-equity swap resulted in a charge-off of ¥20 billion against the debt and recognition of an investment in Misawa Homes preferred stock at its fair value. In addition, Misawa conducted a 10:1 reverse stock split on its ordinary shares and a recapitalization through a third party share issue of ¥25.8 billion to Toyota Motor Corporation and two other sponsors.

In addition to the above restructurings made with the assistance of the IRCJ, some of UFJ Holdings other large borrowers implemented restructuring plans as follows:

Aplus. Aplus Co., Ltd. is a large consumer credit company. In September 2004, UFJ Bank sold ¥94 billion of Aplus debt and ¥30 billion of Aplus preferred stock to a subsidiary of Shinsei Bank, Ltd., an unaffiliated bank. As a result of these transactions, UFJ Holdings no longer had significant exposure to Aplus.

Sojitz. Sojitz Holdings Corporation announced a new business plan on September 8, 2004. Pursuant to the plan, Sojitz issued ¥350 billion of preferred stock to its banks in debt-for-equity swaps, and ¥10 billion of preferred stock and ¥10 billion of convertible bonds to a third party investor on October 29, 2004. Of these amounts, UFJ Bank entered into a debt-for-equity swap for ¥330 billion of preferred stock. This resulted in a charge-off against the debt and recognition of an investment in Sojitz preferred stock at its fair value.

Towa Real Estate. Towa Real Estate Development Co., Ltd. announced a financial support plan on December 29, 2004. Pursuant to the plan, Towa entered into a strategic partnership with Mitsubishi Estate Co., Ltd. whereby Mitsubishi Estate and other co-investors contributed ¥24.9 billion to Towa and UFJ Bank transferred a major part of its preferred stock of Towa to Mitsubishi Estate and forgave ¥78.2 billion in debt. UFJ Holdings recognized a loss of ¥7.8 billion on the transfer of the preferred stock of Towa to Mitsubishi Estate.

Allowances for loan losses anticipated as a result of the above IRCJ-assisted revitalizations and other restructurings were recorded at each balance sheet date depending on the extent to which the impairment was deemed to have existed. Charge-offs were made on the date of management approval.

After the merger, MUFG has continued to maintain banking relationships with the borrowers discussed above except Aplus and therefore is potentially exposed to further losses.

Measures to Assist Small- and Medium-Sized Borrowers

To accelerate revitalization of small- and medium-sized companies, UFJ Bank established UFJ Strategic Partner, Co., Ltd. (currently, MU Strategic Partner Co., Ltd.), a joint venture with Merrill Lynch, in December 2002 and subsequently transferred a portion of its problem loan portfolio in such companies to UFJ Strategic Partner. UFJ Strategic Partner provided advisory services for formulating and implementing restructuring plans to small- and medium-sized companies and advised them on their problem loans. UFJ Strategic Partner planned to upgrade or finally dispose of its initial loan and loan participation portfolio within approximately three years. As of March 2003, small- and medium-sized companies with loans with an aggregate face value of approximately ¥1,400 billion were transferred to UFJ Strategic Partner. As of March 2005, UFJ Strategic Partner s loan participations were returned to UFJ Bank and the book value of the remaining transferred assets was approximately ¥10 billion at the end of September 2005.

Economic Environment in Japan

UFJ Holdings operated primarily in Japan. After experiencing weak economic conditions and sluggish growth in previous years, Japan s economy improved in the fiscal years ended March 31, 2003, 2004 and 2005 mainly due to an increase in exports and capital spending, as well as improvements in employment and wages. The real gross domestic product growth rate was 1.1%, 2.3% and 1.7% for the fiscal years ended March 31, 2003, 2004 and 2005, respectively. The GDP growth rate was 5.4% from April to June 2005 and 1.4% from July to September 2005.

Improving economic conditions since the fiscal year ended March 31, 2003 have resulted in declining numbers of corporate bankruptcies in Japan. The number of corporate bankruptcy filings in Japan reached a 17-year high during the fiscal year ended March 31, 2002 but has decreased since then. The following table presents information on the number of new corporate bankruptcy filings in Japan and total liabilities involved in such filings for the periods indicated:

	Fiscal Year Ended March 31,			Six Months Ended September 30,	
	2003	2004	2005	2004	2005
	(in billions, except number of filings)				
Corporate bankruptcy filings	18,928	15,790	13,276	6,847	4,456
Total liabilities	¥ 13,310	¥ 10,688	¥ 7,429	¥ 3,141	¥ 2,708

Short-term interest rates remained near zero percent as the Bank of Japan continued its policy to provide liquidity in the money markets. The yield on 10-year government bonds, used as a benchmark for long-term interest rates, started in April 2003 at around 0.7%, reached a record low of around 0.5% in June 2003, increased in March 2004 to around 1.4% and declined slightly to around 1.3% in March 2005. The yield increased to around 1.6% as of the end of January 2006.

After improving significantly during the fiscal year ended March 31, 2004, stock prices remained relatively unchanged in the fiscal year ended March 31, 2005. The following table presents the Nikkei Stock Average and TOPIX at the dates indicated:

	March 31, 2003	September 30, 2003	March 31, 2004	September 30, 2004	March 31, 2005	September 30, 2005
Nikkei Stock Average	¥ 7,972.71	¥ 10,219.05	¥ 11,715.39	¥ 10,823.57	¥ 11,668.95	¥ 13,574.30
TOPIX	788.00	1,018.80	1,179.23	1,102.11	1,182.18	1,412.28

Stock prices have further improved since September 30, 2005, and as of February 24, 2006, the Nikkei Stock Average was ¥16,101.91 and the TOPIX was 1,647.74.

In the foreign exchange markets, the value of the yen against the U.S. dollar generally depreciated during the fiscal year ended March 31, 2005 and the six months ended September 30, 2005. The yen bottomed out for the nine months ended on December 31, 2005 at around ¥120 per $1.00 and has appreciated against the U.S. Dollar since such date. As of February 24, 2006, the value of the yen against the U.S. dollar was around ¥117 per $1.00.

International Financial Markets

In the United States, the 10-year U.S. Treasury note, a benchmark for long-term interest rates, started at around 3.9% in April 2003 and finished at around 3.8% in March 2004. The yield was around 4.5% in March 2005 and around 4.5% as of February 22, 2006. The U.S. Federal Reserve decreased the Federal Funds rate by 0.25% to 1.00% in June 2003. Subsequent to March 31, 2004, the U.S. Federal Reserve has raised the Federal Funds rate by 0.25% 14 times, to 4.50%.

In the EU, the European Central Bank decreased its policy rate (refinancing rate) by 0.50% to 2.00% in June 2003 and raised it by 0.25% to 2.25% in December 2005.

Critical Accounting Estimates

Introduction

UFJ Holdings attached consolidated financial statements were prepared in accordance with U.S. GAAP. Many of the accounting policies required management to make judgments regarding the valuation of assets and liabilities. The financial results of UFJ Holdings were affected by the accounting policies, assumptions and estimates that underlay the preparation of its consolidated financial statements. The accounting policies used in the preparation of the consolidated financial statements are set out in note 1 to the consolidated financial statements. In preparing the consolidated financial statements, management was required to select suitable accounting policies, apply them consistently and make judgements and estimates that were reasonable and prudent.

The accounting estimates that are deemed critical to UFJ Holdings operating results and financial condition are discussed below.

Allowance for Loan Losses

The allowance for loan losses represented management s estimate of probable losses in UFJ Holdings loan portfolio. The evaluation process involved a number of estimates and judgments. UFJ Holdings allowance for loan losses consisted of specific allowances for specifically identified impaired borrowers and general allowances for homogeneous pools of commercial and consumer loans, and other loans which were not specifically identified as impaired.

UFJ Holdings used a credit rating system to classify the credit quality of its borrowers. Borrowers were graded using information believed to reflect the borrower s ability to fulfill its obligations. Among the factors considered were the borrower s equity ratio, retained earnings to total assets ratio, debt to total assets ratio and borrowing capacity. Also included were earnings before taxes ratio, earnings before interest, taxes, depreciation and amortization ratio, the ability to repay debts and years to repay debts. These factors were based on an evaluation of current and historical information as well as subjective assessment and interpretation. Emphasizing one factor over another or considering additional factors that may have been relevant in determining the credit rating of a particular borrower, but which were not an explicit part of UFJ Holdings methodology, could have impacted the credit rating UFJ Holdings assigns to that borrower.

The allowance for specifically identified impaired borrowers, which represented large-balance, non-homogeneous loans that were specifically determined to be impaired, was determined based on an estimate of the present value of expected future cash flows or the fair value of collateral when the loan was considered to be collateral dependent or the observable market price of the loan, if one was available. The consideration of whether a loan was impaired as well as the estimate of a borrower s ability to produce future cash flows and the amount and timing of such cash flows was highly subjective, especially for some of the largest borrowers where a wide range of estimates could have resulted depending on the different assumptions used. In addition, UFJ Holdings real estate collateral valuations involved a number of detailed assumptions and estimates about current market conditions in the Japanese real estate sector. Substantially all collateral valuations were performed by UFJ group companies.

Large groups of smaller balance homogeneous loans and other loans which were not specifically identified as impaired were collectively evaluated for impairment, and the allowance for such loans was established through a process that began with estimates of probable unidentified losses inherent in the portfolio. These estimates were based upon various analyses, including UFJ Holdings historical delinquency and loan loss experience, adjusted for qualitative factors, such as the current macro-economic conditions prevailing at each period an estimate was made as well as current lending policies and procedures. Since these estimates captured qualitative factors that were not present in the quantitative analysis, they could have been highly subjective.

In addition to the allowance for loan losses on UFJ Holdings loan portfolio, UFJ Holdings maintained 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 was included in Other liabilities. The considerations that UFJ Holdings used in its estimate of provisions for off-balance sheet credit risk were similar to those used for on-balance sheet risk.

Determining the adequacy of the allowance for loan losses required the exercise of considerable judgment and the use of estimates, such as those discussed above. To the extent that actual losses exceed management s estimates, additional allowance for loan losses may have been required that could have had a materially adverse impact on UFJ Holdings operating results and financial condition in future periods.

Valuation and Impairment of Financial Instruments

UFJ Holdings held investment securities and trading assets and liabilities, including debt and marketable equity securities, non-marketable equity securities and derivatives. Fair value of financial instruments is the current amount that would be exchanged between willing buyers and sellers, other than in a forced sale or liquidation. Valuations of investment securities and trading assets and liabilities are primarily estimated based on quoted market prices, prices actively quoted among brokers or internally developed pricing models.

Quoted market prices in active markets, if available, are the most reliable measure of fair value. However, quoted market prices for debt securities traded over the counter, including Japanese and foreign government bonds, certain derivative instruments, private equity and preferred equity investments may not be available. When quoted market prices are not available, derivatives and securities values are determined based upon discounted cash flow analysis, comparison to similar observable market transactions, or the use of financial models. Discounted cash flow analysis is dependent upon estimated cash flows and the market discount rate used for credit rating and maturity comparable with the issuer. Valuation using pricing models is dependent upon time value, yield curve, option features, volatility factors, prepayment speeds, default rates, loss severity, foreign exchange rates, current market prices and transaction prices for underlying financial instruments. Pricing adjustments to model UFJ Holdings portfolio valuations considered liquidity, credit exposure, concentration risks, hedging strategies, quality of model inputs and other factors.

Where valuation of financial instruments was subjective due to the lack of market prices or inputs, management had to apply judgment to make estimates and certain assumptions. For example, when prices or inputs to financial models were used for similar financial instruments, judgment was applied to make appropriate adjustments for differences in credit risk, liquidity, transaction costs or various other financial variables. Changes in model estimates and assumptions, market conditions and unexpected circumstances can significantly affect the fair values of the securities and trading assets and liabilities.

Trading assets and liabilities that were actively traded were valued based on quoted market prices. Since few derivatives were actively traded, the majority of derivatives were valued using internally developed models based on external market variables that could be independently validated by third-party sources. However, certain derivatives were valued based on external market variables that were less readily available and were subject to management judgment. For certain derivatives not valued by internally developed models, UFJ Holdings periodically utilized external valuations performed by qualified independent counterparties.

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

	March 31, 2003	March 31, 2004	March 31, 2005	September 30, 2005
		(in billions)		
Financial assets:				
Trading securities	¥ 2,358.1	¥ 2,586.5	¥ 4,852.4	¥ 3,270.8
Investment securities	15,462.7	18,760.3	18,790.4	18,754.0
Derivative financial instruments, net	167.3	135.6	34.4	40.3
Financial liabilities:				

Trading securities sold, not yet purchased	1,518.3	1,876.2	3,410.3	2,317.4
Obligations to return securities received as collateral	137.4	339.7	162.7	151.0

A significant portion of trading securities, investment securities, trading securities sold, not yet purchased and obligations to return securities received as collateral consisted 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 were comprised of over-the-counter interest rate and currency swaps and options. Estimates of fair value of these derivative transactions were determined using quantitative models with multiple market inputs.

An impairment loss on investment securities is required to be recognized in earnings for a decline in fair value that is other-than-temporary. UFJ Holdings conducted reviews to identify and evaluate investment securities that had indications of possible impairment. UFJ Holdings assessed various quantitative and qualitative factors to determine whether impairment is other-than-temporary. The assessment of other-than-temporary impairment required significant judgment and therefore could have had a significant impact on the results of operations.

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. UFJ Holdings generally deemed a decline in fair value of 20% or more or a decline in fair value that continued for six months or more as an indicator of other-than-temporary decline. UFJ Holdings also considered the financial condition and near-term prospects of issuers primarily based on the credit standing of the issuers as determined by UFJ Holdings credit rating system, market values of comparable companies, and changes in industry and market prospects.

Non-marketable equity securities. Non-marketable equity securities are equity securities of companies that are not publicly traded or are thinly traded. Such securities are held at cost less other-than-temporary impairment. UFJ Holdings considered the credit standing of issuers and the extent of decline in net assets of issuers as well as other factors, including valuation of public companies of similar size operating in the same or similar industry, operating performance, industry trends and future expectations, to determine whether the decline is other-than-temporary. When UFJ Holdings determined that the decline was other-than-temporary, non-marketable equity securities were written down to their fair value. For certain non-marketable equity securities, UFJ Holdings periodically utilized external valuations performed by qualified independent valuation consulting firms.

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, UFJ Holdings assessment of potential impairment involved risks and uncertainties depending on market conditions that were global or regional in nature and the condition of specific issuers or industries and management s subjective assessment of the estimated future performance of investments.

Deferred Tax Asset Valuation Allowance

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. The weight given to the potential effect of negative and positive evidence should be commensurate with the extent to which it can be objectively verified.

In determining a valuation allowance, UFJ Holdings estimated future taxable income (exclusive of reversing temporary differences and loss carryforwards) and future reversals of existing taxable temporary differences using forecasted operating results, based on recent historical trends and approved business plans, a review of the eligible carryforward periods, tax planning opportunities and other relevant considerations. Future

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realization of the tax benefit of these carryforwards or existing deductible temporary differences ultimately depends on the existence of sufficient taxable income in future periods. The existence of high levels of accumulated deficit, taxable losses and credit costs incurred in the past years add to the inherent subjectivity in the determination of the valuation allowance. A valuation allowance of ¥2,176.6 billion was recorded against deferred tax assets as of September 30, 2005.

Impairment of Goodwill

At September 30, 2005, UFJ Holdings had goodwill of ¥2,323.8 billion relating principally to the acquisition of Tokai Bank and Toyo Trust by Sanwa Bank on April 2, 2001. An impairment review of goodwill was performed at least annually, or more frequently if events or changes in circumstances indicated that goodwill might be impaired. The impairment review was performed for each reporting unit by projecting future cash flows of the reporting units to which the goodwill related based upon budgets and plans and discounting these using a rate approximating the weighted average cost of capital after making adjustment for the risk inherent in the cash flows. A reporting unit was an operating segment or component of an operating segment that constituted a business for which discrete financial information was available and segment management regularly reviewed the operating results of that component. If the present value of the projected cash flows, which represented the estimated fair value of the reporting units, were to be less than the carrying value of the underlying net assets and related goodwill, an impairment may have occurred. If it was determined that an impairment had occurred, a charge was recorded in income. This calculation required the exercise of significant judgement by management.

Upon adoption of SFAS 142 on April 1, 2002, UFJ Holdings performed the transitional impairment test on goodwill. The initial adoption resulted in a cumulative adjustment charge to earnings of ¥62 billion. Also, during its subsequent annual impairment review on March 31, 2003, UFJ Holdings recorded an additional impairment on its goodwill of ¥194 billion, which was recorded in the fiscal year ended March 31, 2003.

Accrued Severance Indemnities and Pension Liabilities

UFJ Holdings had defined benefit retirement plans, including lump-sum severance indemnities and pension plans, which covered substantially all of its employees. Severance indemnities and pension costs were calculated based upon a number of actuarial assumptions, including discount rates, expected long-term rates of return on plan assets and rates of increase in future compensation levels. Actual results that differed from the assumptions were accumulated and amortized over future periods, and affected UFJ Holdings recognized net periodic pension costs and accrued severance indemnities and pension obligations in future periods.

In developing the assumptions for expected long-term rates of return, UFJ Holdings referred 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 reflected recent changes in trends and economic conditions, including market price.

UFJ Holdings had an unrecognized net actuarial loss for domestic severance indemnities and pension plans of ¥97.2 billion at September 30, 2005.

Results of Operations

The following table summarizes UFJ Holdings results of operations for the fiscal years ended March 31, 2003, 2004 and 2005 and for the six months ended September 30, 2004 and 2005:

	Fiscal Year Ended March 31,			Six Months Ended September 30,	
	2003	2004	2005	2004	2005
			(in billions)		
Interest income	¥ 1,187.0	¥ 1,058.4	¥ 1,245.1	¥ 613.5	¥ 651.6
Interest expense	269.8	209.0	283.1	136.3	184.9
Net interest income	917.2	849.4	962.0	477.2	466.7
Provision for loan losses	511.9	313.1	91.9	202.4	75.7
Non-interest income	544.4	1,149.9	1,171.4	524.5	488.3
Non-interest expense	1,214.1	979.9	1,182.7	550.6	617.6
Income (loss) before income tax expense, cumulative effect of change in accounting principle and extraordinary gain	(264.4)	706.3	858.8	248.7	261.7
Income tax expense	23.7	95.6	143.0	5.9	41.9
Income (loss) before cumulative effect of change in accounting principle, net of taxes, and extraordinary gain, net of taxes	(288.1)	610.7	715.8	242.8	219.8
Cumulative effect of change in accounting principle, net of taxes	(62.0)	(3.0)	3.0	2.9	
Extraordinary gain, net of taxes	12.3				
Net income (loss)	¥ (337.8)	¥ 607.7	¥ 718.8	¥ 245.7	¥ 219.8

Six Months Ended September 30, 2005 Compared to Six Months Ended September 30, 2004

UFJ Holdings net income decreased by ¥25.9 billion, or 10.5%, from ¥245.7 billion for the six months ended September 30, 2004 to ¥219.8 billion for the six months ended September 30, 2005. UFJ Holdings basic earnings per common share (net income available to common stockholders) decreased by ¥3,143, or 7.3%, from ¥43,106 for the six months ended September 30, 2004 to ¥39,963 for the six months ended September 30, 2005. These net decreases were due primarily to the following:

a decrease in net interest income of ¥10.5 billion from ¥477.2 billion for the six months ended September 30, 2004 to ¥466.7 billion for the six months ended September 30, 2005 due primarily to a decrease in the interest income on loans, including fees from loans and interest from investment securities, and an increase in interest expense on deposits and on payables under repurchase agreements and securities lending transactions;

a decrease of ¥126.7 billion in provision for loan losses from ¥202.4 billion for the six months ended September 30, 2004 to ¥75.7 billion for the six months ended September 30, 2005 due primarily to a decrease of provision for large groups of smaller-balance homogeneous loans and other loans, partially offset by an increase in provision for specifically identified problem loans;

a decrease of ¥36.2 billion in non-interest income from ¥524.5 billion for the six months ended September 30, 2004 to ¥488.3 billion for the six months ended September 30, 2005 primarily reflecting a decrease in investment securities gains and foreign exchange gains partially offset by an increase in net trading account gains;

an increase of ¥67.0 billion in non-interest expenses from ¥550.6 billion for the six months ended September 30, 2004 to ¥617.6 billion for the six months ended September 30, 2005 primarily as a result of an increase in provision for acceptances and off-balance sheet credit instruments as well as other non-interest expenses which include expenses for the preparation of planned management integration; and

an increase of ¥36.0 billion in income tax expense from ¥5.9 billion for the six months ended September 30, 2004 to ¥41.9 billion for the six months ended September 30, 2005 as discussed under Income Tax Expense .

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

UFJ Holdings net income increased by ¥111.1 billion, or 18.3%, from ¥607.7 billion for the fiscal year ended March 31, 2004 to ¥718.8 billion for the fiscal year ended March 31, 2005. UFJ Holdings basic earnings per common share (net income available to common stockholders) increased by ¥18,106, or 15.8%, from ¥114,642 for the fiscal year ended March 31, 2004 to ¥132,748 for the fiscal year ended March 31, 2005. These increases were due primarily to the following:

an increase in net interest income of ¥112.6 billion from ¥849.4 billion for the fiscal year ended March 31, 2004 to ¥962.0 billion for the fiscal year ended March 31, 2005 due primarily to the consolidation of Nippon Shinpan and increases in other retail lending;

a decrease of ¥221.2 billion in provision for loan losses from ¥313.1 billion in the fiscal year ended March 31, 2004 to ¥91.9 billion in the fiscal year ended March 31, 2005 due primarily to a decrease of provision for large borrowers and a decrease in the loan loss allowance due to collections and additional collateral obtained;

an increase of ¥21.5 billion in non-interest income from ¥1,149.9 billion for the fiscal year ended March 31, 2004 to ¥1,171.4 billion for the fiscal year ended March 31, 2005 primarily reflecting an increase in fees and commissions, mainly from the consolidation of Nippon Shinpan, and an increase in other non-interest income partially offset by a decrease in net trading account gains; and

an increase of ¥202.8 billion in non-interest expenses from ¥979.9 billion for the fiscal year ended March 31, 2004 to ¥1,182.7 billion for the fiscal year ended March 31, 2005 primarily as a result of the consolidation of Nippon Shinpan.

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

UFJ Holdings net income increased by ¥945.5 billion from a net loss of ¥337.8 billion for the fiscal year ended March 31, 2003 to a net profit of ¥607.7 billion for the fiscal year ended March 31, 2004. UFJ Holdings basic earning per common share for the fiscal year ended March 31, 2004 was ¥114,642, compared to a basic loss per common share of ¥77,926 for the fiscal year ended March 31, 2003. These increases in net income were due primarily to the following:

an increase of ¥605.5 billion in non-interest income from ¥544.4 billion for the fiscal year ended March 31, 2003 to ¥1,149.9 billion for the fiscal year ended March 31, 2004 due to increases in fees and commissions and net gains in trading accounts, investment securities and foreign exchange, all of which reflect improvements in market conditions between the periods;

a decrease of ¥198.8 billion in provision for loan losses from ¥511.9 billion in the fiscal year ended March 31, 2003 to ¥313.1 billion in the fiscal year ended March 31, 2004 due primarily to improvements in the financial conditions of existing impaired borrowers and fewer new impaired borrowers; and a decrease of ¥234.2 billion in non-interest expense from ¥1,214.1 billion for the fiscal year ended March 31, 2003 to ¥979.9 billion for the fiscal year ended March 31, 2004 primarily due to a goodwill impairment charge of ¥194.0 billion in the fiscal year ended March 31, 2003 relating to the trust business segment. In addition to this charge, an additional impairment charge of ¥62.0 billion relating to the trust business was recorded for the fiscal year ended March 31, 2003 as a cumulative effect of change in accounting principle adjustment.

Net Interest Income

The following table summarizes UFJ Holdings net interest income for the periods indicated:

	Fiscal Year Ended March 31,			Six Months Ended September 30,	
	2003	2004	2005	2004	2005
			(in billions)		
Interest income	¥ 1,187.0	¥ 1,058.4	¥ 1,245.1	¥ 613.5	¥ 651.6
Interest expense	269.8	209.0	283.1	136.3	184.9
Net interest income	¥ 917.2	¥ 849.4	¥ 962.0	¥ 477.2	¥ 466.7

Interest Income

The following table summarizes UFJ Holdings interest income for the periods indicated:

	Fiscal Year Ended March 31,			Six Months Ended September 30,	
	2003	2004	2005	2004	2005
			(in billions)		
Loans, including fees	¥ 908.6	¥ 840.8	¥ 968.8	¥ 483.9	¥ 477.5
Deposits in other banks	33.9	21.3	20.7	8.1	21.7
Investment securities:					
Interest	149.0	139.4	188.9	91.8	88.0
Dividends	32.6	22.6	24.6	10.8	12.8
Trading account assets	23.4	17.7	18.8	8.7	9.2
Call loans and funds sold	5.0	3.5	3.9	1.9	2.6
Receivables under reverse repurchase agreements and securities borrowing transactions	34.5	13.1	19.4	8.3	39.8
Total	¥ 1,187.0	¥ 1,058.4	¥ 1,245.1	¥ 613.5	¥ 651.6

Six Months Ended September 30, 2005 Compared to Six Months Ended September 30, 2004

Interest income increased by ¥38.1 billion from ¥613.5 billion for the six months ended September 30, 2004 to ¥651.6 billion for the six months ended September 30, 2005. This increase was primarily due to an increase of ¥31.5 billion in interest income on receivables under reverse repurchase agreements and securities borrowing transactions from ¥8.3 billion for the six months ended September 30, 2004 to ¥39.8 billion for the six months ended September 30, 2005. Higher average balances on receivables under reverse repurchase agreements and securities borrowing transactions during the six months ended September 30, 2005 contributed to the increase in interest income. In addition, interest earned on deposits in other banks increased by ¥13.6 billion from ¥8.1 billion for the six months ended September 30, 2004 to ¥21.7 billion for the six months ended September 30, 2005. Interest income on loans decreased due to a lower average balance of loans in the six months ended September 30, 2005 compared to the same period in 2004.

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

Interest income increased by ¥186.7 billion from ¥1,058.4 billion for the fiscal year ended March 31, 2004 to ¥1,245.1 billion for the fiscal year ended March 31, 2005. This increase was primarily due to an increase of ¥128.0 billion in interest income on loans from ¥840.8 billion for the fiscal year ended March 31, 2004 to ¥968.8 billion for the fiscal year ended March 31, 2005. In addition, interest earned on investment securities increased by ¥49.5 billion from ¥139.4 billion for the fiscal year ended March 31, 2004 to ¥188.9 billion for the fiscal year ended March 31, 2005.

Interest income earned on loans increased by ¥128.0 billion from ¥840.8 billion for the fiscal year ended March 31, 2004 to ¥968.8 billion for the fiscal year ended March 31, 2005 due to the consolidation of Nippon Shinpan s credit card and other interest earning businesses. Excluding the contribution of Nippon Shinpan, interest income earned on loans decreased by ¥48.8 billion, reflecting lower levels of corporate loan origination due to weak corporate sector demand for the fiscal year ended March 31, 2005 compared to the fiscal year ended March 31, 2004.

The impact of reduced corporate lending for the fiscal year ended March 31, 2005 was partially offset by an increase in other consumer lending which typically carries a higher interest rate than corporate lending.

Interest income earned on investment securities increased by ¥49.5 billion from ¥139.4 billion for the fiscal year ended March 31, 2004 to ¥188.9 billion for the fiscal year ended March 31, 2005. This increase was due generally to higher average levels of debt securities carried throughout the fiscal year ended March 31, 2005, as compared to the fiscal year ended March 31, 2004. The decrease in demand for corporate loans resulted in the channeling of funding balances into higher holdings of debt securities.

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

Interest income decreased by ¥128.6 billion from ¥1,187.0 billion for the fiscal year ended March 31, 2003 to ¥1,058.4 billion for the fiscal year ended March 31, 2004. This was primarily due to a decrease of ¥67.8 billion in interest from loans from ¥908.6 billion for the fiscal year ended March 31, 2003 to ¥840.8 billion for the fiscal year ended March 31, 2004, a decrease of ¥19.6 billion in interest and dividends on investment securities from ¥181.6 billion for the fiscal year ended March 31, 2003 to ¥162.0 billion for the fiscal year ended March 31, 2004 and a decrease of ¥12.6 billion in deposits in other banks from ¥33.9 billion for the fiscal year ended March 31, 2003 to ¥21.3 billion for the fiscal year ended March 31, 2004.

The decrease in interest income from loans was due to lower levels of corporate loan origination for the fiscal year ended March 31, 2004 compared to the fiscal year ended March 31, 2003 due to weak corporate sector demand. The impact of the reduced corporate lending was partially offset by an increase in consumer lending which typically carries a higher rate than corporate lending. In addition, the general level of long-term interest rates was higher for the fiscal year ended March 31, 2004 as compared to the prior year, which also helped to partially offset the decline in corporate lending volumes.

Interest income from foreign currency denominated debt securities decreased by ¥13.8 billion from ¥69.3 billion for the fiscal year ended March 31, 2003 to ¥55.5 billion for the fiscal year ended March 31, 2004. This reflects a reduction in UFJ Holdings portfolio of U.S. Dollar-denominated debt securities together with a period-on-period decline in U.S. interest rates. Interest income earned on domestic debt securities increased by ¥4.2 billion from ¥79.7 billion for the fiscal year ended March 31, 2003 to ¥83.9 billion for the fiscal year ended March 31, 2004.

Dividends received on investment securities decreased by ¥10.0 billion from ¥32.6 billion for the fiscal year ended March 31, 2003 to ¥22.6 billion for the fiscal year ended March 31, 2004 due to a reduction in UFJ Holdings equity portfolio to reduce cross-holdings of customers equity securities.

The decrease of ¥12.6 billion in interest on deposits in other banks was due to a general reduction in interest earning deposits in other banks in the fiscal year ended March 31, 2004 as compared to the fiscal year ended March 31, 2003. Interest-earning deposits in other banks fluctuate significantly from day to day depending upon financial market conditions. Interest-earning deposits in other banks decreased 9.2%, from ¥964.2 billion at March 31, 2003 to ¥875.3 billion at March 31, 2004. This decrease primarily reflects the daily operation and liquidity needs of UFJ

Holdings and money market conditions.

Interest Expense

The following table summarizes UFJ Holdings interest expense for the periods indicated:

	Fiscal Year Ended March 31,			Six Months Ended September 30,	
	2003	2004	2005	2004	2005
			(in billions)		
Deposits	¥ 108.2	¥ 74.8	¥ 83.5	¥ 38.8	¥ 54.1
Call money and funds purchased	3.2	1.3	1.7	0.7	1.9
Payables under repurchase agreements and securities lending transactions	38.0	18.6	31.0	11.0	47.4
Due to trust account	5.9	6.2	7.3	3.9	2.6
Other short-term borrowings and trading account liabilities	27.6	19.4	16.7	16.5	12.8
Long-term debt	86.9	88.7	142.9	65.4	66.1
Total	¥ 269.8	¥ 209.0	¥ 283.1	¥ 136.3	¥ 184.9

Six Months Ended September 30, 2005 Compared to Six Months Ended September 30, 2004

Interest expense increased by ¥48.6 billion to ¥184.9 billion for the six months ended September 30, 2005 from ¥136.3 billion for the six months ended September 30, 2004. This increase was primarily due to an increase of ¥36.4 billion in interest expense on payables under repurchase agreements and securities lending transactions from ¥11.0 billion for the six months ended September 30, 2004 to ¥47.4 billion for the six months ended September 30, 2005. In addition, interest expense on deposits increased by ¥15.3 billion from ¥38.8 billion for the six months ended September 30, 2004 to ¥54.1 billion for the six months ended September 30, 2005. This increase was due primarily to higher U.S. dollar interest rates on foreign deposits.

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

Interest expense increased by ¥74.1 billion to ¥283.1 billion for the fiscal year ended March 31, 2005 from ¥209.0 billion for the fiscal year ended March 31, 2004. This increase was primarily due to an increase of ¥54.2 billion in interest expense on long-term borrowings from ¥88.7 billion for the fiscal year ended March 31, 2004 to ¥142.9 billion for the fiscal year ended March 31, 2005. The increase in interest payable on long-term borrowings was due to a net increase in long-term borrowing levels, which reflects the consolidation of Nippon Shinpan funding balances.

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

Interest expense decreased by ¥60.8 billion from ¥269.8 billion for the fiscal year ended March 31, 2003 to ¥209.0 billion for the fiscal year ended March 31, 2004. This was due to a decrease of ¥33.4 billion in deposit interest from ¥108.2 billion for the fiscal year ended March 31, 2003 to ¥74.8 billion for the fiscal year ended March 31, 2004, a reduction of ¥19.4 billion in interest expense on payables under repurchase agreements and securities lending transactions from ¥38.0 billion for the fiscal year ended March 31, 2003 to ¥18.6 billion for the fiscal year ended March 31, 2004 and a decrease of ¥8.2 billion in other short-term borrowings from ¥27.6 billion for the fiscal year ended March 31, 2003 to ¥19.4 billion for the fiscal year ended March 31, 2004.

The decrease of ¥33.4 billion in deposit interest was primarily due to lower levels of interest credited to deposit accounts. As existing deposits expired during the fiscal year ended March 31, 2004, they were generally renewed at lower levels of interest compared to rates credited for the fiscal year ended March 31, 2003, which reflected UFJ Holdings strategy of aligning rates to market movements.

The decrease of ¥19.4 billion in interest expense on payables under repurchase agreements and securities lending transactions and the decrease of ¥8.2 billion in interest expense on other short-term borrowings were due primarily to UFJ Holdings reducing its short-term funding portfolio in exchange for longer-term funding and higher deposit balances.

Provision for Loan Losses

Provision for loan losses was charged to operations to maintain the allowance for loan losses at a level deemed appropriate by management. For a description of the approach and methodology used to establish the provision for loan losses, see Financial Condition Allowance for Loan Losses, Nonperforming and Past Due Loans.

Six Months Ended September 30, 2005 Compared to Six Months Ended September 30, 2004

Provision for loan losses was ¥75.7 billion for the six months ended September 30, 2005, a decrease of ¥126.7 billion, or 62.6%, compared to ¥202.4 billion for the six months ended September 30, 2004. This decrease reflected primarily a decrease in provision for large groups of smaller-balance homogenous loans and other loans, partially offset by an increase in provision for specifically identified problem loans.

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

Provision for loan losses was ¥91.9 billion for the fiscal year ended March 31, 2005, a decrease of ¥221.2 billion, or 70.7%, compared to ¥313.1 billion for the fiscal year ended March 31, 2004. This decrease reflected primarily a decrease in provisions for large borrowers, as a result of certain large borrowers implementing restructuring plans as discussed under Restructurings of Certain Large Borrowers, and an increase in the reversal of provision for loan losses due to additionally obtained collateral or collection.

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

Provision for loan losses was ¥313.1 billion for the year ended March 31, 2004, a decrease of ¥198.8 billion, or 38.8%, compared to ¥511.9 billion for the fiscal year ended March 31, 2003. This decrease principally reflected a reduction in the amount of impaired loans, complemented by improvements in the financial condition of existing impaired borrowers. Improvements in the Japanese economy were also reflected through a lowering of provisioning rates against large groups of smaller balance homogeneous loans and a consequential reduction of the related allowance, which was magnified by a reduction in the overall level of lending to these groups.

Non-Interest Income

The following table summarizes UFJ Holdings non-interest income for the periods indicated:

	Fiscal Year Ended March 31,			Six Months Ended September 30,	
	2003	2004	2005	2004	2005
			(in billions)		
Fees and commissions:					
Trust fees	¥ 56.3	¥ 50.1	¥ 50.0	¥ 25.2	¥ 23.1
Fees on funds transfer and service charges for collections	78.6	80.7	82.3	40.8	40.6
Fees and commissions on international business	35.2	39.1	38.1	20.1	18.0
Fees and commissions on credit card business	16.8	33.6	86.2	41.8	44.6
Service charges on deposits	35.5	37.8	42.5	20.7	22.5
Fees and commissions on securities business	48.5	70.3	60.4	39.4	30.6
Fees and commissions on stock transfer agency services	28.7	30.2	34.7	17.0	17.0
Fees and commissions on guarantee business	8.5	12.7	54.1	26.7	27.2
Other fees and commissions	73.9	91.2	146.9	65.3	81.4
Total	382.0	445.7	595.2	297.0	305.0
Foreign exchange gains (losses) net	(17.5)	95.6	89.3	5.4	(87.9)
Trading account gains (losses) net	(37.5)	228.9	(45.9)	(65.4)	122.1
Investment securities gains net	122.0	316.9	291.4	250.7	88.3
Refund of local taxes by the Tokyo Metropolitan Government		25.7			
Equity in earnings (loss) of affiliated companies	0.5	(35.3)	20.4	9.2	16.4
Gain on sale-leaseback contract			84.8		
Gain on pension settlement			50.1		
Other non-interest income	94.9	72.4	86.1	27.6	44.4
Total non-interest income	¥ 544.4	¥ 1,149.9	¥ 1,171.4	¥ 524.5	¥ 488.3

Six Months Ended September 30, 2005 Compared to Six Months Ended September 30, 2004

Non-interest income for the six months ended September 30, 2005 was ¥488.3 billion, a decrease of ¥36.2 billion, or 6.9%, from ¥524.5 billion for the six months ended September 30, 2004. This decrease was due primarily to a decrease in investment securities gains and foreign exchange gains partially offset by an increase in net trading account gains.

UFJ Holdings had fees and commissions income of ¥305.0 billion for the six months ended September 30, 2005 compared to ¥297.0 billion for the six months ended September 30, 2004, an increase of ¥8.0 billion. The increase was due primarily to an increase of ¥16.1 billion in other fees and commissions from ¥65.3 billion for the six months ended September 30, 2004 to ¥81.4 billion for the six months ended September 30, 2005. This increase reflected increased fees and commissions from insurance brokerage activities.

Net trading account gains (losses) for the six months ended September 30, 2004 and 2005 consisted of the following:

	Six Months Ended September 30,	
	2004	2005
	(in billions)	
Net profits (losses) on derivative instruments, primarily interest-rate futures, swaps and options	¥ (26.8)	¥ 105.5
Net profits (losses) on trading securities	(38.6)	16.6
Net trading account profits (losses)	¥ (65.4)	¥ 122.1

UFJ Holdings had net trading account profits of ¥122.1 billion for the six months ended September 30, 2005 as compared to net trading account losses of ¥65.4 billion for the six months ended September 30, 2004.

Net gains on derivative instruments, primarily interest rate futures, swaps and options, increased by ¥132.3 billion from a net loss of ¥26.8 billion for the six months ended September 30, 2004 to a net profit of ¥105.5 billion for the six months ended September 30, 2005. This increase was due primarily to an increase in net profits on interest rate swaps.

Net gains on trading securities increased by ¥55.2 billion, from a net loss of ¥38.6 billion for the six months ended September 30, 2004 to ¥16.6 billion for the six months ended September 30, 2005. This increase reflects improved securities trading market conditions in the six months ended September 30, 2005 as compared to the six months ended September 30, 2004.

Net investment securities gains for the six months ended September 30, 2004 and 2005 are summarized below:

	Six Months Ended September 30,	
	2004	2005
	(in billions)	
Net gains on sales of marketable equity securities	¥ 229.7	¥ 55.6
Impairment losses on marketable equity securities	(31.4)	(8.4)
Net gains on sales of debt securities and others	52.4	41.1
Net investment securities gains	¥ 250.7	¥ 88.3

Net investment securities gains for the six months ended September 30, 2005 were ¥88.3 billion, a decrease of ¥162.4 billion, or 64.8%, from ¥250.7 billion for the six months ended September 30, 2004. Net gains on sales of equity securities decreased primarily due to a decreased level of sales as UFJ Holdings had reduced its exposure to equity securities over the past few periods. Impairment losses on equity securities improved by ¥23.0 billion from ¥31.4 billion in the six months ended September 30, 2004 to ¥8.4 billion in the six months ended September 30, 2005 due primarily to a rise in Japanese stock prices. Net gains on sales of debt securities and others decreased by ¥11.3 billion from ¥52.4 billion in the six months ended September 30, 2004 to ¥41.1 billion in the six months ended September 30, 2005 due primarily to declines in the prices of bonds.

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 ¥1,171.4 billion, an increase of ¥21.5 billion, or 1.9%, from ¥1,149.9 billion for the fiscal year ended March 31, 2004. This increase was due primarily to an increase of ¥149.5 billion in fees and commissions from ¥445.7 billion for the fiscal year ended March 31, 2004 to ¥595.2 billion for the fiscal year ended March 31, 2005, a gain on sale-leaseback contract of ¥84.8 billion for the fiscal year ended March 31, 2005 resulting from UFJ Bank s entering into a sale-leaseback transaction of its Tokyo headquarters and a gain on pension settlement of ¥50.1 billion for the fiscal year ended March 31, 2005 resulting from UFJ Bank s transfer of obligations under its employees pension fund and related plan assets to the Japanese government in connection with the separation of a substitutional portion, partially offset by net trading account losses of ¥45.9 billion for the fiscal year ended March 31, 2005 as compared to net trading account gains of ¥228.9 billion for the fiscal year ended March 31, 2004.

UFJ Holdings had fees and commissions income of ¥595.2 billion for the fiscal year ended March 31, 2005 compared to ¥445.7 billion for the fiscal year ended March 31, 2004, an increase of ¥149.5 billion. The increase was due primarily to an increase of ¥52.6 billion in fees and commission on credit cards and an increase of ¥41.4 billion in guarantees business. Both of these increases reflect primarily the consolidation of Nippon Shinpan. Other fees and commissions increased by ¥55.7 billion from ¥91.2 billion for the fiscal year ended March 31, 2004 to ¥146.9 billion for the fiscal year ended March 31, 2005. This increase reflected increased fees and commissions from insurance brokerage activities and additional fee earning activities of Nippon Shinpan such as installment fees on consumer shopping loans.

Net trading account gains (losses) for the fiscal years ended March 31, 2004 and 2005 consisted of the following:

	Fiscal Year Ended March 31,	
	2004	2005
	(in billions)	
Net gains (losses) on derivative instruments, primarily interest-rate futures, swaps and options	¥ 36.9	¥ (77.1)
Net gains on trading securities	192.0	31.2
Net trading account gains (losses)	¥ 228.9	¥ (45.9)

UFJ Holdings had net trading account losses of ¥45.9 billion for the fiscal year ended March 31, 2005 as compared to net trading account gains of ¥228.9 billion for the fiscal year ended March 31, 2004.

Net gains on derivative instruments, primarily interest rate futures, swaps and options, decreased by ¥114.0 billion from a net gain of ¥36.9 billion for the fiscal year ended March 31, 2004 to a net loss of ¥77.1 billion for the fiscal year ended March 31, 2005. This decrease was due primarily to a decrease in net profits on interest rate swaps and interest rate options. In particular, in order to manage interest rate risks on its long-term debt, UFJ Holdings had net receive-fix and pay-variable positions in its interest rate swap portfolios. These portfolios decreased in value in an increasing interest rate environment for U.S. dollar-denominated obligations.

Net gains on trading securities decreased by ¥160.8 billion, from ¥192.0 billion for the fiscal year ended March 31, 2004 to ¥31.2 billion for the fiscal year ended March 31, 2005. This decrease reflects weaker market conditions in the fiscal year ended March 31, 2005 as compared to the fiscal year ended March 31, 2004.

Net investment securities gains for the fiscal year ended March 31, 2004 and 2005 are summarized below:

	Fiscal Year Ended March 31,	
	2004	2005
	(in billions)	
Net gains on sales of equity securities	¥ 404.0	¥ 252.3
Impairment losses on equity securities	(122.9)	(32.5)
Net gains on sales of debt securities and others	35.8	71.6
Net investment securities gains	¥ 316.9	¥ 291.4

Net investment securities gains for the fiscal year ended March 31, 2005 were ¥291.4 billion, a decrease of ¥25.5 billion, or 8.1%, from ¥316.9 billion for the fiscal year ended March 31, 2004. Net gains on sales of equity securities decreased primarily due to a decreased level of sales to realize cumulative unrealized equity gains reflecting UFJ Holdings ongoing strategy to reduce its exposure to equity securities. In addition, net gains on sales of equity securities for the fiscal year ended March 31, 2004 include a gain of ¥40.2 billion from contributions to UFJ Bank s and UFJ Trust s pension trusts which were not repeated in the fiscal year ended March 31, 2005. Impairment losses on equity securities improved by ¥90.4 billion from ¥122.9 billion in the fiscal year ended March 31, 2004 to ¥32.5 billion in the fiscal year ended March 31, 2005 due primarily to a decrease in impairment losses on preferred stock. The decrease in impairment losses on preferred stock in turn reflected the incurrence of impairment losses in the fiscal year ended March 31, 2004 due to earlier restructurings of certain large borrowers other than those undertaken in the fiscal year ended March 31, 2005. Net gains on sales of debt securities and others increased by ¥35.8 billion from ¥35.8 billion in the fiscal year ended March 31, 2004 to ¥71.6 billion in the fiscal year ended March 31, 2005 due primarily to sales of long term Japanese government bonds in improved bond market conditions.

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 ¥1,149.9 billion, an increase of ¥605.5 billion, or 111.2%, from ¥544.4 billion for fiscal year ended March 31, 2003. This increase was due primarily to net trading account gains of ¥228.9 billion for the fiscal year ended March 31, 2004 as compared to net trading account losses of ¥37.5 billion for the fiscal year ended March 31, 2003 as well as an increase of ¥194.9 billion in net investment securities gains from ¥122.0 billion for the fiscal year ended March 31, 2003 to ¥316.9 billion for the fiscal year ended March 31, 2004 and an increase of ¥113.1 billion in net foreign exchange gains from a loss of ¥17.5 billion for the fiscal year ended March 31, 2003 to a gain of ¥95.6 billion for the fiscal year ended March 31, 2004.

UFJ Holdings had fees and commissions income of ¥445.7 billion for the fiscal year ended March 31, 2004, compared to ¥382.0 billion for the fiscal year ended March 31, 2003. The increase was due primarily to an increase of ¥21.8 billion in fees and commissions on securities business from ¥48.5 billion for the fiscal year ended March 31, 2003 to ¥70.3 billion for the fiscal year ended March 31, 2004, an increase of ¥16.8 billion in fees and commissions on credit card businesses from ¥16.8 billion for the fiscal year ended March 31, 2003 to ¥33.6 billion for the fiscal year ended March 31, 2004, and an increase of ¥17.3 billion in other fees and commissions from ¥73.9 billion for the fiscal year ended March 31, 2003 to ¥91.2 billion for the fiscal year ended March 31, 2004.

The increase in fees and commissions in the securities business reflects increased securities trading volumes due to improved market conditions as well as increased underwriting activity. The increase in fees and commissions on credit card business reflected the consolidation of UFJ Card since the beginning of October 2002. The increase in other fees and commissions reflected increased fees and commissions from investment fund management and insurance brokerage activities.

UFJ Holdings had net foreign exchange gains of ¥95.6 billion for the fiscal year ended March 31, 2004, compared to net foreign exchange losses of ¥17.5 billion for the prior fiscal year. This improvement 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 trading account gains (losses) for the fiscal years ended March 31, 2003 and 2004 consisted of the following:

	Fiscal Year Ended March 31,	
	2003	2004
	(in billions)	
Net profits on derivative instruments, primarily interest-rate futures, swaps and options	¥ 213.9	¥ 36.9
Net profits (losses) on trading securities	(251.4)	192.0
Net trading account profits (losses)	¥ (37.5)	¥ 228.9

UFJ Holdings recorded net trading account losses of ¥37.5 billion for the fiscal year ended March 31, 2003 and net trading account gains of ¥228.9 billion for the fiscal year ended March 31, 2004.

Net gains on derivative instruments, primarily interest-rate futures, swaps and options, decreased by ¥177.0 billion from ¥213.9 billion for the fiscal year ended March 31, 2003 to ¥36.9 billion for the fiscal year ended March 31, 2004. This decrease was due primarily to a decrease in net profits on interest rate swaps and interest rate options. In particular, in order to manage interest rate risks on its long-term debt, UFJ Holdings had net receive-fix and pay-variable positions in its interest rate swap portfolios. These portfolios decreased in value in an increasing interest rate environment.

Net losses on trading securities were ¥251.4 billion for the fiscal year ended March 31, 2003 as compared to net gains on trading securities of ¥192.0 billion for the fiscal year ended March 31, 2004. This increase of ¥443.4 billion was due primarily to improving market conditions in the fiscal year ended March 31, 2004 as compared to the fiscal year ended March 31, 2003.

Net investment securities gains for the fiscal years ended March 31, 2003 and 2004 are summarized below:

	Fiscal Year Ended March 31,	
	2003	2004
	(in billions)	
Net gains on sales of marketable equity securities	¥ 181.7	¥ 404.0
Impairment losses on marketable equity securities	(265.3)	(122.9)
Net gains on sales of debt securities and others	205.6	35.8
Net investment securities gains	¥ 122.0	¥ 316.9

Net investment securities gains for the fiscal year ended March 31, 2004 was ¥316.9 billion, an increase of ¥194.9 billion, or 159.8%, from ¥122.0 billion for the fiscal year ended March 31, 2003.

Net gains on sales of equity securities increased by ¥222.3 billion from ¥181.7 billion for the fiscal year ended March 31, 2003 to ¥404.0 billion for the fiscal year ended March 31, 2004. This increase was due primarily to realizing investment gains from the significant improvement in the Japanese stock market over the period. Impairment losses on equity securities improved by ¥142.4 billion from ¥265.3 billion in the fiscal year ended March 31, 2003 to ¥122.9 billion in the fiscal year ended March 31, 2004 due primarily to a higher level of common stock impairment in the fiscal year ended March 31, 2003 reflecting the significant decline in the Japanese stock market during that fiscal year. Net gains on sales of debt securities and others decreased by ¥169.8 billion from ¥205.6 billion for the fiscal year ended March 31, 2003 to ¥35.8 billion for the fiscal year ended March 31, 2004. This decrease was primarily due to worsening bond market conditions resulting from increases in interest rates.

In October 2003, a number of banks, including UFJ Bank and UFJ Trust Bank, entered into a settlement at court with the Tokyo Metropolitan Government and the Tokyo Governor and withdrew their complaints regarding the Tokyo Metropolitan Government s local tax on large banks. The settlement included a revision of the applicable tax rate to 0.9%, from 3.0%, effective retroactive to the date of enactment of the local tax for the fiscal year ended March 31, 2001, and 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. As a result of this settlement, UFJ Holdings received an aggregate tax refund plus accrued interest of ¥25.7 billion in the fiscal year ended March 31, 2004.

For the fiscal year ended March 31, 2004, UFJ Holdings recorded losses of ¥35.3 billion on equity in earnings of affiliated companies as compared to gains of ¥0.5 billion for the fiscal year ended March 31, 2003 due primarily to net losses recorded to Nippon Shinpan in the period.

Non-Interest Expenses

The following table summarizes UFJ Holdings non-interest expenses for the periods indicated:

	Fiscal Year Ended March 31,			Six Months Ended September 30,	
	2003	2004	2005	2004	2005
			(in billions)		
Salaries and employee benefits	¥ 354.4	¥ 344.6	¥ 317.5	¥ 161.0	¥ 168.8
Occupancy expenses net	121.2	121.2	116.3	68.0	65.9
Fees and commission expense	53.5	50.9	80.2	45.5	47.4
Amortization of intangible assets	85.0	82.7	111.5	55.1	58.4
Impairment of goodwill	194.0				
Insurance premiums, including deposit insurance	50.9	52.0	51.6	25.8	27.1
Minority interest in income (loss) of consolidated subsidiaries	17.4	19.7	21.4	3.7	(10.7)
Communications	22.7	22.5	31.2	16.7	16.2
Provision (reversal) for acceptances and off-balance sheet credit instruments	(12.0)	0.8	8.0	(9.7)	22.9
Losses on sales and disposal of premises and equipment	28.1	19.2	8.3	3.5	9.7
Advisory services			48.6		
Other non-interest expenses	298.9	266.3	388.1	181.0	211.9
Total non-interest expense	¥ 1,214.1	¥ 979.9	¥ 1,182.7	¥ 550.6	¥ 617.6

Six Months Ended September 30, 2005 Compared to Six Months Ended September 30, 2004

Non-interest expenses for the six months ended September 30, 2005 were ¥617.6 billion, an increase of ¥67.0 billion, or 12.2%, from ¥550.6 billion for the six months ended September 30, 2004. This increase was due primarily to the increase in provision for acceptances and off-balance sheet credit instruments as well as other non-interest expenses which include expenses for the preparation of planned management integration.

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

Non-interest expenses for the fiscal year ended March 31, 2005 were ¥1,182.7 billion, an increase of ¥202.8 billion, or 20.7%, from ¥979.9 billion for the fiscal year ended March 31, 2004. This increase was due primarily to the consolidation of Nippon Shinpan and advisory service expenses related to UFJ Strategic Partner. This increase was slightly offset by a reduction in salaries and employee benefits.

On consolidation of Nippon Shinpan, UFJ Holdings recognized customer relationship, brand and trade name, and technology-related intangible assets of ¥162.3 billion. Amortization of these intangible assets in the fiscal year ended March 31, 2005 was ¥18.8 billion.

A general decrease in salaries and employee benefits of UFJ Holdings due to a reduction in headcount and of employee bonuses was partially offset by increased salaries and employee benefit costs of Nippon Shinpan of ¥52.4 billion.

Other non-interest expenses, which consists of administrative-related expenses, depreciation, disposal gains and losses and other expenses, increased by ¥121.8 billion from ¥266.3 billion for the fiscal year ended March 31, 2004 to ¥388.1 billion for the fiscal year ended March 31, 2005. This increase reflects primarily other non-interest expenses associated with the consolidation of Nippon Shinpan.

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

Non-interest expenses decreased by ¥234.2 billion to ¥979.9 billion for the fiscal year ended March 31, 2004 from ¥1,214.1 billion for the fiscal year ended March 31, 2003. This decrease was primarily related to an impairment charge of ¥194.0 billion charged against UFJ Holdings trust business in the fiscal year ended March 31, 2003.

Income Tax Expense

The following table summarizes UFJ Holdings income tax expense for the periods indicated:

	Fiscal Year Ended March 31,			Six Months Ended September 30,	
	2003	**2004**	**2005**	**2004**	**2005**
	(in billions, except percentages)				
Income (loss) before income tax expense, cumulative effect of change in accounting principle and extraordinary gain	¥ (264.4)	¥ 706.3	¥ 858.8	¥ 248.7	¥ 261.7
Income tax expense	23.7	95.6	143.0	5.9	41.9
Effective tax rate	(9.0)%	13.5%	16.7%	2.4%	16.0%
Normal effective statutory tax rate	42.0%	42.0%	40.7%	40.7%	40.7%

Six Months Ended September 30, 2005 Compared to Six Months Ended September 30, 2004

UFJ Holdings had income tax expense of ¥41.9 billion for the six months ended September 30, 2005 compared to ¥5.9 billion for the six months ended September 30, 2004. When UFJ Holdings was established on April 2, 2001, the business combination was accounted for as a purchase by Sanwa Bank of Tokai Bank and Toyo Trust. A valuation allowance was recognized for deferred tax assets in excess of the deferred tax liability for Tokai Bank and Toyo Trust s deductible temporary differences and operating loss at the acquisition date. For the period ended September 30, 2005, some tax benefits related to the deductible temporary differences and operating loss carry-forwards of Tokai Bank and Toyo Trust that existed at the acquisition were subsequently recognized and the respective reversal of the valuation allowance was accounted for by crediting goodwill instead of reducing reported income tax expense.

Similarly, as of April 1, 2004, Nippon Shinpan was newly consolidated and a valuation allowance was recognized for deferred tax assets. Subsequently, some tax benefits for deductible temporary differences were recognized for the fiscal year ended March 31, 2005, and the respective reversal of the valuation allowance was accounted for by crediting goodwill rather than decreasing income tax expense at March 31, 2005. No such benefits were recognized during the period ended September 30, 2005.

The normal effective statutory tax of UFJ Holdings was 42.0% and 40.7% for the fiscal years ended March 31, 2004 and 2005, respectively. Under local tax laws enacted in March 2003 for the fiscal years beginning after March 31, 2004, new uniform local taxes became 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, will supersede the current local taxes, including the local taxes levied by the Tokyo Metropolitan Government. New local tax laws enacted in March 2003 for fiscal years beginning after March 31, 2004 resulted in a decrease of 1.3% in the normal effective statutory tax rate of UFJ Holdings.

For the six months ended September 30, 2005, the effective income tax rate was 16.0%, which was 24.7% lower than the statutory tax rate of 40.7%. The lower tax rate was due primarily to the continuing adjustments to the valuation allowance. For the six months ended September 30, 2004, the effective income tax rate was 2.4%, which was 38.3% lower than the statutory tax rate of 40.7%. The lower tax rate primarily reflects the continuing adjustments to the valuation allowance.

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

UFJ Holdings had income tax expense of ¥143.0 billion for the fiscal year ended March 31, 2005 compared to ¥95.6 billion for the year ended March 31, 2004. This increase was due primarily to the recognition of some tax benefits acquired from Tokai Bank, Toyo Trust and Nippon Shinpan for which a valuation allowance had been established at the acquisition date. The respective reduction in a valuation allowance was accounted for by crediting goodwill rather than income tax expenses.

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

UFJ Holdings had income tax expense of ¥95.6 billion for the year ended March 31, 2004 compared to income tax expense of ¥23.7 billion for the year ended March 31, 2003. This increase was due primarily to the recognition of some tax benefits acquired from Tokai Bank for which a valuation allowance had been established at the acquisition date. This reduction in valuation allowance of ¥64.3 billion was accounted for by crediting goodwill rather than income tax expense.

The following table summarizes reconciling items between the effective statutory tax rates and the actual effective tax rates for the periods indicated:

	Fiscal Year Ended March 31,		
	2003	**2004**	**2005**
Normal effective statutory tax rate of UFJ Holdings	42.0%	42.0%	40.7%
Increase (decrease) in taxes resulting from:			
Nondeductible expenses	(0.5)	6.1	0.3
Undistributed (earnings) losses of foreign subsidiaries	(2.0)	0.8	2.1
Higher (lower) tax rates applicable to income of subsidiaries	3.5	(4.6)	(0.1)
Nontaxable income		(0.9)	(0.1)
Change in valuation allowance	(56.1)	(36.4)	(33.9)

Enacted net change in tax rates net	29.5	(3.3)	(0.2)
Realization of previously unrealized tax benefits of subsidiaries	4.8	9.1	8.9
Goodwill impairment	(27.9)		
Per capita tax	(0.3)	0.2	0.2
Other net	(2.0)	0.5	(1.2)
Effective income tax rate	(9.0)%	13.5%	16.7%

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The effective income tax rate was 16.7% for the fiscal year ended March 31, 2005, 24.0% lower than the normal effective statutory tax rate of 40.7%. This lower tax rate primarily reflected the continuing adjustments to the valuation allowance accounted against deferred tax at the rate of 91.9% at March 31, 2005.

The effective income tax rate was 13.5% for the fiscal year ended March 31, 2004, 28.5% lower than the normal effective statutory tax rate of 42.0%. This lower tax rate primarily reflected the continuing adjustments to the valuation allowance accounted against deferred tax at the rate of 90.6% at March 31, 2004.

The effective income tax rate was (9.0%) for the fiscal year ended March 31, 2003 in the context when pretax loss was posted for the period while the normal effective statutory tax rate was 42.0%. This difference in tax rate primarily reflected the enacted change in the tax rate, recognition of nondeductible impairment loss of goodwill and the continuing adjustments to the valuation allowance against deferred tax at the rate of 92.4% at March 31, 2003.

Cumulative Effect of Change in Accounting Principle, Net of Taxes

Upon adoption of FIN 46R, UFJ Holdings concluded that certain borrowers are variable interest entities for which UFJ Holdings is the primary beneficiary. UFJ Holdings consolidated these borrowers for the first time beginning April 1, 2004 and recognized a gain of ¥3.0 billion in the fiscal year ended March 31, 2005 due to cumulative effect of change in accounting principle, net of taxes. These entities included certain real estate businesses.

In the fiscal year ended March 31, 2004, UFJ Holdings recognized a loss of ¥3.0 billion due to cumulative effect of change in accounting principle, net of taxes, in respect of an asset retirement obligation on adoption of FAS 143, Accounting for Asset Retirement Obligations. This relates to UFJ Holdings obligations in respect of leasehold improvements made to operating lease facilities whereby UFJ Holdings is required to return the facility to its original condition at the end of the lease term.

In the fiscal year ended March 31, 2003, UFJ Holdings recorded a loss of ¥62.0 billion due to cumulative effect of change in accounting principle, net of taxes, in relation to a transitional goodwill impairment charge of the trust business segment, on adoption of FAS 142, Goodwill and Other Intangible Assets.

Extraordinary Gain, Net of Taxes

In connection with the June 2002 transaction between UFJ Capital Markets Securities and Tsubasa Securities that created UFJ Tsubasa Securities, ¥23.0 billion of excess of net assets acquired over consideration given was recorded. After reducing the recorded amount of acquired non-current non-financial assets, the remaining ¥12.3 billion of excess was credited to income as an extraordinary gain in the fiscal year ended March 31, 2003.

Business Segment Analysis

UFJ Holdings measured the performance of each of its 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 based on Japanese GAAP and are not consistent with UFJ Holdings financial statements prepared on the basis of U.S. GAAP. For example, operating profit under Japanese GAAP does not reflect items such as a part of provision for loan losses and equity investment securities gains (losses). In addition, this segment information does not include the results of operations of Nippon Shinpan, which was not deemed to be a consolidated subsidiary of UFJ Holdings under Japanese GAAP for the periods presented. If Nippon Shinpan were consolidated under Japanese GAAP, it would be reported within the retail banking business unit.

UFJ Holdings was organized into the following business segments:

The Retail Banking business unit provided banking products and services of UFJ Bank to individual customers in Japan.

The Corporate Banking business unit provided banking products and services of UFJ Bank to large corporations and small- and medium-sized companies.

The Global Banking and Trading business unit provided banking services of UFJ Bank to large Japanese corporations on their overseas operations as well as non-Japanese corporations who do business on a global basis and conduct trading operations with markets and customers.

The Planning and Administration unit included UFJ Bank s treasury services (asset and liability management and bond-related businesses) as well as the corporate advisory group and other indirect businesses of UFJ Bank.

The UFJ Trust Bank business unit provided all operations of UFJ Trust Bank including retail and corporate banking, trust services, stock transfer agency services, real estate services, asset securitization services, asset management services and custody operations.

The Other segment included asset management services and the securities business which provided a broad range of retail and corporate securities services including retail brokerage, support for equity financing, securitization and mergers and acquisitions advisory services.

Six Months Ended September 30, 2005 Compared to Six Months Ended September 30, 2004

The following table shows the business segment information for the six months ended September 30, 2004 and 2005:

	UFJ Bank						
	Retail Banking	**Corporate Banking**	**Global Banking and Trading**	**Planning and Administration**	**UFJ Trust**	**Other**	**Total**
				(in billions)			
Six months ended September 30, 2004							
Net revenue	¥ 199.5	¥ 272.1	¥ 90.7	¥ 98.7	¥ 76.3	¥ 36.1	¥ 773.4
Operating expenses	(151.6)	(106.4)	(30.7)	(0.8)	(37.6)	(28.1)	(355.2)
Operating profit	¥ 47.9	¥ 165.7	¥ 60.0	¥ 97.9	¥ 38.7	¥ 8.0	¥ 418.2
Six months ended September 30, 2005							
Net revenue	¥ 212.3	¥ 264.4	¥ 92.7	¥ 72.0	¥ 74.7	¥ 41.7	¥ 757.8
Operating expenses	(146.8)	(105.2)	(30.6)	(13.4)	(37.1)	(31.5)	(364.6)
Operating profit	¥ 65.5	¥ 159.2	¥ 62.1	¥ 58.6	¥ 37.6	¥ 10.2	¥ 393.2

Retail Banking. Net revenue of UFJ Bank s retail banking business group increased by ¥12.8 billion, or 6.4%, from ¥199.5 billion for the six months ended September 30, 2004 to ¥212.3 billion for the six months ended September 30, 2005. This increase was due mainly to an increase in non-interest income from fees on investment products and ATM-related commissions. Net interest income decreased due to a decrease in the interest-rate margin on housing loans. Operating expenses decreased by ¥4.8 billion, or 3.2%, from ¥151.6 billion to ¥146.8 billion. As a result of the foregoing, operating profit increased by ¥17.6 billion, or 36.8%, from ¥47.9 billion for the six months ended September 30, 2004 to ¥65.5 billion for the six months ended September 30, 2005.

Corporate Banking. Net revenue of UFJ Bank s corporate banking business group decreased by ¥7.7 billion, or 2.8%, from ¥272.1 billion for the six months ended September 30, 2004 to ¥264.4 billion for the six months ended September 30, 2005. This decrease was due mainly to a decrease in interest income on loans. Operating expenses decreased by ¥1.2 billion, or 1.1%, from ¥106.4 billion to ¥105.2 billion. As a result of the foregoing, operating profit decreased by ¥6.5 billion, or 3.9%, from ¥165.7 billion for the six months ended September 30, 2004 to ¥159.2 billion for the six months ended September 30, 2005.

Global Banking and Trading. Net revenue of UFJ Bank s global banking and trading business group increased by ¥2.0 billion, or 2.3%, from ¥90.7 billion for the six months ended September 30, 2004 to ¥92.7 billion for the six months ended September 30, 2005. This increase was due mainly to an increase in net revenues of subsidiaries. Operating expenses decreased by ¥0.1 billion, or 0.3%, from ¥30.7 billion to ¥30.6 billion. As a result of the foregoing, operating profit increased by ¥2.1 billion, or 3.6% from ¥60.0 billion for the six months ended September 30, 2004 to ¥62.1 billion for the six months ended September 30, 2005.

Planning and Administration. Net revenue of UFJ Bank s planning and administration business group decreased by ¥26.7 billion, or 27.0%, from ¥98.7 billion for the six months ended September 30, 2004 to ¥72.0 billion for the six months ended September 30, 2005. This decrease was due mainly to a decrease in net revenue of the corporate advisory group. Operating expenses increased by ¥12.6 billion from ¥0.8 billion to ¥13.4 billion. As a result of the foregoing, operating profit decreased by ¥39.3 billion, or 40.1% from ¥97.9 billion for the six months ended September 30, 2004 to ¥58.6 billion for the six months ended September 30, 2005.

UFJ Trust Bank. Net revenue of UFJ Trust Bank decreased by ¥1.6 billion, or 2.1%, from ¥76.3 billion for the six months ended September 30, 2004 to ¥74.7 billion for the six months ended September 30, 2005. Operating expenses decreased by ¥0.5 billion, or 1.4%, from ¥37.6 billion to ¥37.1 billion. As a result of the foregoing, operating profit decreased by ¥1.1 billion, or 2.8%, from ¥38.7 billion for the six months ended September 30, 2004 to ¥37.6 billion for the six months ended September 30, 2005.

Other. Net revenue of Other increased by ¥5.6 billion, or 15.6%, from ¥36.1 billion for the six months ended September 30, 2004 to ¥41.7 billion for the six months ended September 30, 2005. This increase was due mainly to stronger performances from subsidiary companies. Operating expenses increased by ¥3.4 billion, or 12.2%, from ¥28.1 billion to ¥31.5 billion. As a result of the foregoing, operating profit increased by ¥2.2 billion, or 27.3%, from ¥8.0 billion for the six months ended September 30, 2004 to ¥10.2 billion for the six months ended September 30, 2005.

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

The following table shows the business segment information for the fiscal years ended March 31, 2004 and 2005:

	UFJ Bank						
	Retail Banking	**Corporate Banking**	**Global Banking and Trading**	**Planning and Admin-istration**	**UFJ Trust Bank**	**Other**	**Total**
				(in billions)			
Fiscal year ended March 31, 2004:							
Net revenue	¥ 397.9	¥ 526.7	¥ 211.9	¥ 192.0	¥ 168.9	¥ 70.2	¥ 1,567.6
Operating expenses	(303.0)	(210.7)	(67.2)	(17.0)	(81.0)	(53.3)	(732.2)

Operating profit	¥ 94.9	¥ 316.0	¥ 144.7	¥ 175.0	¥ 87.9	¥ 16.9	¥ 835.4
Fiscal year ended March 31, 2005:							
Net revenue	¥ 412.7	¥ 552.5	¥ 186.8	¥ 137.5	¥ 162.3	¥ 72.6	¥ 1,524.5
Operating expenses	(302.2)	(210.9)	(61.1)	(2.3)	(74.9)	(56.7)	(708.2)
Operating profit	¥ 110.5	¥ 341.6	¥ 125.7	¥ 135.2	¥ 87.4	¥ 15.9	¥ 816.3

Retail Banking. Net revenue of UFJ Bank s retail banking business group increased by ¥14.8 billion, or 3.7%, from ¥397.9 billion for the fiscal year ended March 31, 2004 to ¥412.7 billion for the fiscal year ended March 31, 2005. This increase was due mainly to an increase in non-interest income from fees on investment products and ATM-related commissions. Interest income from housing loans contributed more than 45% of interest income in the retail banking business segment. Interest margins for housing loans decreased slightly due to market pricing competition, although this decline was more than offset by increased volumes, thus contributing to an overall increase in net revenue. Fees on investment products increased due to growth in product lines such as investment trust funds and insurance products and a significant increase in marketing and selling activities led to higher market penetration and hence increased customer demand. ATM-related commissions also increased as a result of enhanced customer convenience through alliances with consumer finance companies for cashing services and improved ATM functions. Operating expenses decreased by ¥0.8 billion, or 0.3%, from ¥303.0 billion to ¥302.2 billion. As a result of the foregoing, operating profit increased by ¥15.6 billion, or 16.3% from ¥94.9 billion for the fiscal year ended March 31, 2004 to ¥110.5 billion for the fiscal year ended March 31, 2005.

Corporate Banking. Net revenue of UFJ Bank s corporate banking business group increased by ¥25.8 billion, or 4.9%, from ¥526.7 billion for the fiscal year ended March 31, 2004 to ¥552.5 billion for the fiscal year ended March 31, 2005. This increase was due mainly to an increase in fees and commissions generated by investment banking services, securities and trading, and derivatives. Due to weak corporate loan demand, interest income of UFJ Bank s corporate banking decreased. To compensate for the decrease in interest income, UFJ Bank leveraged its experience with larger corporate customers to increase sales of investment banking and derivative products to small- and medium-sized customers who had historically not purchased large volumes of these products. As a result, corporate banking achieved an overall increase in net revenue. Operating expenses increased by ¥0.2 billion, or 0.1%, from ¥210.7 billion to ¥210.9 billion. As a result of the foregoing, operating profit increased by ¥25.6 billion, or 8.1% from ¥316.0 billion for the fiscal year ended March 31, 2004 to ¥341.6 billion for the fiscal year ended March 31, 2005.

Global Banking and Trading. Net revenue of UFJ Bank s global banking and trading business group decreased by ¥25.1 billion, or 11.8%, from ¥211.9 billion for the fiscal year ended March 31, 2004 to ¥186.8 billion for the fiscal year ended March 31, 2005. This decrease was due mainly to adverse global trading conditions impacting proprietary trading. Net revenue decreased within commercial banking due to a decrease in interest margins partially offset by an increase in global demand for structured products. The overall impact as a result of the above changes was a decline in net revenues. Operating expenses decreased by ¥6.1 billion, or 9.1%, from ¥67.2 billion to ¥61.1 billion. As a result of the foregoing, operating profit decreased by ¥19.0 billion, or 13.1% from ¥144.7 billion for the fiscal year ended March 31, 2004 to ¥125.7 billion for the fiscal year ended March 31, 2005.

Planning and Administration. Net revenue of UFJ Bank s planning and administration business group decreased by ¥54.5 billion, or 28.4%, from ¥192.0 billion for the fiscal year ended March 31, 2004 to ¥137.5 billion for the fiscal year ended March 31, 2005. This decrease was due mainly to smaller gains from sales of equity securities. Operating expenses decreased by ¥14.7 billion, or 86.2%, from ¥17.0 billion to ¥2.3 billion. As a result of the foregoing, operating profit decreased by ¥39.8 billion, or 22.8% from ¥175.0 billion for the fiscal year ended March 31, 2004 to ¥135.2 billion for the fiscal year ended March 31, 2005.

UFJ Trust Bank. Net revenue of UFJ Trust Bank decreased by ¥6.6 billion, or 3.9%, from ¥168.9 billion for the fiscal year ended March 31, 2004 to ¥162.3 billion for the fiscal year ended March 31, 2005. This decrease was due mainly to weaker corporate demand resulting in a reduction in loan origination. Offsetting this decrease was an increase in trust fees such as corporate agency fees. The overall impact was a decrease in net revenues of the trust business segment. Operating expenses decreased by ¥6.1 billion, or 7.5%, from ¥81.0 billion to ¥74.9 billion. As a result of the foregoing, operating profit decreased by ¥0.5 billion, or 0.5% from ¥87.9 billion for the fiscal year ended March 31, 2004 to ¥87.4 billion for the fiscal year ended March 31, 2005.

Other. Net revenue of Other increased by ¥2.4 billion, or 3.4%, from ¥70.2 billion for the fiscal year ended March 31, 2004 to ¥72.6 billion for the fiscal year ended March 31, 2005. This increase was due mainly to stronger performances from subsidiary companies such as Senshu Bank, which benefited from an increase in housing loan volumes. Operating expenses increased by ¥3.4 billion, or 6.4%, from ¥53.3 billion to ¥56.7 billion. As a result of the foregoing, operating profit decreased by ¥1.0 billion, or 5.8%, from ¥16.9 billion for the fiscal year ended March 31, 2004 to ¥15.9 billion for the fiscal year ended March 31, 2005.

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

The following table shows the business segment information for the fiscal years ended March 31, 2003 and 2004:

	UFJ Bank						
	Retail Banking	**Corporate Banking**	**Global Banking and Trading**	**Planning and Admin- istration**	**UFJ Trust Bank**	**Other**	**Total**
				(in billions)			
Fiscal year ended March 31, 2003:							
Net revenue	¥ 351.3	¥ 501.3	¥ 234.5	¥ 231.5	¥ 186.7	¥ 51.2	¥ 1,556.5
Operating expenses	(289.1)	(233.0)	(91.3)	0.1	(84.6)	(53.3)	(751.2)
Operating profit (loss)	¥ 62.2	¥ 268.3	¥ 143.2	¥ 231.6	¥ 102.1	¥ (2.1)	¥ 805.3
Fiscal year ended March 31, 2004:							
Net revenue	¥ 397.9	¥ 526.7	¥ 211.9	¥ 192.0	¥ 168.9	¥ 70.2	¥ 1,567.6
Operating expenses	(303.0)	(210.7)	(67.2)	(17.0)	(81.0)	(53.3)	(732.2)
Operating profit	¥ 94.9	¥ 316.0	¥ 144.7	¥ 175.0	¥ 87.9	¥ 16.9	¥ 835.4

Retail Banking. Net revenue of UFJ bank s retail banking business group increased by ¥46.6 billion, or 13.3%, from ¥351.3 billion for the fiscal year ended March 31, 2003 to ¥397.9 billion for the fiscal year ended March 31, 2004. This increase was due mainly to increases in interest income from housing loans and fees and commissions generated by sales of investment products. Interest income from housing loans contributes more than 50% of interest income in the retail banking business segment. Increases in interest income from housing loan originations was achieved by an increased focus on developing relationships with housing contractors which lead to increased customer referrals and higher volumes of housing loan originations. Commissions received on investment products increased as additional sales staff were hired to actively market investment products. Operating expenses increased by ¥13.9 billion, or 4.8%, from ¥289.1 billion to ¥303.0 billion. As a result of the foregoing, operating profit increased by ¥32.7 billion, or 52.6% from ¥62.2 billion for the fiscal year ended March 31, 2003 to ¥94.9 billion for the fiscal year ended March 31, 2004.

Corporate Banking. Net revenue of UFJ Bank s corporate banking business group increased by ¥25.4 billion, or 5.1%, from ¥501.3 billion for the fiscal year ended March 31, 2003 to ¥526.7 billion for the fiscal year ended March 31, 2004. This increase was due mainly to an increase in fees and commissions generated by investment banking, securities and derivatives activities. Fee and commission income increased in relation to investment banking activities as a result of increased sales of privately-placed bonds, particularly to small and medium sized borrowers. In addition, increased loan syndications and securitization programs helped contribute to increased fees and commission income. Operating expenses decreased by ¥22.3 billion, or 9.6%, from ¥233.0 billion to ¥210.7 billion. As a result of the foregoing, operating profit increased by ¥47.7 billion, or 17.8% from ¥268.3 billion for the fiscal year ended March 31, 2003 to ¥316.0 billion for the fiscal year ended March 31, 2004.

Global Banking and Trading. Net revenue of UFJ Bank s global banking and trading business group decreased by ¥22.6 billion, or 9.6%, from ¥234.5 billion for the fiscal year ended March 31, 2003 to ¥211.9 billion for the fiscal year ended March 31, 2004. This decrease was due mainly to adverse global trading conditions impacting proprietary trading. Net revenue increased within commercial banking as global demand for structured products increased. The overall impact as a result of the above changes was a decline in net revenues. Operating expenses decreased by ¥24.1 billion, or 26.4%, from ¥91.3 billion to ¥67.2 billion. As a result of the foregoing, operating profit increased by ¥1.5 billion, or 1.0% from ¥143.2 billion for the fiscal year ended March 31, 2003 to ¥144.7 billion for the fiscal year ended March 31, 2004.

Planning and Administration. Net revenue of UFJ Bank s planning and administration business group decreased by ¥39.5 billion, or 17.1%, from ¥231.5 billion for the fiscal year ended March 31, 2003 to ¥192.0 billion for the fiscal year ended March 31, 2004. This decrease was due mainly to smaller gains from sales of bonds reflecting worsening bond market conditions. Operating expenses increased to ¥17.0 billion for the fiscal year ended March 31, 2004. As a result of the foregoing, operating profit decreased by ¥56.6 billion, or 24.4% from ¥231.6 billion for the fiscal year ended March 31, 2003 to ¥175.0 billion for the fiscal year ended March 31, 2004.

UFJ Trust Bank. Net revenue of UFJ Trust Bank decreased by ¥17.8 billion, or 9.5%, from ¥186.7 billion for the fiscal year ended March 31, 2003 to ¥168.9 billion for the fiscal year ended March 31, 2004. This decrease was due mainly to a decrease in profits earned on bond investments and the corporate banking business, reflecting weaker corporate loan demand. Revenue from trust fees remained relatively constant between periods. Operating expenses decreased by ¥3.6 billion, or 4.3%, from ¥84.6 billion to ¥81.0 billion. As a result of the foregoing, operating profit decreased by ¥14.2 billion, or 13.9% from ¥102.1 billion for the fiscal year ended March 31, 2003 to ¥87.9 billion for the fiscal year ended March 31, 2004.

Other. Net revenue of Other increased by ¥19.0 billion, or 37.1%, from ¥51.2 billion for the fiscal year ended March 31, 2003 to ¥70.2 billion for the fiscal year ended March 31, 2004. This increase was due mainly to stronger performances from other subsidiary companies such as UFJ Tsubasa Securities which benefited from an increase in market brokerage volumes as the Japanese stock market improved over the period. Operating expenses were unchanged at ¥53.3 billion. As a result of the foregoing, there was a change from an operating loss of ¥2.1 billion for the fiscal year ended March 31, 2003 to operating profit of ¥16.9 billion for the fiscal year ended March 31, 2004.

Liquidity and Capital Resources

Financial Condition

Total Assets

UFJ Holdings total assets were ¥82.0 trillion at September 30, 2005, a 1.4% decrease compared to ¥83.2 trillion at March 31, 2005. This decrease was due primarily to a decrease of ¥1.6 trillion in trading account assets.

UFJ Holdings total assets were ¥83.2 trillion at March 31, 2005, a 3.2% increase compared to ¥80.6 trillion at March 31, 2004. This increase was due primarily to an increase of ¥2.1 trillion in trading account assets, ¥1.3 trillion in cash and due from banks and ¥1.2 trillion in receivables under reverse repurchase agreements, partially offset by decreases of ¥3.5 trillion in loans outstanding, net of unearned income and deferred loan fees. The amount of loans outstanding as of March 31, 2005 included ¥1.5 trillion of loans from Nippon Shinpan that were newly consolidated.

Total assets at March 31, 2004 were ¥80.6 trillion, an increase of 4.3% from ¥77.3 trillion at March 31, 2003. This increase was due primarily to an increase of ¥3.2 trillion in investment securities, partially offset by a decrease of ¥1.3 trillion in loans outstanding, net of unearned income and deferred loan fees.

Loan Portfolio

The following table shows UFJ Holdings loans outstanding, before deduction of allowance for loan losses, at March 31, 2003, 2004 and 2005 and at September 30, 2005, based on classification by industry segment as defined by the Bank of Japan for regulatory reporting purposes, which is not necessarily based on the use of proceeds:

	March 31, 2003	March 31, 2004	March 31, 2005	September 30, 2005
	(in billions)			
Domestic:				
Manufacturing	¥ 5,848.1	¥ 5,370.5	¥ 5,013.1	¥ 4,829.0
Construction	1,587.5	1,282.6	1,176.2	1,041.6
Real Estate	5,299.7	4,580.9	3,582.3	3,247.5
Services	3,722.4	3,178.5	3,352.9	3,118.8
Wholesale and retail	5,710.5	5,500.4	4,808.3	4,597.1
Banks and other financial institutions	4,610.6	4,181.5	2,961.5	2,872.6
Other industries	4,465.0	5,830.9	3,905.7	5,000.6
Consumer:				
Mortgage loans	6,623.1	7,667.5	8,733.4	9,154.5
Other consumer loans	5,804.2	5,231.2	5,799.3	5,912.1
Total domestic	43,671.1	42,824.0	39,332.7	39,773.8
Foreign:				
Governments and official institutions	150.4	119.3	92.0	88.6
Banks and other financial institutions	79.3	131.8	251.4	301.9
Commercial and industrial	2,743.0	2,322.9	2,087.3	2,048.6
Other	44.5	33.7	170.1	211.5
Total foreign	3,017.2	2,607.7	2,600.8	2,650.6
Less unearned income and deferred loan fees net	3.6	11.6	21.6	20.6
Total	¥ 46,684.7	¥ 45,420.1	¥ 41,911.9	¥ 42,403.8

At September 30, 2005, UFJ Holdings total loans were ¥42.4 trillion, an increase of 1.2% as compared to March 31, 2005. This increase was due primarily to an increase in mortgage loans resulting from the improving economy in Japan.

At March 31, 2005, UFJ Holdings total loans were ¥41.9 trillion, a decrease of 7.7% as compared to March 31, 2004. This decrease was attributable primarily to lower originations due to weak demand from domestic corporate sectors as well as efforts to reduce nonperforming loans through sales of loans, debt-for-equity swaps and charge-offs. This was partially offset by an increase in consumer loans primarily resulting from the inclusion of loans made by Nippon Shinpan.

At March 31, 2004, UFJ Holdings total loans were ¥45.4 trillion, a decrease of 2.8% from ¥46.7 trillion at March 31, 2003. This decrease was attributable primarily to lower originations due to weak demand from domestic corporate sectors as well as efforts to reduce nonperforming loans through sales of loans, debt-for-equity swaps and charge-offs.

Allowance for Loan Losses, Nonperforming and Past Due Loans

The following table summarizes the allowance for loan losses by component at the dates indicated:

	March 31, 2003	March 31, 2004	March 31, 2005	September 30, 2005
		(in billions)		
Allowance:				
Specific specifically identified problem loans	¥ 2,644.2	¥ 1,966.7	¥ 518.1	¥ 708.8
Large groups of smaller-balance homogeneous loans and other loans	551.0	471.6	523.7	320.4
Total allowance	¥ 3,195.2	¥ 2,438.3	¥ 1,041.8	¥ 1,029.2

The following table summarizes the changes in the allowance for loan losses for the periods indicated:

	Fiscal Year Ended March 31,			Six Months Ended September 30,	
	2003	2004	2005	2004	2005
			(in billions)		
Balance at beginning of period	¥ 3,479.3	¥ 3,195.2	¥ 2,438.3	¥ 2,438.3	¥ 1,041.8
Provision for loan losses	511.9	313.1	91.9	202.4	75.7
Charge-offs	(897.1)	(1,148.8)	(1,688.6)	(676.0)	(139.0)
Recoveries	97.8	80.4	77.4	35.6	52.2
Others	3.3	(1.6)	122.8	80.5	(1.5)
Balance at end of period	¥ 3,195.2	¥ 2,438.3	¥ 1,041.8	¥ 2,080.8	¥ 1,029.2

Charge-offs

Six Months Ended September 30, 2005 Compared to Six Months Ended September 30, 2004

Charge-offs were ¥139.0 billion for the six months ended September 30, 2005, a decrease of ¥537.0 billion, or 79.4%, compared to ¥676.0 billion for the six months ended September 30, 2004. This decrease was due to the decrease of charge-offs for certain large borrowers implementing restructuring plans.

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

Charge-offs were ¥1,688.6 billion for the fiscal year ended March 31, 2005, an increase of ¥539.8 billion, or 47.0%, compared to ¥1,148.8 billion for the fiscal year ended March 31, 2004. This increase reflected a significant effort by UFJ Holdings to sell or restructure certain remaining large levels of corporate exposure in its portfolio.

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

Charge-offs were ¥1,148.8 billion for the year ended March 31, 2004, an increase of ¥251.7 billion, or 28.1%, compared to ¥897.1 billion for the fiscal year ended March 31, 2003. This increase reflected an increase in the amount of loans specifically identified as impaired being charged off during the fiscal year ended March 31, 2004 as a result of UFJ Holdings efforts to work out large corporate problem loans in its portfolio. This increase was partially offset by a decrease in charge-offs on large borrowers, the restructuring of which were not completed until after March 31, 2004.

Charge-offs were higher compared to provisions for loan losses during these periods because UFJ Holdings had largely identified its impaired loans in years before the fiscal year ended March 31, 2003. Allowances required after March 31, 2003 for newly impaired loans were significantly lower than the charge-offs on UFJ Holdings existing portfolio of impaired loans.

Others

Others increased to ¥122.8 billion for the fiscal year ended March 31, 2005 primarily due to the inclusion of an allowance for loan losses relating to Nippon Shinpan, which was consolidated from April 1, 2004.

Change in Total Allowance for Loan Losses

At September 30, 2005, total allowance for loan losses was ¥1,029.2 billion, a decrease of ¥12.6 billion compared to ¥1,041.8 billion for the fiscal year ended March 31, 2005, or 2.4% of UFJ Holdings total loan portfolio and 46.2% of total nonaccrual and restructured loans and loans contractually past due 90 days or more. The decrease reflected an overall improvement of loan quality. The allowance for large groups of smaller-balance homogeneous loans and other loans decreased by ¥203.3 billion, or 38.8%, from ¥523.7 billion at March 31, 2005 to ¥320.4 billion at September 30, 2005. However, as provision for loan losses surpassed net charge-offs for specifically identified problem loans, the allowance for specifically identified problem loans increased by ¥190.7 billion, or 36.8%, from ¥518.1 billion at March 31, 2005 to ¥708.8 billion at September 30, 2005.

At March 31, 2005, total allowance for loan losses was ¥1,041.8 billion, or 2.5% of UFJ Holdings total loan portfolio and 44.8% of total nonaccrual and restructured loans and loans contractually past due 90 days or more. At March 31, 2004, the total allowance for loan losses was ¥2,438.3 billion, or 5.4% of the total loan portfolio and 48.0% of total nonaccrual and restructured loans and loans contractually past due 90 days or more. At March 31, 2003, the total allowance for loan losses was ¥3,195.2 billion, or 6.8% of the total loan portfolio and 44.6% of total nonaccrual and restructured loans and loans contractually past due 90 days or more. The decreases in allowance for loan losses reflect both improvement in the Japanese economy and efforts to reduce problem loans by means of charge-offs, collection and various government-led support measures for the revival of borrowers. Allowances on large borrowers represented the majority of the total allowance for loan losses for specifically identified problem loans in the fiscal years ended March 31, 2003 and 2004. However, due to a significant amount of restructuring of loans to certain large borrowers in the fiscal year ended March 31, 2005, the proportion of the allowance for large borrowers to the total allowance for loan losses for specifically identified problem loans at March 31, 2005 was significantly reduced.

Allowance Policy

UFJ Holdings credit rating system was closely linked to the risk grading standards set by the Financial Services Agency for asset evaluation and assessment, and was used as a basis for establishing the allowance for loan losses and charge-offs. The categorization was based on conditions that might 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.

Allowance for Specifically Identified Problem Loans

The loan loss allowance for specifically identified problem loans represents the allowance against impaired loans required by SFAS No. 114, Accounting by Creditors for Impairment of a Loan. Impaired loans primarily include nonaccrual loans and restructured loans. UFJ Holdings discontinued accrual of interest income on loans when substantial doubt existed as to the full and timely collection of either principal or interest or generally, when principal or interest was contractually past due one month or more. Loans were classified as restructured loans if UFJ Holdings granted a concession to the borrowers for economic or legal reasons related to the borrowers financial difficulties. Even though these loans could be in an accruing loans status, they were classified as restructured loans. Detailed reviews of loans were performed annually or semiannually depending on the level of credit risk. In addition, as part of an ongoing credit review process, UFJ Holdings credit officers monitored 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 reassessed borrowers ratings in response to such events. This credit monitoring process formed an integral part of UFJ Holdings overall control process. An impaired loan was 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 was collateral-dependent at a balance sheet date.

The loan loss allowance for specifically identified problem loans was ¥2,644.2 billion, ¥1,966.7 billion, ¥518.1 billion and ¥708.8 billion at March 31, 2003, 2004, 2005, and September 30, 2005, respectively.

The allowance for specifically identified problem loans increased by ¥190.7 billion, or 36.8%, from ¥518.1 billion at March 31, 2005 to ¥708.8 billion at September 30, 2005. The allowance for certain large borrowers was significantly reduced as a result of IRCJ-assisted revitalization and other restructurings in the fiscal year ended March 31, 2005. The increase from March 31, 2005 to September 30, 2005 was due primarily to an increase in the allowance for small- and medium-sized borrowers, reflecting downgrades of their credit ratings.

The decrease between March 31, 2003 and March 31, 2005 reflected an improvement in the lending environment in Japan and a decrease in loan loss allowance for large borrowers, as a result of certain large borrowers implementing restructuring plans as discussed under Restructurings of Certain Large Borrowers.

The following table summarizes nonaccrual and restructured loans, and accruing loans that were contractually past due 90 days or more as to principal or interest payments, at the dates indicated:

	March 31, 2003	March 31, 2004	March 31, 2005	September 30, 2005
	(in billions, except percentages)			
Nonaccrual loans:				
Domestic:				
Manufacturing	¥ 570.6	¥ 305.1	¥ 137.8	¥ 164.1
Construction	489.0	296.0	141.6	55.6
Real estate	2,277.8	1,390.6	315.7	347.3
Services	598.4	393.8	191.9	211.0
Wholesale and retail	1,280.1	1,103.3	478.2	411.6
Banks and other financial institutions	420.7	307.4	9.8	21.9
Other industries	703.4	611.2	86.3	86.0
Consumer	211.0	206.0	353.5	390.2
Total domestic	6,551.0	4,613.4	1,714.8	1,687.7
Foreign	403.6	292.5	98.8	117.0
Total nonaccrual loans	6,954.6	4,905.9	1,813.6	1,804.7
Restructured loans:				
Domestic	186.5	156.1	495.5	411.2
Foreign	5.8	3.1	6.0	3.3
Total restructured loans	192.3	159.2	501.5	414.5

Accruing loans contractually past due 90 days or more:				
Domestic	22.9	19.8	11.8	6.7
Total accruing loans contractually past due 90 days or more	22.9	19.8	11.8	6.7
Total	¥ 7,169.8	¥ 5,084.9	¥ 2,326.9	¥ 2,225.9
Total loans	¥ 46,684.7	¥ 45,420.1	¥ 41,911.9	¥ 42,403.8
Nonaccrual and restructured loans, and accruing loans contractually past due 90 or more as a percentage of total loans	15.4%	11.2%	5.6%	5.2%

Total nonaccrual loans were ¥1,804.7 billion at September 30, 2005, a decrease of ¥8.9 billion, or 0.5%, from ¥1,813.6 billion at March 31, 2005. Total nonaccrual loans were ¥1,813.6 billion at March 31, 2005, a decrease of ¥3,092.3 billion, or 63.0%, from ¥4,905.9 billion at March 31, 2004. Total nonaccrual loans were ¥4,905.9 billion at March 31, 2004, a decrease of ¥2,048.7 billion, or 29.5%, from ¥6,954.6 billion at March 31, 2003.

Total restructured loans were ¥414.5 billion at September 30, 2005, a decrease of ¥87.0 billion, or 17.4%, from ¥501.5 billion at March 31, 2005. This decrease reflected the repayment of certain restructured large borrowers during the period to September 30, 2005. Total restructured loans were ¥501.5 billion at March 31, 2005, an increase of ¥342.3 billion, or 215.0%, from ¥159.2 billion at March 31, 2004. This increase reflected reclassifications of certain restructured large borrowers from nonaccrual loans to restructured loans during the fiscal year ended March 31, 2005. Total restructured loans were ¥159.2 billion at March 31, 2004, a decrease of ¥33.1 billion, or 17.2%, from ¥192.3 billion at March 31, 2003.

Changes in nonaccrual loans and restructured loans are highly correlated to movements in a small group of large borrowers experiencing weak economic performance. The reduction in exposure to these large borrowers was achieved through a variety of measures, including debt forgiveness, debt-equity swaps and loan sales. Outside this group of large borrowers, similar reductions in nonaccrual loans were achieved primarily through loan sales, recoveries or charge-offs. The face value of loans that were swapped or approved to be swapped for equity during the fiscal years ended March 31, 2003, 2004 and 2005 and the six months ended September 30, 2005 were ¥101.4 billion, ¥106.7 billion, ¥372.6 billion and ¥11.0 billion, respectively. The higher amount of debt-equity swaps in the fiscal year ended March 31, 2005 compared to each of the prior two fiscal years is the result of the restructuring of certain large borrowers. See Restructurings of Certain Large Borrowers.

Allowance for Large Groups of Smaller-Balance Homogeneous Loans and Other Loans

The allowance for large groups of smaller-balance homogeneous loans and other loans was focused on loss experience for each pool rather than on an analysis of individual loans. Large groups of smaller-balance homogeneous loans and other loans primarily consisted of commercial loans, mortgage housing loans and other consumer loans. The allowance for groups of performing loans was based on historical loss experience over a period. In determining the level of the allowance for different groups of loans, UFJ Holdings classified groups of homogeneous loans based on the risk rating, loan size and industry. The loss experience was usually determined by reviewing the levels of historical charge-offs but also required an evaluation of the conditions that might not be directly, or sufficiently, addressed in the quantitative processes that formed the basis for determining the allowance. These conditions included the following, as UFJ Holdings management understood them at the balance sheet date:

- general economic and business conditions affecting key lending areas;
- credit quality trends, including trends in nonperforming loans expected to result from existing conditions;
- loan volumes and concentrations;
- seasoning of the loan portfolio;
- specific industry conditions within portfolio segments;
- unusual trends in recent loss experience in particular segments of the portfolio;

duration of, and position in, the current business cycle;

bank regulatory examination results; and

findings of internal credit examiners.

The loan loss allowance for large groups of smaller-balance homogeneous loans and other loans was ¥320.4 billion at September 30, 2005, a decrease of ¥203.3 billion, or 38.8%, from ¥523.7 billion at March 31, 2005. This decrease was primarily due to an improvement of historical loss experience reflecting steady economic performance, and also due to reclassifications of loans for certain borrowers as specifically identified problem loans due to downgrades of their credit rating.

The loan loss allowance for large groups of smaller-balance homogeneous loans and other loans was ¥551.0 billion, ¥471.6 billion and ¥523.7 billion at March 31, 2003, 2004 and 2005, respectively.

The decrease between March 31, 2003 and March 31, 2004 reflects an improvement in the lending environment in Japan and a steady improvement in the quality of UFJ Holdings loan portfolio in particular. An increased focus on identifying and addressing problem loans throughout the periods under consideration, combined with improved credit rating procedures, additional collections and collateral obtained, resulted in a lower incidence of impairment events which resulted in a steady deduction in allowance rates. Although these favorable trends continued in the fiscal year ended March 31, 2005, allowances for loan losses related to certain restructured large borrowers and Nippon Shinpan were newly included in the overall allowance for large groups of smaller-balance homogeneous loans and other loans at March 31, 2005, which resulted in an overall increase in the general allowance at that date.

Investment Portfolio

UFJ Holdings investment securities were primarily comprised of Japanese national government and Japanese government agency bonds, which were classified as available-for-sale securities.

Investment securities slightly increased from ¥20.3 trillion at March 31, 2005 to ¥20.4 trillion at September 30, 2005.

Investment securities increased 18.6%, from ¥17.2 trillion at March 31, 2003 to ¥20.4 trillion at March 31, 2004 and then slightly decreased 0.7% to ¥20.3 trillion at March 31, 2005. This decrease resulted from a reduction in foreign bonds holdings to reduce market risks. At March 31, 2003, 2004 and 2005, gross unrealized gains on investment securities were ¥574.1 billion, ¥767.9 billion and ¥740.0 billion, respectively, and gross unrealized losses on investment securities were ¥24.1 billion, ¥39.5 billion and ¥32.7 billion, respectively.

Cash and Due from Banks

Cash and due from banks increased 13.3%, from ¥4.9 trillion at March 31, 2005 to ¥5.6 trillion at September 30, 2005. This increase was primarily attributable to an increase of demand deposits with the Bank of Japan in order to ensure sufficient liquidity for settlement in inter-bank systems.

Cash and due from banks decreased slightly from ¥3.7 trillion at March 31, 2003 to ¥3.6 trillion at March 31, 2004, and then increased by ¥1.3 trillion, or 36.0%, to ¥4.9 trillion at March 31, 2005. This increase was primarily attributable to an increase of demand deposits with the Bank of Japan in order to ensure sufficient liquidity for settlement in inter-bank systems.

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 decreased 15.9%, from ¥1.1 trillion at March 31, 2005 to ¥0.9 trillion at September 30, 2005.

Interest-earning deposits in other banks decreased 9.2%, from ¥1.0 trillion at March 31, 2003 to ¥0.9 trillion at March 31, 2004 and increased 24.1% to ¥1.1 trillion at March 31, 2005. These movements primarily reflected the daily operation and liquidity needs of the UFJ group and money market conditions.

Total Liabilities

Total liabilities decreased 2.0%, from ¥81.1 trillion at March 31, 2005 to ¥79.5 trillion at September 30, 2005. This decrease was due primarily to decreases of ¥1.4 trillion in payables under securities lending transactions, ¥1.2 trillion in deposits and ¥1.1 trillion in trading account liabilities, partially offset by increases of other short term borrowings, payables under repurchase agreements and call money and fund purchases.

Total liabilities were ¥81.1 trillion at March 31, 2005, an increase of ¥1.9 trillion as compared to March 31, 2004. This increase was due primarily to increases of ¥2.2 trillion in payables under repurchase agreements, ¥1.7 trillion in long-term debt and ¥1.6 trillion in trading account liabilities, partially offset by decreases of ¥4.0 trillion in deposits.

At March 31, 2004, total liabilities were ¥79.2 trillion, an increase of ¥2.2 trillion from ¥77.0 trillion at March 31, 2003. This increase primarily reflected an increase of ¥2.4 trillion in deposits, partially offset by a decrease of ¥1.1 trillion in payables under securities lending transactions.

Sources of Funding and Liquidity

UFJ Holdings primary source of liquidity was from a large balance of deposits, mainly ordinary deposits, certificates of deposit and time deposits.

At September 30, 2005, UFJ Holdings deposits were ¥53.3 trillion and exceeded loans, net of unearned income and deferred loan fees, by ¥10.9 trillion.

At March 31, 2005, UFJ Holdings deposits were ¥54.6 trillion and exceeded loans, net of unearned income and deferred loan fees, by ¥12.7 trillion. These deposits provide UFJ Holdings with a sizable source of stable and low-cost funds. While approximately 80.8% of certificates of deposit and time deposits mature within one year, UFJ Holdings continuously monitored relevant interest rate characteristics of these funds and utilized asset and liability management techniques to manage the possible impact of the rollovers on its net interest margin and liquidity. UFJ Holdings deposits and stockholders equity was equal to 74.3% of its total assets at March 31, 2004, 68.1% of its total assets at March 31, 2005 and 68.1% of its total assets at September 30, 2005. UFJ Holdings also increased its liquidity in September 2004 by issuing ¥700 billion of UFJ Bank preferred stock to MTFG.

Most of the remaining funding was provided by short-term borrowings and long-term senior and subordinated debt. Short-term borrowings consisted 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, UFJ Holdings issued long-term instruments such as bonds and long-term borrowings with mainly over five years maturity. Liquidity was also provided by the sale of financial assets, including securities available for sale, trading account securities and loans. Additional liquidity was provided by the maturity of loans.

Deposits

Deposits decreased 2.3%, from ¥54.6 trillion at March 31, 2005 to ¥53.3 trillion at September 30, 2005. This decrease reflected a decrease of ¥3.4 trillion in interest-bearing deposits, partially offset by an increase of ¥2.1 trillion in non-interest-bearing deposits.

Deposits were ¥54.6 trillion at March 31, 2005, a decrease of ¥3.9 trillion, or 6.8%, from ¥58.5 trillion at March 31, 2004. This decrease reflected a decrease of ¥8.7 trillion in interest-bearing deposits, partially offset by an increase of ¥4.8 trillion in non-interest-bearing deposits. These changes reflected a shift by customers to accounts at other banks and to government-insured non-interest-bearing accounts as certain limits were imposed on government-insured interest-bearing accounts as of April 1, 2005.

Deposits were ¥58.5 trillion at March 31, 2004, an increase of ¥2.4 trillion, or 4.3%, from ¥56.1 trillion at March 31, 2003. This increase reflected increases of ¥2.1 trillion in interest-bearing deposits and ¥0.3 trillion in non-interest-bearing deposits.

Short-term Borrowings

Short-term borrowings increased 4.2%, from ¥13.4 trillion at March 31, 2005 to ¥14.0 trillion at September 30, 2005.

Short-term borrowings were ¥13.4 trillion at March 31, 2005, an increase of ¥2.0 trillion, or 17.8%, as compared to March 31, 2004. This increase was primarily attributable to an increase in payable under repurchase agreements in connection with the daily money market operations of the UFJ group.

Short-term borrowings decreased by ¥1.2 trillion, or 9.5%, from ¥12.6 trillion at March 31, 2003 to ¥11.4 trillion at March 31, 2004. This decrease was primarily attributable to a decrease in payables under securities lending transactions in connection with the daily money market operations of the UFJ group.

Long-term Debt

Long-term debt decreased 2.0%, from ¥5.9 trillion at March 31, 2005 to ¥5.8 trillion at September 30, 2005 due to the redemption on September 30, 2005 of ¥100 billion of perpetual unsecured subordinated bonds issued by UFJ Holdings.

Long-term debt increased from ¥3.7 trillion at March 31, 2003 to ¥4.2 trillion at March 31, 2004, and increased an additional ¥1.7 trillion to ¥5.9 trillion at March 31, 2005. The most recent increase was due to the consolidation of Nippon Shinpan and an increase in loan participation borrowings.

Stockholders Equity

The following table summarizes UFJ Holdings stockholders equity at the dates indicated:

	March 31, 2003	March 31, 2004	March 31, 2005	September 30, 2005
		(in billions, except percentages)		
Preferred stock	¥ 759.1	¥ 737.8	¥ 709.8	¥ 700.0
Common stock	240.9	262.2	290.2	300.0
Capital surplus	2,497.0	2,517.8	2,541.3	2,555.6
Accumulated deficit	(3,289.5)	(2,709.7)	(2,031.3)	(1,825.7)
Accumulated other changes in equity from nonowner sources	166.6	628.9	592.0	804.4

Less treasury stock, at cost	(1.9)	(2.2)	(4.5)	(3.4)
Total stockholders equity	¥ 372.2	¥ 1,434.8	¥ 2,097.5	¥ 2,530.9
Ratio of total stockholders equity to total assets	0.48%	1.78%	2.52%	3.09%

Total stockholders equity increased 20.7%, from ¥2,097.5 billion at March 31, 2005 to ¥2,530.9 billion at September 30, 2005. These increases were principally attributable to an improvement in accumulated deficit from a deficit of ¥2,031.3 billion to a deficit of ¥1,825.7 billion due to net income of ¥219.8 billion for the six months ended September 30, 2005.

Total stockholders equity was ¥2,097.5 billion at March 31, 2005, an increase of ¥662.7 billion, or 46.2%, as compared to ¥1,434.8 billion at March 31, 2004, and the ratio of total stockholders equity to total assets increased to 2.52% at March 31, 2005 from 1.78% at March 31, 2004. These increases were principally attributable to an improvement in accumulated deficit from a deficit of ¥2,709.7 billion to a deficit of ¥2,031.3 billion due to net income of ¥718.8 billion for the fiscal year ended March 31, 2005.

Total stockholders equity increased by ¥1,062.6 billion, or 285.5%, from ¥372.2 billion at March 31, 2003 to ¥1,434.8 billion at March 31, 2004, and the ratio of total stockholders equity to total assets increased to 1.78% at March 31, 2004 from 0.48% at March 31, 2003. These increases were principally attributable to an improvement in accumulated deficit from a deficit of ¥3,289.5 billion to a deficit of ¥2,709.7 billion resulting from net income of ¥607.7 billion for the fiscal year ended March 31, 2004.

Due to a large holding of marketable Japanese equity securities and the volatility of the equity markets in Japan, changes in the fair value of marketable equity securities significantly affected UFJ Holdings stockholders equity. The following table presents information relating to the accumulated net unrealized gains before tax effect in respect of marketable equity securities at the dates indicated:

	March 31, 2003	March 31, 2004	March 31, 2005	September 30, 2005
		(in billions, except percentages)		
Accumulated net unrealized gains	¥ 304.1	¥ 678.3	¥ 633.0	¥ 842.2
Accumulated net unrealized gains to total assets	0.39%	0.84%	0.76%	1.03%

The increase in accumulated net unrealized gains on marketable equity securities at September 30, 2005 as compared to March 31, 2005 was mainly due to a higher stock price compared to March 31, 2005.

The decrease in accumulated net unrealized gains on marketable equity securities at March 31, 2005 as compared to March 31, 2004 was mainly due to a lower level of equity holdings compared to the previous fiscal year.

The increase in accumulated net unrealized gains on marketable equity securities at March 31, 2004 as compared to March 31, 2003 was mainly due to the improvement in the Japanese stock market compared to the previous fiscal year.

Capital Adequacy

Capital Requirements for Banks in Japan

A Japanese bank is subject to 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 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. UFJ Holdings Tier I capital generally consisted of stockholders equity items, including common stock, non-cumulative preferred stock, capital surplus, minority interests and retained earnings (which reflects tax adjustments including deferred tax assets), but recorded goodwill and other items, such as treasury stock, were deducted from Tier I capital. UFJ Holdings Tier II generally consisted 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. UFJ Holdings did not have any Tier III capital, which 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, UFJ Holdings consolidated capital components, including Tier I, Tier II and risk-weighted assets are calculated from UFJ Holdings consolidated financial statements prepared under Japanese GAAP. Also, the consolidated and stand-alone capital components of UFJ Bank and UFJ Trust Bank are calculated from consolidated and non-consolidated financial statements prepared under Japanese GAAP.

Capital Requirements for Securities Firms

UFJ Holdings had securities subsidiaries in Japan and overseas, which were also subject to regulatory capital requirements. In Japan, under the Securities and Exchange Law, securities companies are required to maintain adjusted capital at specified levels as compared with the quantified total of their business risks on a non-consolidated basis. Article 52 of the Securities and Exchange Law requires securities companies to file month-end reports regarding their capital adequacy ratio, which is the ratio of adjusted capital to a quantified total of business risks, to the Commissioner of the Financial Services Agency or the Director General of the Local Finance Bureau, and to disclose their capital adequacy ratio to the public on a quarterly basis. A securities company must also file a report on a daily basis with the Commissioner of the Financial Services Agency or the Director General of the Local Finance Bureau if its capital adequacy ratio falls below 140%. Article 56-2 of the Securities and Exchange Law determines the actions which the Prime Minister, through the Commissioner of the Financial Services Agency, may take if the ratio falls further. Specifically, if the ratio falls below 120%, the Commissioner of the Financial Services Agency may order the securities company to change its method of business or to deposit its property in trust, or order other measures for the public interest and investor protection if necessary. A securities company whose ratio falls below 100% may be subject to additional proceedings, including temporary suspension of its business and revocation of its registration as a securities company if there is no prospect that the ratio will recover three months after the suspension came into effect. Overseas securities subsidiaries are subject to the relevant regulatory capital requirements of the countries or jurisdictions in which they operate. At September 30, 2005, UFJ Tsubasa Securities capital accounts, less certain illiquid assets, were ¥193.9 billion (unaudited), or 515.8% of total amounts equivalent to market, counterparty credit and operations risks.

The UFJ Group Ratios

The table below presents UFJ Holdings consolidated risk-based capital, risk-weighted assets and risk-based capital ratios at March 31, 2005 and September 30, 2005 (underlying figures are calculated in accordance with Japanese banking regulations based on information derived from UFJ Holdings consolidated financial statements prepared in accordance with Japanese GAAP, as required by the Financial Services Agency):

	March 31, 2005	September 30, 2005	Minimum Capital Ratios Required
	(in billions, except percentages)		
Capital components:			
Tier I capital	¥ 2,313.4	¥ 2,759.0	
Tier II capital includable as qualifying capital	2,278.7	2,300.0	
Deductions from total qualifying capital	78.9	85.4	
Total risk-based capital	¥ 4,513.2	¥ 4,973.6	
Risk-weighted assets	¥ 43,406.0	¥ 42,596.9	
Capital ratios:			
Tier I capital	5.32%	6.47%	4.00%
Total risk-based capital	10.39%	11.67%	8.00%

UFJ Holdings total risk-based capital ratio increased 1.28 percentage points from 10.39% at March 31, 2005 to 11.67% at September 30, 2005. This increase was due primarily to net income of ¥411.1 billion under Japanese GAAP for the six months ended September 30, 2005.

One of the main components of UFJ Holdings Tier I capital was the various classes of preferred stock issued to the Resolution and Collection Corporation of Japan. In March 1999, each of Sanwa Bank, Tokai Bank and Toyo Trust issued various classes of preferred stock to the Resolution and Collection Corporation, which was then named the Resolution and Collection Bank. These shares were exchanged into shares of preferred stock of UFJ Holdings effective April 2, 2001. The initial subscription by the Resolution and Collection Corporation was described as a temporary injection of capital, and the Resolution and Collection Corporation was directed to dispose of the shares as promptly as practicable. Banks that received public funds were also encouraged to redeem the shares in the future after improving their financial position. The preferred stock owned by the Resolution and Collection Corporation at September 30, 2005 was as follows:

Class II preferred stock: Annual dividends on the class II preferred stock are payable on a noncumulative basis at rate of ¥15,900 per share. The class II preferred stock is convertible into ordinary shares of UFJ Holdings at an initial conversion price of ¥1,050,000 per ordinary share, subject to reset and adjustment, at the option of the Resolution and Collection Corporation at any time until July 31, 2008, and on a mandatory basis on August 1, 2008.

Class IV preferred stock: Annual dividends on the class IV preferred stock are payable on a noncumulative basis at rate of ¥18,600 per share. The class IV preferred stock is convertible into ordinary shares of UFJ Holdings at an initial conversion ratio of 2.202 ordinary shares per class IV preferred stock as of April 2, 2001, subject to reset and adjustment, at the option of the Resolution and Collection Corporation at any time until March 30, 2009, and on a mandatory basis on March 31, 2009.

Class V preferred stock: Annual dividends on the class V preferred stock are payable on a noncumulative basis at rate of ¥19,400 per share. The class V preferred stock is convertible into ordinary shares of UFJ Holdings at an initial conversion ratio of 2.202 ordinary shares per class V preferred stock as of April 2, 2001, subject to adjustment, at the option of the Resolution and Collection Corporation at any time until March 30, 2009, and on a mandatory basis on March 31, 2009.

Class VII preferred stock: Annual dividends on the class VII preferred stock are payable on a noncumulative basis at rate of ¥11,500 per share. The class VII preferred stock is convertible into ordinary shares of UFJ Holdings at an initial conversion price of ¥704,300 per ordinary share, subject to adjustment, at the option of the Resolution and Collection Corporation at any time until July 31, 2009, and on a mandatory basis on August 1, 2009.

The Resolution and Collection Corporation also held ¥100 billion of perpetual unsecured subordinated bonds issued by UFJ Holdings. UFJ Holdings redeemed the bonds at September 30, 2005.

Another significant component of UFJ Holdings Tier I capital was minority interests, which included preferred stock issued by UFJ Holdings subsidiaries, primarily offshore funding vehicles, to third-party investors. The total amounts of preferred stock included in minority interests was ¥628.9 billion, ¥616.1 billion, ¥613.2 billion and ¥619.6 billion at March 31, 2003, 2004 and 2005 and September 30, 2005, respectively. The ability of proceeds from these transactions to be counted towards Tier I capital was constrained by the amount of other Tier I capital and the amount of other similar transactions at the time of issuance.

Minority interests at September 30, 2005 also included ¥700 billion of preferred stock of UFJ Bank issued to MTFG and ¥120 billion in non-voting preferred stock of UFJ Strategic Partner issued to Merrill Lynch. UFJ Bank held all the common shares and all the voting rights of UFJ Strategic Partner. As an incentive to increase the value of UFJ Strategic Partner, Merrill Lynch was granted options to acquire additional non-voting preferred stock. Upon the occurrence of certain events, including the non-payment of dividends on the preferred stock for three consecutive fiscal years, specified insolvency and business suspension events of UFJ Bank or a change in control of UFJ Holdings, Merrill Lynch would be able to obtain control of UFJ Strategic Partner and could then terminate the venture. In the event that Merrill Lynch exercised this option, UFJ Bank had the right to purchase the preferred stock at a premium based upon the performance of the loan portfolio held by UFJ Strategic Partner.

Capital Ratios of UFJ Bank and UFJ Trust Bank

The table below presents the risk-based capital ratios of UFJ Bank and UFJ Trust Bank at March 31, 2005 and September 30, 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):

	March 31, 2005	September 30, 2005	Minimum Capital Ratios Required
Consolidated capital ratios:			
UFJ Bank:			
Tier I capital	5.35%	6.47%	4.00%
Total risk-based capital	10.48	11.66	8.00
UFJ Trust Bank:			
Tier I capital	10.13	12.31	2.00
Total risk-based capital	11.93	13.69	4.00
Stand-alone capital ratios:			
UFJ Bank:			
Tier I capital	5.42	6.82	4.00
Total risk-based capital	10.48	11.84	8.00
UFJ Trust Bank:			
Tier I capital	10.70	12.50	2.00
Total risk-based capital	12.21	13.52	4.00

UFJ Bank had international operations conducted by foreign offices and was subject to the 8.00% capital adequacy requirement. UFJ Trust Bank was not engaged in international operations conducted by foreign offices and was subject to the 4.00% capital adequacy requirement.

Off-balance Sheet Arrangements

In the normal course of its business, UFJ Holdings engaged in several types of off-balance sheet arrangements to meet the financing needs of its customers, including various types of guarantees, commitments to extend credit and commercial letters of credit. The following table summarizes these commitments at March 31, 2003, 2004 and 2005 and at September 30, 2005:

	March 31, 2003	March 31, 2004	March 31, 2005	September 30, 2005
		(in billions)		
Guarantees:				
Standby letters of credit and financial guarantees	¥ 1,479	¥ 1,388	¥ 4,604	¥ 4,306
Performance guarantees	515	268	257	257
Liquidity facilities	186	82	64	86
Derivative instruments		14	319	254
Guarantees for the repayment of trust principal	2,142	2,379	1,685	1,385
Liabilities of trust accounts	785	1,310	1,245	668
Total guarantees	5,107	5,441	8,174	6,956
Other off-balance sheet instruments:				
Commitments to extend credit	19,038	20,552	20,656	21,482
Commercial letters of credit	299	196	231	205
Others	181	33	112	9
Total other off-balance sheet instruments	19,518	20,781	20,999	21,696
Total	¥ 24,625	¥ 26,222	¥ 29,173	¥ 28,652

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 UFJ Holdings 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 UFJ Holdings or our future cash requirements.

UFJ Holdings maintained an allowance for losses on its off-balance sheet arrangements. This allowance was included in other liabilities. The allowance for losses on off-balance sheet credit instruments was ¥67.5 billion, ¥68.4 billion, ¥80.3 billion and ¥103.2 billion at March 31, 2003, 2004 and 2005, and September 30, 2005, respectively.

Variable Interest Entities

Securitization Conduits and Financing Vehicles of Client Properties

The UFJ group administered conduits that purchased financial and other assets from the UFJ group s customers. These assets included loans, trade receivables and beneficiary interests in real estate trusts. Also, the UFJ group extended credits to certain entities that provided financing to the UFJ group s customers. These entities were typically funded by borrowings from the UFJ group or third parties, investments under partnership agreements from customers, or both. While customers generally continued to service the assets transferred, the UFJ group underwrote, distributed, made a market in commercial paper issued by the conduits, and also provided liquidity and credit support facilities to the entities. In certain transactions in which the UFJ group underwrote the instruments issued by the conduits, it provided interim funds until it found third-party investors. In this type of arrangement, the owner of real estate properties received financing from the entity that was secured by the property.

In addition, the UFJ group extended non-recourse asset-backed loans to special purpose entities, which financed development projects including real estate development and natural resource development managed by third parties, who were typically the equity owner of the special purpose entities. The UFJ group generally acted as a member of a lending group, and was not exposed to a majority of the expected losses of these entities.

At September 30, 2005, the total assets of, and the UFJ group s maximum exposure to, the conduits and vehicles that the UFJ group was not deemed to be the primary beneficiary amounted to ¥50,512.8 billion and ¥655.6 billion, respectively.

Investment Funds and Vehicles

The UFJ group held investments in various investment funds that collectively invested 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. Some of those funds were managed by investment advisory companies or fund management companies that made investment decisions and administer the funds. Since the equity holders do not have the substantive decision-making power and they do not have kick-out rights on the investment manager, these investment funds are deemed to be variable interest entities. As of September 30, 2005, these investment funds and vehicles had total assets of ¥16,800.8 billion and the UFJ group was exposed to a maximum loss of ¥553.8 billion.

Trust Arrangements

In addition to the above entities, the UFJ group offered a variety of trust products and managed and administered a wide range of trust arrangements including securities investment trusts, pension trusts and trusts used in the securitization of assets originated by and transferred to third parties. In a typical trust arrangement, the UFJ group managed and administered the assets on behalf of the customers in an agency, fiduciary and trust capacity. In principle, the UFJ group did not assume risks associated with the entrusted assets, which were borne by the customers, although in limited cases the UFJ group assumed risks through guarantees or certain protections as provided in the trust agreement. The UFJ group, however, was not a primary beneficiary of these trusts because the majority of the risks and rewards belonged to the holders of beneficiary certificates, and the guarantees and protections were called upon only in limited circumstances.

Financing Vehicles and Others

At September 30, 2005, the UFJ group had 11 wholly-owned financing vehicles that were formed to issue preferred securities to third-party investors.

At March 31, 2004, these financing vehicles were consolidated as UFJ Holdings subsidiaries under the existing standards that were effective before the adoption of FIN 46R. Common stock of and loans to the financing vehicles were eliminated in the consolidated balance sheet, and the preferred securities issued by the financing vehicles were classified as minority interests. Upon adopting FIN No. 46R, UFJ Holdings deconsolidated the financing vehicles, and ¥1,231.2 billion of subordinated debt the UFJ group issued to the financing vehicles were reflected as long-term debt in the consolidated balance sheets at September 30, 2005.

Further, the UFJ group extended credits, along with other financial institutions, to numerous financing entities that provided project finance or financing on acquisitions of aircraft or large commercial vessels. The source of repayment by the entities was primarily the lease payments from the lessee. In this type of arrangement, the lessee generally assumed the risks and rewards of the entity, and the UFJ group extended loans based on the credit quality of the lessee, as the UFJ group did not participate in the economics of the assets being financed by the entity.

Contractual Cash Obligations

In the normal course of its business, UFJ Holdings entered into contractual agreements whereby it committed to future purchases of products or services from unaffiliated parties. The following table summarizes UFJ Holdings contractual cash obligations at March 31, 2005:

	Payments Due by Period				
	Less than 1 year	1-3 years	4-5 years	Over 5 years	Total
			(in billions)		
Contractual cash obligations:					
Time deposits and negotiable certificates of deposit	¥ 18,339.7	¥ 3,296.4	¥ 826.6	¥ 230.2	¥ 22,692.9
Long-term debt	988.7	1,461.0	863.9	2,506.4	5,820.0
Capital lease obligations	18.1	22.3	10.5	4.0	54.9
Operating lease obligations	10.3	18.6	17.2	11.7	57.8
Total	¥ 19,356.8	¥ 4,798.3	¥ 1,718.2	¥ 2,752.3	¥ 28,625.6

Non-exchange Traded Contracts Accounted for at Fair Value

UFJ Holdings used non-exchange traded or over-the-counter contracts to adapt to the varied requirements of a wide customer base while mitigating market risks. Non-exchange traded contracts were accounted for at fair value, which was generally based on pricing models or quoted market prices for instruments with similar characteristics. Gains or losses on non-exchange traded contracts were included in Trading account gains (losses) net in UFJ Holdings consolidated statements of operations. These contracts consisted primarily of crude oil commodity contracts. The following table summarizes the changes in fair value of non-exchange traded contracts for the periods indicated:

	Fiscal Year Ended March 31,			Six Months Ended September 30,	
	2003	2004	2005	2004	2005
			(in millions)		
Net fair value of contracts outstanding at beginning of period	¥ 38	¥ 1,269	¥ 2,898	¥ 2,898	¥ 4,496
Changes attributable to contracts realized or otherwise settled during the period	629	1,325	394	348	2,321
Fair value of new contracts when entered into during the period	1,350	2,162	1,318	457	2,105
Other changes in fair value, principally revaluation at end of period	(748)	(1,858)	(114)	(738)	(2,520)
Net fair value of contracts outstanding at end of period	¥ 1,269	¥ 2,898	¥ 4,496	¥ 2,965	¥ 6,402

During the fiscal years ended March 31, 2003, 2004 and 2005, and for the six months ended September 30, 2005, the fair value of non-exchange traded contracts increased primarily due to an increase in the volume of transactions required to meet customers demands and cover customers transactions.

The following table summarizes the maturities of non-exchange traded contracts at September 30, 2005 (unaudited):

	Net Fair Value of Contracts	
	Prices Actively Quoted	Prices Based on Models and Other Valuation Methods
	(in millions)	
Maturity less than 1 year	¥ 40	¥ 8
Maturity less than 3 years and more than or equal to 1 year	1,925	(6)
Maturity less than 5 years and more than or equal to 3 years	1,533	(5)
Maturity 5 years or more	2,907	
Total fair values	¥ 6,405	¥ (3)

Risk Management

Illustration of Market Risks in the Fiscal Year Ended March 31, 2005

Trading activities

The VaR for UFJ Bank s and UFJ Trust Bank s total trading activities in the fiscal year ended March 31, 2005 is presented in the table below. Total amount of VaR as of March 31, 2005 was slightly higher compared to that as of March 31, 2004. As of March 31, 2005, market risks related to foreign exchange rates and equities increased, while interest rate risks decreased. On a daily average basis, total amount of VaR increased, together with risks related to foreign exchange rate and equities.

	(April 2003 March 2004)			
	Daily Avg	High	Low	March 31, 2004
	(in billions)			
VaR for Trading Activities (UFJ Bank)				