MITSUBISHI UFJ FINANCIAL GROUP INC
Form 6-K
January 22, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 6-K

Report of Foreign Private Issuer

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

the Securities Exchange Act of 1934

For the month of January 2014

Commission File Number 000-54189

MITSUBISHI UFJ FINANCIAL GROUP, INC.

(Translation of registrant s name into English)

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

Tokyo 100-8330, Japan

(Address of principal executive offices)

Indicate by check mark whether the registrant files or

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

Form 20-F __X__ Form 40-F ______

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

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

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

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

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EXHIBITS TO FORM 6-K

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

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SIGNATURES

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

Date: January 22, 2014

Mitsubishi UFJ Financial Group, Inc.

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

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FINANCIAL REVIEW

Introduction

We, Mitsubishi UFJ Financial Group, Inc., or MUFG, are a holding company for The Bank of Tokyo-Mitsubishi UFJ, Ltd., or BTMU, Mitsubishi UFJ Trust and Banking Corporation, or MUTB, Mitsubishi UFJ Morgan Stanley Securities Co., Ltd., or MUMSS (through Mitsubishi UFJ Securities Holdings Co., Ltd., or MUSHD, an intermediate holding company), Mitsubishi UFJ NICOS Co., Ltd., and other subsidiaries. Through our subsidiaries and affiliated companies, we engage in a broad range of financial businesses and services, including commercial banking, investment banking, trust banking and asset management services, securities businesses, and credit card businesses, and provide related services to individual and corporate customers.

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

Summary of Our Recent Financial Results

We reported net income attributable to Mitsubishi UFJ Financial Group of ¥383.3 billion for the six months ended September 30, 2013, a decrease of ¥212.7 billion from ¥596.0 billion for the six months ended September 30, 2012. Our diluted earnings per common share (earnings applicable to common shareholders of Mitsubishi UFJ Financial Group) for the six months ended September 30, 2013 was ¥26.10, a decrease of ¥15.34 from ¥41.44 for the six months ended September 30, 2012. Income before income tax expense for the six months ended September 30, 2013 was ¥530.4 billion, a decrease of ¥153.2 billion from ¥683.6 billion for the six months ended September 30, 2012. Our business and results of operations, as well as our assets, are heavily influenced by trends in economic conditions particularly in Japan, which generally exhibited signs of improvement during the six months ended September 30, 2013, with positive GDP growth, improving stock prices and a depreciating Japanese yen, while interest rates remained low. However, our six months results were affected by net trading account losses as, among other things, the value of foreign debt securities declined significantly in anticipation of a tapering of the monetary easing policy of the Federal Reserve Board, or FRB, in the United States.

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

	Six months ended September 30, 2012	2013
	(in billions, except per share data)	
Net interest income	¥ 918.9	¥ 966.4
Provision (credit) for credit losses	80.0	(60.2)
Non-interest income	1,027.0	693.5
Non-interest expense	1,182.3	1,189.7
Income before income tax expense	683.6	530.4
Net income before attribution of noncontrolling interests	613.1	431.0
Net income attributable to Mitsubishi UFJ Financial Group	596.0	383.3

Diluted earnings per common share earnings applicable to common shareholders of Mitsubishi UFJ Financial Group	41.44	26.10

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Our net income attributable to Mitsubishi UFJ Financial Group mainly reflects the following:

Net interest income. Net interest income is a function of:

- the amount of interest-earning assets,
- the amount of interest-bearing liabilities,
- the general level of interest rates,
- the so-called spread, or the difference between the rate of interest earned on interest-earning assets and the rate of interest paid on interest-bearing liabilities, and
- the proportion of interest-earning assets financed by non-interest-bearing liabilities and equity.

Net interest income for the six months ended September 30, 2013 was ¥966.4 billion, an increase of ¥47.5 billion from ¥918.9 billion for the six months ended September 30, 2012. The increase in net interest income resulted from higher interest income primarily attributable to increased loan volume, and lower interest expense due to lower interest payments on repurchase transactions resulting from lower short-term interest rates. The average interest spread decreased 0.02 percentage points to 0.90% for the six months ended September 30, 2013 from 0.92% for the six months ended September 30, 2012. The average interest rate on domestic interest-earning assets declined, reflecting lower interest rates and intensified competition in the loan market. The average interest rate on foreign interest-earning assets also declined, mainly reflecting lower interest rates on loans. Our funding rates also declined following the short-term interest rates in the market. In the current near-zero interest rate environment, however, interest rates on interest-earning assets decreased more than interest rates on interest-bearing liabilities.

The following table is a summary of the amount of interest-earning assets and interest-bearing liabilities, average interest rates, the interest rate spread and non-interest-bearing liabilities for the six months ended September 30, 2012 and 2013:

	Six months ended September 30,			
	2012		2013	
	Average balance	Average rate (Annualized)	Average balance	Average rate (Annualized)
	(in billions, except percentages)			
Interest-earning assets:				
Domestic	¥ 135,488.5	0.97%	¥ 133,873.2	0.90%
Foreign	56,865.2	1.95	72,980.3	1.73
Total	¥ 192,353.7	1.26%	¥ 206,853.5	1.19%
Financed by:				
Interest-bearing liabilities:				
Domestic	¥ 135,793.5	0.23%	¥ 139,238.0	0.18%
Foreign	36,761.9	0.76	45,064.0	0.64

Total	172,555.4	0.34	184,302.0	0.29
Non-interest-bearing liabilities	19,798.3		22,551.5	
Total	¥ 192,353.7	0.31%	¥ 206,853.5	0.26%
Interest rate spread		0.92%		0.90%
Net interest income as a percentage of total interest-earning assets		0.95%		0.93%

Provision (credit) for credit losses. Provision for credit losses is charged to operations to maintain the allowance for credit losses at a level deemed appropriate by management. When there is an improvement in asset quality, a credit for credit losses is recorded to reverse the allowance for credit losses to an appropriate level. For

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the six months ended September 30, 2013, we recorded credit for credit losses of ¥60.2 billion, compared to a provision for credit losses of ¥80.0 billion for the same period of the previous fiscal year. For details of the provision for credit losses and a description of the approach and methodology used to establish the allowance for credit losses, see Financial Condition Loan Portfolio.

***Non-interest income*.** Non-interest income consists of:

- fees and commissions income, including:
  - trust fees,
  - fees on funds transfer and service charges for collections,
  - fees and commissions on international business,
  - fees and commissions on credit card business,
  - service charges on deposits,
  - fees and commissions on securities business,
  - fees on real estate business,
  - insurance commissions,
  - fees and commissions on stock transfer agency services,
  - guarantee fees,
  - fees on investment funds business, and
  - other fees and commissions,
- foreign exchange gains (losses) net, which include gains (losses) on foreign exchange derivative contracts (for example, foreign exchange gains (losses) on currency derivatives), foreign exchange gains (losses) on other than derivative contracts (for example, gains (losses) on foreign exchange transactions), and foreign exchange gains (losses) related to the fair value option (for example, foreign exchange gains (losses) on securities under the fair value option),

trading account profits (losses) net, which primarily include net profits (losses) on trading account securities and interest rate derivative contracts entered into for trading purposes, including assets relating to the following activities:

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

trading account assets relating to application of certain accounting rules, which are generally not related to trading purpose activities but are classified as trading accounts due to application of certain accounting rules, such as assets that are subject to fair value option accounting treatment or investment securities held by variable interest entities that are classified as trading account securities.

Of the two categories, trading purpose activities represent a smaller portion of our trading accounts profits,

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

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

other non-interest income.

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In December 2013, the final rules to implement Section 619 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, which is generally referred to as the Volcker Rule, were issued. The Volcker Rule is designed, among other things, to restrict banking entities trading in securities and derivatives for their own accounts, and may impact some of our proprietary trading activities in the United States. However, since the extraterritorial application of the Volcker Rule is limited so as to exclude proprietary trading activities conducted outside of the United States, we currently do not expect the effect to be material to us on a consolidated basis. We intend to continue to monitor developments relating to the Volcker Rule as further guidance and clarification on the interpretation and application of the final rules are expected from the regulators.

The following table is a summary of our non-interest income for the six months ended September 30, 2012 and 2013:

	Six months ended September 30, 2012	Six months ended September 30, 2013
	(in billions)	
Fees and commissions income	¥ 541.0	¥ 639.4
Foreign exchange gains (losses) net	76.6	(35.7)
Trading account profits (losses) net	301.8	(192.1)
Investment securities gains net	35.7	130.0
Equity in earnings of equity method investees net	10.0	87.2
Other non-interest income	61.9	64.7
Total non-interest income	¥ 1,027.0	¥ 693.5

Fees and commissions income for the six months ended September 30, 2013 was ¥639.4 billion, an increase of ¥98.4 billion from ¥541.0 billion for the six months ended September 30, 2012. This increase was mainly due to an increase of ¥51.2 billion in fees and commissions from our securities business, particularly brokerage fees, as the level of activity in the equity markets increased. Fees from our investment funds business also increased primarily due to higher mutual fund sales following the improvements in the equity markets.

Net foreign exchange losses for the six months ended September 30, 2013 were ¥35.7 billion, compared to net foreign exchange gains of ¥76.6 billion for the six months ended September 30, 2012. The depreciation of the Japanese yen against other major currencies resulted in ¥782.0 billion of foreign exchange gains related to trading account securities under the fair value option. However, the gains were more than offset by ¥5.1 billion of foreign exchange losses on derivative contracts and ¥812.6 billion of foreign exchange losses on other than derivative contracts mainly relating to losses on foreign currency transactions entered into in connection with funding for foreign currency purchases.

Net trading account losses for the six months ended September 30, 2013 were ¥192.1 billion, compared to ¥301.8 billion of net trading account profits for the six months ended September 30, 2012. This was mainly due to ¥249.1 billion of net losses on trading account securities under the fair value option resulting from a decrease in the value of foreign debt securities, reflecting the general increase in interest rates in the United States, particularly from late May through the summer of 2013, in anticipation of a tapering of the FRB s quantitative monetary easing program, and ¥94.0 billion of net losses on equity contracts reflecting losses resulting from risk management activities relating to the equity holdings in our securities subsidiaries. These losses were partially offset by ¥119.1 billion of net profits on trading account securities, reflecting gains on sales and trading in Japanese government bonds and foreign debt securities in our securities subsidiaries.

Net investment securities gains for the six months ended September 30, 2013 were ¥130.0 billion, compared to net investment securities gains of ¥35.7 billion for the six months ended September 30, 2012. This improvement was mainly due to a reduction of ¥112.6 billion in impairment losses on marketable equity securities available for sale, reflecting improved equity market conditions in Japan. Between the same periods, net gains on sales of marketable equity securities available for sale increased ¥39.5 billion, although net gains on sales of debt securities available for sale decreased ¥62.0 billion.

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Net equity in earnings of equity method investees for the six months ended September 30, 2013 was ¥87.2 billion, compared to net equity in earnings of equity method investees of ¥10.0 billion for the same period of the previous fiscal year. This increase reflected an increase of ¥53.2 billion in equity in earnings of Morgan Stanley as Morgan Stanley s earnings improved.

Core Business Areas

We operate our main businesses under an integrated business group system, which integrates the operations of BTMU, MUTB, MUMSS (through MUSHD), Mitsubishi UFJ NICOS and other subsidiaries in the following five areas Retail, Corporate, Trust Assets, Global, and Global Markets. These five businesses serve as the core sources of our revenue. Operations that are not covered under the integrated business group system, which mainly consists of corporate center of MUFG, BTMU, MUTB and MUMSS and the elimination of net revenues among business segments, are classified under Other. For further information, see Business Segment Analysis.

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

The following table sets forth the relative contributions to operating profit for the six months ended September 30, 2013 of the five core business areas and other based on our business segment information:

	Integrated Retail Banking Business Group	Integrated Corporate Banking Business Group	Integrated Trust Assets Business Group	Integrated Global Business Group			Global Markets	Other	Total
				Other than UNBC	UNBC	Total			
					(in billions)				
Net revenue:	¥ 648.8	¥ 457.6	¥ 76.4	¥ 266.8	¥ 175.2	¥ 442.0	¥ 285.6	¥ (8.5)	¥ 1,901.9
Operating expenses	477.6	217.1	44.6	147.6	124.5	272.1	82.6	85.6	1,179.6
Operating profit (loss)	¥ 171.2	¥ 240.5	¥ 31.8	¥ 119.2	¥ 50.7	¥ 169.9	¥ 203.0	¥ (94.1)	¥ 722.3

Summary of Our Recent Financial Condition

The following table presents some key asset balance figures:

	March 31, 2013	September 30, 2013
	(in trillions)	

Total assets	¥ 230.56	¥ 237.95
Net loans	97.25	100.89
Loans, net of unearned income, unamortized premiums and deferred loan fees	98.59	102.07
Allowance for credit losses	(1.34)	(1.18)
Investment securities	61.87	55.44
Securities available for sale	58.84	52.63
Securities being held to maturity	2.13	1.94
Trading account assets	40.83	40.46
Trading securities	26.18	28.43
Trading derivative assets	14.65	12.03

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Total assets as of September 30, 2013 were ¥237.95 trillion, an increase of ¥7.39 trillion from ¥230.56 trillion as of March 31, 2013.

Total loans outstanding as of September 30, 2013 were ¥102.07 trillion, an increase of ¥3.48 trillion from ¥98.59 trillion as of March 31, 2013. The average total balance of loans increased ¥9.16 trillion to ¥100.48 trillion for the six months ended September 30, 2013 from ¥91.32 trillion for the same period of the previous fiscal year. Before unearned income, net unamortized premiums and net deferred loan fees, our loan balance as of September 30, 2013 consisted of ¥69.24 trillion of domestic loans and ¥32.95 trillion of foreign loans. Between March 31, 2013 and September 30, 2013, domestic loans decreased ¥0.20 trillion, while foreign loans increased ¥3.68 trillion. The decrease in domestic loans was mainly due to decreases in our loans outstanding to borrowers in the banks and other financial institutions, manufacturing, consumer, real estate, and wholesale and retail categories, reflecting weak corporate investments and intensified lending rate competition in the residential mortgage loan market. The increase in foreign loans was mainly due to an increase in demand for loans in the United States and Asia as well as the appreciation of the relevant foreign currencies against the Japanese yen.

The total allowance for credit losses as of September 30, 2013 was ¥1,183.4 billion, a decrease of ¥152.6 billion from ¥1,336.0 billion as of March 31, 2013. This was primarily due to a decrease in allowance for credit losses provided for individually-evaluated impaired loans in Japan, which partially reflected the upgraded internal borrower rating of a large borrower following the reclassification of its loan from nonaccrual loan to restructured loan after a portion of the loan was written off. The improved financial condition of a larger number of housing loan borrowers also contributed to the decrease in the total allowance for credit losses. The total allowance for credit losses represented 1.16% of our total loan portfolio as of September 30, 2013, a decrease of 0.20 percentage points from 1.36% as of March 31, 2013.

Total investment securities decreased ¥6.43 trillion to ¥55.44 trillion as of September 30, 2013 from ¥61.87 trillion as of March 31, 2013, primarily due to a decrease of ¥7.36 trillion in our investment in Japanese government bonds available for sale as part of our asset and liability management and interest rate risk management strategies, partially offset by an increase of ¥0.62 trillion in marketable equity securities. As a percentage of our total assets, our investment in Japanese government bonds decreased to 17.8% as of September 30, 2013 from 21.6% as of March 31, 2013. The increase in marketable equity securities mainly reflected an increase in unrealized gains as equity market conditions improved in Japan in the six months ended September 30, 2013.

Trading account assets as of September 30, 2013 were ¥40.46 trillion, a decrease of ¥0.37 trillion from ¥40.83 trillion as of March 31, 2013. This decrease reflected a decrease of ¥2.62 trillion in trading derivative assets, offset in part by an increase of ¥2.25 trillion in trading securities. The decrease in trading derivative assets reflected a decrease in the fair value of interest rate swaps and foreign exchange futures. The increase in trading securities mainly reflected the rebalancing of our securities portfolio as part of our asset and liability management, resulting in an increase in foreign government bonds, which are accounted for under the fair value option and are thus classified as trading account securities. The increase in trading account securities also reflected an increase in the value of foreign debt securities resulting from the depreciation of the Japanese yen against other major currencies.

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The following table presents key liability balance figures:

	March 31, 2013	September 30, 2013
	(in trillions)	
Total liabilities	¥ 219.62	¥ 226.27
Total deposits	148.21	152.84
Domestic	118.33	117.81
Overseas	29.88	35.03
Payables under repurchase agreements	15.70	20.35
Other short-term borrowings	11.61	11.12
Trading account liabilities	14.97	12.14
Long-term debt	12.18	12.71

Total liabilities as of September 30, 2013 were ¥226.27 trillion, an increase of ¥6.65 trillion from ¥219.62 trillion as of March 31, 2013.

Total deposits as of September 30, 2013 were ¥152.84 trillion, an increase of ¥4.63 trillion from ¥148.21 trillion as of March 31, 2013. Of the ¥4.63 trillion increase, ¥5.15 trillion was attributable to our foreign offices, which was partially offset by a decrease of ¥0.52 trillion in our domestic offices. The decrease in domestic deposits was primarily due to a decrease in domestic interest-bearing deposits maintained in corporate accounts, particularly negotiable certificates of deposit, with our banking and trust banking subsidiaries. The increase in foreign deposits was primarily due to an increase in interest-bearing deposits in BTMU s foreign offices and Union Bank, N.A., as well as an increase in the value of such deposits resulting from the depreciation of the Japanese yen against other major currencies.

Payables under repurchase agreements as of September 30, 2013 were ¥20.35 trillion, an increase of ¥4.65 trillion from ¥15.70 trillion as of March 31, 2013. This increase was primarily due to an increase in the volume of repurchase transactions by our banking subsidiaries for funding for loans and securities investments in foreign currencies.

Trading account liabilities as of September 30, 2013 were ¥12.14 trillion, a decrease of ¥2.83 trillion from ¥14.97 trillion as of March 31, 2013. The decrease was due to a decrease in the fair value of the derivative liabilities for interest rate swaps and foreign exchange futures.

Shareholders Equity

The following table presents some key MUFG shareholders equity balance figures:

	March 31, 2013	September 30, 2013
	(in trillions)	
Shareholders equity	¥ 10.61	¥ 11.32
Retained earnings	1.60	1.87
Unrealized gains on investment securities, net of tax	1.11	1.25
Defined benefit plans, net of tax	(0.32)	(0.30)

Foreign currency translation adjustments, net of tax	(0.21)	0.07

Shareholders equity as of September 30, 2013 was ¥11.32 trillion, an increase of ¥0.71 trillion from ¥10.61 trillion as of March 31, 2013.

Retained earnings as of September 30, 2013 were ¥1.87 trillion, an increase of ¥0.27 trillion from ¥1.60 trillion as of March 31, 2013, reflecting the net income of our banking, trust banking and securities subsidiaries for the six months ended September 30, 2013. We raised our semi-annual interim dividend to

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¥7.0 per share of common stock for the six months ended September 30, 2013, and are currently planning to pay a semi-annual year-end dividend of ¥7.0 per share of common stock for the six months ending March 31, 2014.

Unrealized gains on investment securities, net of tax, as of September 30, 2013 were ¥1.25 trillion, an increase of ¥0.14 trillion from ¥1.11 trillion as of March 31, 2013. The increase was mainly due to favorable price movements in the equity market in Japan.

Foreign currency translation adjustments, net of tax, as of September 30, 2013 were a positive adjustment of ¥0.07 trillion, compared to a negative adjustment of ¥0.21 trillion as of March 31, 2013. This change was mainly due to the positive impact of the depreciation of the Japanese yen against other major currencies on foreign currency translation adjustments related to our investment in Morgan Stanley, Union BanCal Corporation, or UNBC, and other foreign subsidiaries.

Capital Ratio

The following tables present our risk-adjusted capital ratio in accordance with Basel III as of March 31, 2013 and September 30, 2013. Underlying figures are calculated in accordance with Japanese banking regulations based on information derived from our consolidated financial statements prepared in accordance with Japanese GAAP, as required by the Japanese Financial Service Agency, or FSA. The figures in the tables below are rounded down.

Common Equity Tier 1 (minimum capital ratios required: 3.50%)

	March 31, 2013	September 30, 2013
MUFG (consolidated)	11.70%	11.77%
BTMU (consolidated)	11.71	11.54
BTMU (stand-alone)	11.76	11.99
MUTB (consolidated)	13.12	14.72
MUTB (stand-alone)	12.49	13.97

Tier 1 Capital (minimum capital ratios required: 4.50%)

	March 31, 2013	September 30, 2013
MUFG (consolidated)	12.74%	13.12%
BTMU (consolidated)	13.11	13.13
BTMU (stand-alone)	13.99	14.21
MUTB (consolidated)	13.77	15.29
MUTB (stand-alone)	13.22	14.75

Total Capital (minimum capital ratios required: 8.00%)

	March 31, 2013	September 30, 2013
MUFG (consolidated)	16.68%	16.84%
BTMU (consolidated)	17.51	17.26
BTMU (stand-alone)	18.52	18.74
MUTB (consolidated)	17.79	19.72
MUTB (stand-alone)	17.94	19.94

As of September 30, 2013, our management believed that we were in compliance with all capital adequacy requirements to which we were subject.

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Our capital ratio as of September 30, 2013 generally improved as compared to March 31, 2013. Our risk-weighted assets increased between March 31, 2013 and September 30, 2013, mainly as a result of floor adjustments, which are adjustments made in accordance with formulae prescribed under applicable regulatory capital standards, including those reflecting fluctuations in the loan balance and the quality of our credit portfolio. Our consolidated regulatory capital amounts, including our Common Equity Tier 1 capital, increased between March 31, 2013 and September 30, 2013, due to an increase in retained earnings, reflecting higher net income.

Business Environment

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

- general economic conditions,
- interest rates,
- currency exchange rates, and
- stock and real estate prices.

The global economy lacked strong momentum during the six months ended September 30, 2013. Although slightly improving trends continued in Japan and the United States, the economic conditions in the Eurozone and emerging countries generally remained stagnant. These trends have since continued.

In Japan, since the introduction at the end of the calendar year 2012 of various measures under the Abe administration s economic reform policy generally referred to as the Abe-nomics policy, the Japanese yen has depreciated against other major currencies, and the yen s depreciation has positively affected the Japanese economy. In the United States, stock, land and housing prices have improved while the FRB has maintained its zero-interest rate policy, a policy to maintain the federal funds target rate between zero and 0.25%. Improvements in the labor market during the reporting period also supported the U.S. economy and stock markets. The Eurozone and emerging economies have remained weak with low growth rates. Although Eurozone GDP growth turned positive in the quarter ended June 30, 2013 for the first time in seven quarters, the rate of economic recovery in the Eurozone has remained slow. Emerging economies have also been slowing partially due to decreasing foreign investments.

Economic Environment in Japan

While the adverse effects of the recent global financial crisis in 2008 and the Great East Japan Earthquake in March 2011 lingered, signs of improvement in the Japanese economy continued to emerge in the first half of the fiscal year ending March 31, 2014. While the Japanese government continued to propose and implement various measures under the Abe-nomics policy, the depreciation of the Japanese yen against other major currencies, such as the U.S. dollar, helped large-scale exporters improve their financial performance, which led to higher stock prices. The stronger stock market led to increased corporate and household spending, production of goods, and exports, resulting in an improvement of the real economy.

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

- money market operations with an aim to double Japan s monetary base in two years, market purchases of Japanese government bonds of up to approximately ¥7.5 trillion per month, and

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

Under this policy, Japan s monetary base increased ¥63.3 trillion to ¥201.8 trillion as of December 31, 2013 from ¥138.5 trillion as of December 31, 2012. In addition, the aggregate amount that the Bank of Japan had spent on purchasing long-term Japanese government bonds under the policy increased ¥52.4 trillion to ¥141.6 trillion as of December 31, 2013 from ¥89.2 trillion as of December 31, 2012. The continued supply of cash by the Bank of Japan has kept interest rates low and resulted in increased stock and real estate purchases.

The second fundamental strategy set forth by the Abe administration includes increased government spending to stimulate the economy. More than 80% of the projects included in the February 2013 supplemental budget were completed by the end of June 2013. The increased government spending, together with recently implemented tax reform measures, stimulated corporate and household spending, which in turn resulted in stronger market sentiment. Such tax reform measures include the Japanese version of individual savings accounts, which allow individuals to invest up to ¥1.0 million per year in equity and mutual funds, free of capital gains and dividend taxes, as well as a temporary measure to exempt individuals gifts of funds to their children or grandchildren for educational purposes from gift tax.

The third fundamental strategy includes deregulation and other growth measures and plans focused on, among other things, the health, energy, infrastructure and agriculture sectors, foreign investment and trade, as well as labor and employment. Although the effects of the measures implemented under this strategy are yet to be seen, such measures are designed to create domestic demand, which is considered to form the foundation of Japan s future economic growth.

However, there is still uncertainty surrounding Japan s economy, including the medium and long-term effect of the Abe-nomics measures on Japan s economy. Moreover, the Abe-nomics measures may affect each economic segment differently, potentially creating varying business environments for our customers, borrowers and investees depending on their industry and particular circumstances.

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

	Calendar Year											(Unit: %)
	2010	2011				2012				2013		
	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q
Gross Domestic Product	(0.5)	(1.8)	(0.7)	2.6	0.3	0.9	(0.5)	(0.8)	0.1	1.1	0.9	0.3
Private Consumption	(0.3)	(1.7)	0.8	1.5	0.7	0.4	0.4	(0.5)	0.6	1.0	0.7	0.2
Private Residential Investment	3.8	1.8	(2.4)	4.5	(1.1)	(1.3)	2.8	1.1	3.1	2.2	0.3	2.6
Private Non-Residential Investment	(1.9)	1.1	(0.5)	1.9	8.1	(2.1)	0.4	(2.1)	(0.6)	(1.0)	0.9	0.0
Government Consumption	0.4	(0.1)	0.4	0.2	0.3	1.3	(0.5)	0.4	0.7	0.7	0.6	0.2
Public Investment	(2.1)	(4.8)	2.2	(2.2)	(2.5)	6.8	(1.9)	(2.4)	2.9	1.1	6.3	6.5
Exports	0.1	(0.8)	(7.5)	9.7	(3.0)	2.7	(0.5)	(3.8)	(3.0)	3.9	2.9	(0.6)
Imports	1.0	1.3	(0.6)	3.2	2.0	1.9	1.4	(0.4)	(1.7)	1.0	1.7	2.2

Source: Cabinet Office, Government of Japan

Japan s GDP grew for the four consecutive quarters ended September 30, 2013 reflecting strong and stable domestic demand throughout the period, although the rate of growth began to decline in the calendar year 2013. The following trends were observed for each main component of Japan s GDP in recent periods:

Private consumption continued to grow during the six months ended September 30, 2013. In the quarter ended June 30, 2013, durable goods (such as air-conditioners, refrigerators, jewelry and

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watches), semi-durable goods (such as clothes), non-durable goods (such as cold beverages) and services (such as financial-services, restaurants and hotels) contributed to the positive growth. Measures implemented under the Abe-nomics policy had a positive effect on household spending. In the quarter ended September 30, 2013, durable goods (such as vehicles, accessories and handbags) and services (such as passenger transportation) contributed to the positive growth, which was partially offset by the lower growth in other services, including financial services. Private consumption may significantly weaken, however, when the consumption tax rate is raised from the current 5% to 8% in April 2014 and further to 10% in October 2015 in accordance with the legislation enacted by the Japanese Diet in August 2012.

Private residential investment fluctuated during the six months ended September 30, 2013. In the quarter ended June 30, 2013, private residential investment increased 0.3%, reflecting the continued recovery from the negative impact of the recent financial crisis and the Great East Japan Earthquake supported by improvements in consumer confidence. In the quarter ended September 30, 2013, private spending on residential properties increased in wider areas of Japan, expanding from the Tohoku area (the northeastern part of Japan that suffered damages from the Great East Japan Earthquake) to the Hokuriku area (the coastal prefectures by the Sea of Japan north of the Kanto area, which encompasses Tokyo and the surrounding prefectures), the Kinki area (the most populated area in western Japan, which includes Osaka), and the Chubu area (the area between the Kanto area and the Kinki area, which includes Nagoya). Measures implemented under the Abe-nomics policy had a positive effect on the real estate market during the quarter with private residential construction and sales increasing. The enactment of the legislation to increase the consumption tax rates also contributed to stronger demand for private residential properties, which may significantly weaken once the higher consumption tax rate becomes effective in April 2014.

Private non-residential investment grew during the six months ended September 30, 2013. In the quarter ended June 30, 2013, corporate investments in the construction industry and in certain non-manufacturing industries, such as the retail sales industry, contributed to the positive growth. The growth was partially offset by lower private inventory investments, reflecting lower inventory levels of partly finished products. In the quarter ended September 30, 2013, corporate investments in the construction, transportation and retail industries increased while investments in the chemical and electric equipment industries decreased. Private inventory investments increased in the same quarterly period due to higher inventory levels of finished goods in the automobile and other manufacturing industries.

Government consumption grew during the six months ended September 30, 2013 mainly due to increased social benefit expenses, including government spending on medical and nursing care services.

Public investment grew during the six months ended September 30, 2013, marking the seventh consecutive quarter of positive growth since the beginning of the calendar year 2012. This was primarily due to increased public projects in the northeastern part of Japan, which suffered damages from the Great East Japan Earthquake.

Net exports, which represent exports less imports, increased in the quarter ended June 30, 2013, with both exports and imports growing. Exports grew mainly in the automobile and travel-related industries, while imports of crude petroleum, natural gas, coals and clothing products also grew. In the quarter ended September 30, 2013, net exports turned negative with declining exports and growing imports. Exports declined mainly due to decreases in exports of electronics and telecommunications products, petroleum-related goods and steel. Imports grew mainly due to increases in imports of transportation machinery, and electronics and telecommunications products.

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

	Calendar Year													(Unit: %)
	2012			2013										
	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.
Consumer Price Index	(0.4)	(0.2)	(0.1)	(0.3)	(0.7)	(0.9)	(0.7)	(0.3)	0.2	0.7	0.9	1.1	1.1	1.5

Source: Ministry of Internal Affairs and Communications of Japan

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

	Calendar Year											(Unit: %)
	2010	2011				2012				2013		
	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q
Unemployment Rate	4.8	4.7	4.7	4.4	4.3	4.5	4.6	4.3	4.0	4.3	4.2	4.0

Source: Ministry of Internal Affairs and Communications of Japan

Japan s nationwide unemployment rates for October and November 2013 were 4.0% and 4.0%, respectively.

The Bank of Japan has sought to keep short-term interest rates low by maintaining its quantitative and qualitative monetary easing policy. Euro-yen-3-month Tokyo Interbank Offered Rate, or TIBOR, declined from 0.25000% on April 1, 2013 to 0.22800% on September 30, 2013, and further declined to around 0.22000% as of early January 2014, the lowest level since 2006, reflecting the monetary policy of the Bank of Japan. Long-term interest rates have fluctuated since the introduction of the Abe-nomics measures. The yield on newly issued ten-year Japanese government bonds fell to the historical low of approximately 0.325% shortly after the introduction of the Abe-nomics measures, and rose to around 1% in May 2013 due to concerns over the impact of increased government spending and debt on Japan s financial health and a general shift in investors allocation of capital from the debt markets to the improving stock markets. From late May 2013 to November 2013, the yield on newly issued ten-year Japanese government bonds declined gradually to below 0.6% partly due to the Bank of Japan s more flexible bond purchase operations, despite the increases in interest rates in the United States and other major countries. Since December 2013, the yield on newly issued ten-year Japanese government bonds has risen to above 0.7% mainly in response to increases in interest rates in the United States after the announcements of strong U.S. statistics such as the non-farm payroll for October 2013, and of the FRB s decision to taper the quantitative monetary easing program.

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

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With regards to the Japanese stock market, the closing price of the Nikkei Stock Average, or Nikkei 225, which is the average of 225 blue chip stocks listed on the Tokyo Stock Exchange, increased from ¥12,397.91 on March 29, 2013 to ¥14,455.80 on September 30, 2013. Partly due to the depreciation of the Japanese yen against other major currencies such as the U.S. dollar, the Nikkei 225 maintained an upward trend from April 1, 2013 to May 23, 2013, when it increased to an intra-day high of ¥15,942.60. However, the Nikkei 225 started to decline rapidly on the same day after weak Chinese statistics were reported, and the downward trend continued for approximately one month, until late June 2013, when the price was at a similar level to what it had been at the end of March 2013. The downward trend reflected investors reaction to a rapid increase in stock prices and to congressional testimony of Mr. Ben Bernanke, the Chair of the FRB, suggesting the possibility of tapering the quantitative monetary easing program. Subsequent to the one-month long downward trend, the Nikkei 225 remained generally between ¥13,000 and ¥15,000 for the rest of the six-month period ended September 30, 2013.

The Tokyo Stock Price Index, or TOPIX, a composite index of all stocks listed on the First Section of the Tokyo Stock Exchange, similarly fluctuated due to the same reasons as those for the Nikkei 225. The TOPIX increased quickly from April 1, 2013 to an intra-day high of 1,289.77 on May 23, 2013. On the same day, the TOPIX began to decline rapidly, and the downward trend continued for approximately one month. Subsequently, the stock market became more stable with the TOPIX remaining generally between 1,100 and 1,230 for the rest of the six-month period ended September 30, 2013.

Stock prices remained within the same range until the middle of November 2013. As the Japanese yen further depreciated against other major currencies such as the U.S. dollar reflecting the rises in long-term interest rates in the United States after the announcements of an improved U.S. GDP in the third quarter and higher than expected non-farm payroll for October 2013, stock prices increased with the Nikkei 225 rising to an intra-day high of ¥15,794.15 and the TOPIX rising to an intra-day high of 1,266.66 on December 3, 2013. Following the announcement on December 18, 2013, of the FRB s decision to taper the quantitative monetary easing program, stock prices rose further with the Nikkei 225 reaching an intra-day high of ¥16,320.22 on December 30, 2013, and the TOPIX reaching an intra-day high of 1,306.23 on January 8, 2014.

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

The Japanese yen depreciated against other major currencies such as the U.S. dollar from the closing price of ¥94.22 to U.S.$1 on March 29, 2013 to an intra-day high of ¥103.74 on May 22, 2013, when the Chair of the FRB suggested the possibility of exiting from quantitative easing in his testimony to Congress. Subsequently, market participants began selling emerging currencies and shifted their money into funding currencies such as the U.S. dollar and particularly the Japanese yen, which resulted in a rapid appreciation of the Japanese yen. The Japanese yen continued to appreciate against the U.S. dollar for about one month until late June 2013, and

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remained generally between ¥95.00 and ¥101.50 to U.S.$1 until the middle of November 2013. The Japanese yen then began to depreciate against the U.S. dollar, reaching an intra-day high of ¥105.44 to U.S.$1 on January 2, 2014, due to rises in interest rates in the United States reflecting strong U.S. statistics and the announcement of the FRB s decision to taper the quantitative monetary easing program on December 18, 2013.

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

According to a land price survey conducted by the Japanese government, the average residential land price in Japan declined 1.8% between July 1, 2012 and July 1, 2013. The average commercial land price in Japan also declined 2.1% during the same period. In the three major metropolitan areas of Tokyo, Osaka and Nagoya, the average residential land price declined 0.1% between July 1, 2012 and July 1, 2013, while the average commercial land price in those areas increased 0.6% during the same period. In the local regions of Japan, which consist of regions other than the three major metropolitan areas (excluding certain areas in the northeastern part of Japan where residents have been ordered by the Japanese government to keep away due to the Fukushima nuclear plant accidents), the average residential land price declined 2.5% between July 1, 2012 and July 1, 2013, and the average commercial land price also declined 3.1% during the same period.

According to Teikoku Databank, a Japanese research institution, the number of companies that filed for legal bankruptcies in Japan from April 2013 to September 2013 was approximately 5,320, a decrease of 2.2% from the same period of the previous year. The decrease in the number of companies that filed for legal bankruptcy was mainly due to the positive effects of the Japanese government s economic stimulus measures under the Abe-nomics policy. The number of companies that filed for legal bankruptcy with debt exceeding ¥10 billion in Japan in the six months ended September 30, 2013 was 15, and the number has since remained low. As a percentage of the total number of legal bankruptcy filings made in the six months ended September 30, 2013, the number of such filings made by businesses that are either unincorporated or capitalized at less than ¥10 million was 56.5%, the highest in the past 10 years. The aggregate amount of liabilities subject to bankruptcy filings, excluding financial institutions bankruptcy filings, from April 2013 to September 2013 was approximately ¥1.76 trillion, an increase of ¥0.05 trillion, or 2.8%, compared to the same period of the previous year.

International Financial Markets

U.S. Economy

The U.S. economy demonstrated signs of continued improvement during the six months ended September 30, 2013, including stronger personal consumption and private residential demand. This reflected the improving stock and land markets. In addition, the U.S. labor statistics also continued to improve during the six months ended September 30, 2013, which led to discussions on the possibility of exiting from quantitative easing earlier than previously expected. The FRB maintained its zero-interest rate policy during the six months ended September 30, 2013. On December 18, 2013, however, the FRB announced it s decision to taper the quantitative monetary easing policy by decreasing by U.S.$ 5.0 billion the monthly purchase amounts for each of mortgage-backed securities and U.S. Treasury bonds starting in January 2014.

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

	Calendar Year											(Unit: %)
	2010	2011				2012				2013		
	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q
Gross Domestic Product	2.8	(1.3)	3.2	1.4	4.9	3.7	1.2	2.8	0.1	1.1	2.5	4.1
Personal Consumption Expenditures	4.3	2.1	1.5	2.1	2.4	2.9	1.9	1.7	1.7	2.3	1.8	2.0
Gross Private Domestic Investment	(3.5)	(7.5)	14.2	2.5	31.9	10.5	(1.6)	6.5	(2.4)	4.7	9.2	17.2
Fixed Investment	8.5	(0.5)	8.6	14.8	10.0	8.6	4.7	2.7	11.6	(1.5)	6.5	5.9
Non-residential	8.6	(0.9)	9.9	16.7	9.5	5.8	4.5	0.3	9.8	(4.6)	4.7	4.8
Residential	7.9	1.7	2.7	6.1	12.2	23.0	5.7	14.1	19.8	12.5	14.2	10.3
Government Consumption Expenditures and Gross Investment	(4.1)	(7.5)	(1.3)	(2.5)	(1.5)	(1.4)	0.3	3.5	(6.5)	(4.2)	(0.4)	0.4
Exports	12.4	3.8	4.9	7.0	2.7	4.2	3.8	0.4	1.1	(1.3)	8.0	3.9
Imports	0.9	2.8	0.7	4.9	5.9	0.7	2.5	0.5	(3.1)	0.6	6.9	2.4

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

The U.S. real GDP grew during the six months ended September 30, 2013. Private consumption, which accounts for approximately 67.8% of the U.S. real GDP, demonstrated consistent growth during the six months ended September 30, 2013, mainly due to increased purchasing activities resulting from higher stock and residential property prices.

Government Consumption stayed almost unchanged during the six months ended September 30, 2013. The federal government s defense and non-defense expenditures decreased, while the consumption by state and local governments generally increased.

Consumer Price Index for All Urban Consumers, or CPI-U, for all items increased 1.2% before seasonal adjustment over the 12 months ended September 30, 2013. CPI-U, however, decreased 0.1% in October 2013, followed by a slight increase of less than 0.1% in November 2013 on a seasonally adjusted month-on-month basis.

Housing prices showed signs of improvement during the six month ended September 30, 2013. As of September 2013, the Federal Housing Finance Agency s U.S. house price index exhibited a ninth consecutive quarterly price increase in the purchase-only, seasonally adjusted index. The index as of September 2013 exceeded that as of the same month five years earlier. It was the first time since 2009 when the index as of any given month was higher than that as of the same month five years earlier.

Stock prices in the United States were on a generally improving trend during the six months ended September 30, 2013, with the Dow Jones Industrial Average fluctuating generally between U.S.$14,500 and $15,700. During the same period, the NASDAQ composite index was also on an upward trend, rising from the 3,200s in April 2013 to the 3,700s in September 2013. Subsequently, stock prices reached historical high levels as the U.S. economy showed signs of continuous growth, reflecting stronger economic growth supported by firm

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private consumption and lower unemployment rates. In addition, the announcement of the FRB s decision to taper the quantitative monetary easing program on December 18, 2013 led to stronger investor sentiment regarding the U.S. economic outlook, and caused a shift in investments from bonds to equities. The Dow Jones Industrial Average increased to an intra-day high of $16,588.25 on December 31, 2013, and the NASDAQ composite index increased to an intra-day high of 4,177.728 on the same day.

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

	Calendar Year													(Unit: %)	
		2012							2013						
	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
Unemployment Rate	7.8	7.8	7.9	7.9	7.7	7.5	7.5	7.5	7.5	7.3	7.2	7.2	7.2	7.0	6.7

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

Eurozone Economy

The Eurozone economy remained weak during the six months ended September 30, 2013. Although a positive GDP growth was recorded in the quarter ended June 30, 2013 for the first time in seven quarters, economic conditions in the Eurozone remained generally stagnant during the six months ended September 30, 2013. The European Central Bank, or ECB, has maintained its low interest rate policy, reducing its policy interest rate to 0.5% on May 2, 2013. On July 4, 2013, the ECB introduced forward guidance, indicating that short-term interest rates would remain low for an extended period of time. On November 7, 2013, the ECB further reduced its policy interest rate to a historical low of 0.25% to support the economy in response to the low inflation rate in the Eurozone countries.

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

	Calendar Year										(Unit: %)	
	2010		2011				2012				2013	
	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q
Gross Domestic Product	0.5	0.8	0.0	0.1	(0.2)	(0.1)	(0.3)	(0.1)	(0.5)	(0.2)	0.3	0.1
Private Final Consumption	0.5	0.1	(0.6)	0.2	(0.6)	(0.3)	(0.5)	(0.1)	(0.5)	(0.1)	0.1	0.1
Gross Fixed Capital Formation	(0.4)	2.4	(0.8)	(0.3)	(0.6)	(1.1)	(2.0)	(0.6)	(1.2)	(1.9)	0.2	0.4
Government Final Consumption	0.0	(0.1)	0.1	(0.3)	0.2	(0.3)	(0.3)	(0.2)	0.0	0.3	0.0	0.2
Exports	2.5	1.7	0.3	1.3	0.3	0.8	0.9	0.7	(0.5)	(1.0)	2.1	0.2
Imports	1.9	1.6	(0.1)	0.6	(1.2)	0.0	(0.2)	0.3	(0.9)	(1.2)	1.6	1.0

Source: European Central Bank Eurosystem

Eurozone real GDP growth turned positive in the quarter ended June 30, 2013 for the first time since the beginning of the financial crisis in the peripheral countries of the Eurozone in the quarter ended December 31, 2011. Eurozone real GDP growth showed a positive growth of 0.1% in the quarter ended September 30, 2013, with all of the expenditure components increasing for a second consecutive quarter, although the rate of growth declined from 0.3% in the preceding quarter. There is still significant uncertainty surrounding the Eurozone economy without strong evidence of sustained growth.

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

	Calendar Year													(Unit: %)
		2012							2013					
	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.
Unemployment Rate	11.7	11.8	11.9	12.0	12.0	12.0	12.1	12.1	12.1	12.1	12.1	12.1	12.1	12.1

Source: European Central Bank Eurosystem

The unemployment rate remained high during the six months ended September 30, 2013, recording 12.1% for each month in the six-month period ended September 30, 2013. The unemployment rate remained unchanged at the rate of 12.1% for October and November 2013.

Recent Developments

We continue to pursue global growth opportunities, including opportunities to strengthen our strategic alliance with Morgan Stanley, and expand the operations of Union Bank, the primary subsidiary of UNBC, and our operations in Southeast Asia. We plan to continue to selectively review and consider growth opportunities that will enhance our global competitiveness. We will monitor regulatory developments and pursue prudent transactions that will create a strong capital structure to enable us to contribute to the real economy, both domestically and globally, as a provider of a stable source of funds and high quality financial services.

Acquisition of Bank of Ayudhya Shares through Voluntary Tender Offer

On December 18, 2013, BTMU acquired an aggregate of 4,373,714,120 shares, representing approximately 72.01%, of the total outstanding shares of Bank of Ayudhya Public Company Limited, or Krungsri, in Thailand through a Voluntary Tender Offer, or VTO, for THB39 per share. The aggregate number of shares acquired through the Voluntary Tender Offer included the 1,538,365,000 shares, representing approximately 25.33%, of Krungsri s total outstanding shares, acquired from GE Capital International Holdings Corporation pursuant to a share tender agreement, dated July 2, 2013. The total purchase price was paid in cash, and was approximately ¥550.0 billion based on the currency exchange rate between the Thai baht and the Japanese yen as of December 18, 2013. As a result of the transaction, Krungsri has become a consolidated subsidiary of BTMU. Krungsri is expected to remain listed on the Stock Exchange of Thailand after the transaction.

Pursuant to a Conditional Branch Purchase Agreement between BTMU and Krungsri, or the BPA, dated September 18, 2013, BTMU plans to integrate BTMU s Bangkok Branch with Krungsri through a contribution in kind of the BTMU Bangkok Branch business to Krungsri by December 18, 2014. In exchange for the contribution in kind, Krungsri will issue 1,143,221,782 additional common shares to BTMU, which would increase BTMU s ownership in Krungsri to 76.44%. The number of shares to be issued by Krungsri in exchange for BTMU s contribution in kind is subject to a price adjustment under the BPA such that the total shares to be issued can increase up to a maximum of 1,500,000,000 shares or decrease without a specified minimum. The effective date of the integration is subject to change in accordance with an agreement between the parties and regulatory approval.

MUTB s Acquisition of Butterfield Fulcrum Group

In September 2013, MUTB completed the acquisition of FGL Lux Holdings, S.à r.l., the holding company of Butterfield Fulcrum Group, which is a global alternative fund administrator. Through this newly consolidated subsidiary, MUTB intends to serve the various global asset administration needs of its domestic and overseas customers. Subsequent to the acquisition, Butterfield Fulcrum Group changed its name to Mitsubishi UFJ Fund Services Holdings Limited.

Union Bank s Acquisition of First Bank Association Bank Services

In November 2013, Union Bank assumed approximately $550 million in deposits and certain assets of First Bank Association Bank Services, a unit of First Bank, which provided a full range of banking services to homeowners associations and community management companies, with deposits primarily from customers in California.

Expected Changes in Shareholdings of Mitsubishi UFJ Merrill Lynch PB Securities Co., Ltd.

We expect to complete transactions to transfer shares of Mitsubishi UFJ Merrill Lynch PB Securities Co., Ltd. among our consolidated subsidiaries on March 20, 2014. Upon completion of the transactions, MUMSS will hold 75%, and BTMU will hold the remaining 25%, of the voting rights in the company. Currently, MUSHD holds 51%, and BTMU holds the remaining 49%, of the voting rights in the company. Concurrent with the completion of the transactions, the company will change its name to Mitsubishi UFJ Morgan Stanley PB Securities Co., Ltd. The share transfer transactions are not expected to have a material impact on our results of operations for the fiscal year ending, and our financial condition as of March 31, 2014.

MUMSS is our core securities and investment banking subsidiary. MUMSS was created as one of the two Japanese joint venture securities companies in May 2010 between Morgan Stanley and us as part of our global strategic alliance. We hold 60% voting and economic interests, and Morgan Stanley holds 40% voting and economic interests, in MUMSS.

Exposures to Selected European Countries

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

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The following table sets forth information about our aggregate exposure of BTMU, MUTB and MUSHD, which were the subsidiaries holding the exposure, as of September 30, 2013. The information in the table is categorized by counterparties, consisting of sovereign, non-sovereign financial institutions and non-sovereign non-financial institutions, and by type of financial instruments, which include loans, securities, derivatives and credit default swap, or CDS, protection (sold and bought). The securities exposure includes available-for-sale, held-to-maturity and trading securities. The information included in the table below is based on information compiled for internal risk management purposes only, and not for financial accounting purposes. The exposures are determined based on the country in which the borrower s head office is located. However, in case of a subsidiary located in a country different from that in which its parent company is located, the country exposure is determined based on the country in which the subsidiary is located.

	September 30, 2013						
	Loans (funded & unfunded)	Securities(1)	Derivatives(2)	CDS protection sold(3)	Gross exposure (funded & unfunded)	CDS protection bought(3)	Net exposure(4)
	(in billions)						
Italy	$ 5.4	$ 1.5	$ 1.2	$ 0.0	$ 8.1	$ 0.5	$ 7.6
Sovereign		1.4	0.0		1.4		1.4
Financial Institutions	0.0	0.1	0.0	0.0	0.1	0.0	0.1
Others	5.4	0.0	1.2	0.0	6.6	0.5	6.1
Spain	4.7	0.1	0.0	0.0	4.8	0.0	4.8
Sovereign		0.1			0.1		0.1
Financial Institutions	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Others	4.7	0.0	0.0	0.0	4.7	0.0	4.7
Portugal	0.4		0.0		0.4	0.1	0.3
Sovereign		0.0			0.0		0.0
Financial Institutions			0.0		0.0		0.0
Others	0.4	(0.0)	0.0		0.4	0.1	0.3
Ireland	0.2	0.1	0.0		0.3		0.3
Sovereign		0.0			0.0		0.0
Financial Institutions		0.1	0.0		0.1		0.1
Others	0.2	0.0	0.0		0.2		0.2
Greece	0.0				0.0		0.0
Sovereign							
Financial Institutions							
Others	0.0				0.0		0.0
Total	$ 10.7	$ 1.7	$ 1.2	$ 0.0	$ 13.6	$ 0.6	$ 13.0
Sovereign		1.5	0.0		1.5		1.5
Financial Institutions	0.0	0.2	0.0	0.0	0.2	0.0	0.2
Others	10.7	0.0	1.2	0.0	11.9	0.6	11.3

Notes:

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

(5) To the extent financial instruments are originally denominated in currencies other than U.S. dollars, the exposure amounts have been translated into U.S. dollars at an internal exchange rate used for our internal risk management purposes as of September 30, 2013.
(6) Negative amounts represent short positions.

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Based on information collected for internal risk management purposes as of September 30, 2013, our consolidated exposure to Italy, Spain, Portugal, Ireland and Greece, which consisted of the aggregate, on a gross basis, of the funded loans and unfunded commitments to, held-to-maturity, available-for-sale and trading securities issued by, derivatives exposures to, and credit default protection sold for exposures to, sovereign government entities of and financial institutions and other corporate entities located in these countries, that BTMU, MUTB and MUSHD held, was less than 1.0% of our total assets.

As of September 30, 2013, other than BTMU, MUFG group companies had limited exposures to those European countries, except such other group companies exposures to sovereign bonds issued by those countries as discussed below. As of the same date, BTMU held no sovereign bonds issued by those European countries.

As of September 30, 2013, we had a total balance of $1.5 billion of sovereign bonds of the European peripheral countries identified in the table above on a consolidated basis. Among these countries, we had no Greek government bonds as of September 30, 2013. All of our Italian and Spanish government bonds were held in our trading accounts as of September 30, 2013.

As of September 30, 2013, excluding sovereign bonds, we had a total of $11.5 billion of exposures relating to the European peripheral countries identified in the table above. These exposures mainly consisted of commercial loan exposures to corporations and structured finance transactions. Our exposures to Italy and Spain mainly related to the infrastructure sector, such as electricity, gas and telecommunications. Our loan-related exposures to financial institutions in those countries were limited and therefore not material.

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

Critical Accounting Estimates

Our unaudited condensed consolidated financial statements included elsewhere in this Report are prepared in accordance with U.S. GAAP. Many of the accounting policies require management to make difficult, complex or subjective judgments regarding the valuation of assets and liabilities. The accounting policies are fundamental to understanding our operating and financial review and prospects. Critical accounting estimates include the allowance for credit losses, impairment of investment securities, the allowance for repayment of excess interest, the valuation of deferred tax assets, accruals for uncertain tax positions, the accounting for goodwill and intangible assets, accrued severance indemnities and pension liabilities, and the valuation of financial instruments. For a further discussion of our critical accounting estimates, see our annual report on Form 20-F for the fiscal year ended March 31, 2013.

Accounting Changes and Recently Issued Accounting Pronouncements

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

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Results of Operations

The following table sets forth a summary of our results of operations for the six months ended September 30, 2012 and 2013:

	Six months ended September 30, 2012	2013
	(in billions)	
Interest income	¥ 1,213.9	¥ 1,235.9
Interest expense	295.0	269.5
Net interest income	918.9	966.4
Provision (credit) for credit losses	80.0	(60.2)
Non-interest income	1,027.0	693.5
Non-interest expense	1,182.3	1,189.7
Income before income tax expense	683.6	530.4
Income tax expense	70.5	99.4
Net income before attribution of noncontrolling interests	¥ 613.1	¥ 431.0
Net income attributable to noncontrolling interests	17.1	47.7
Net income attributable to Mitsubishi UFJ Financial Group	¥ 596.0	¥ 383.3

We reported net income attributable to Mitsubishi UFJ Financial Group of ¥383.3 billion for the six months ended September 30, 2013, a decrease of ¥212.7 billion from ¥596.0 billion for the six months ended September 30, 2012. Our diluted earnings per common share (earnings applicable to common shareholders of Mitsubishi UFJ Financial Group) for the six months ended September 30, 2013 was ¥26.10, a decrease of ¥15.34 from ¥41.44 for the six months ended September 30, 2012. Income before income tax expense for the six months ended September 30, 2013 was ¥530.4 billion, a decrease of ¥153.2 billion from ¥683.6 billion for the six months ended September 30, 2012.

Net Interest Income

The following table is a summary of the interest rate spread for the six months ended September 30, 2012 and 2013:

	Six months ended September 30, 2012		2013	
	Average balance	Average rate (Annualized)	Average balance	Average rate (Annualized)
	(in billions, except percentages)			
Interest-earning assets:				
Domestic	¥ 135,488.5	0.97%	¥133,873.2	0.90%
Foreign	56,865.2	1.95	72,980.3	1.73

Total	¥ 192,353.7	1.26%	¥206,853.5	1.19%
Financed by:				
Interest-bearing liabilities:				
Domestic	¥ 135,793.5	0.23%	¥139,238.0	0.18%
Foreign	36,761.9	0.76	45,064.0	0.64
Total	172,555.4	0.34	184,302.0	0.29
Non-interest-bearing liabilities	19,798.3		22,551.5	
Total	¥ 192,353.7	0.31%	¥206,853.5	0.26%
Interest rate spread		0.92%		0.90%
Net interest income as a percentage of total interest-earning assets		0.95%		0.93%

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Net interest income for the six months ended September 30, 2013 was ¥966.4 billion, an increase of ¥47.5 billion from ¥918.9 billion for the six months ended September 30, 2012. The increase in net interest income resulted from higher interest income and lower interest expense. The higher interest income was primarily attributable to higher interest income from loans in our banking subsidiaries. Although the average interest rate on loans decreased, reflecting lower market interest rates and intensified competition in the loan market, our loan volume increased especially in overseas subsidiaries and branches. The impact of the increase in the loan volume exceeded the negative impact of the lower interest rates. The lower interest expense was mainly due to a decrease in interest payments on repurchase agreement transactions. Although the volume of repurchase agreement transactions increased as we obtained additional foreign currency funding for loans and investments in securities, the average interest rate on repurchase transactions decreased, reflecting lower market short-term interest rates, such as the euro overnight index average, which more than offset the negative impact of the increase in the transaction volume.

Interest income increased ¥22.0 billion to ¥1,235.9 billion for the six months ended September 30, 2013 from ¥1,213.9 billion for the same period of the previous fiscal year. This was mainly attributable to the increased foreign loan volume despite the lower interest rates on such loans and to larger balances of deposits that our banking and trust banking subsidiaries had with central banks despite lower interest rates on such deposits. For the six months ended September 30, 2013, compared to the same period of the previous fiscal year, while interest income on foreign activities increased ¥76.8 billion, interest income on activities in Japan decreased ¥54.8 billion. Although the average balance of our domestic loans increased, because of a decrease in the average domestic loan rate, the interest income on our domestic loans declined.

Interest expense decreased ¥25.5 billion to ¥269.5 billion for the six months ended September 30, 2013 from ¥295.0 billion for the same period of the previous fiscal year. The decrease was mainly due to lower funding rates despite an increase in the average balance of liabilities.

The average interest rate spread (the average interest rate for interest-earning assets minus the average interest rate for interest-bearing liabilities) decreased 0.02 percentage points to 0.90% for the six months ended September 30, 2013 from 0.92% for the six months ended September 30, 2012. For the six months ended September 30, 2013 compared to the same period of the previous fiscal year, the average interest rate on interest-earning assets decreased 0.07 percentage points to 1.19% from 1.26%, while the average interest rate on interest-bearing liabilities decreased 0.05 percentage points to 0.29% from 0.34%, which resulted in the overall decrease in the average interest rate spread. The average interest rate spread on domestic activities decreased 0.02 percentage points to 0.72% for the six months ended September 30, 2013 from 0.74% for the same period of the previous fiscal year as short-term interest rates did not decline as steeply as long-term interest rates in the current near-zero interest rate environment. The average interest rate spread on foreign activities decreased 0.10 percentage points to 1.09% for the six months ended September 30, 2013 from 1.19% for the same period of the previous fiscal year. While long-term interest rates significantly fluctuated particularly in the United States, the average interest rate on foreign interest-earning assets declined, mainly reflecting lower interest rates on loans, more than our funding rates.

In Japan, the Bank of Japan sought to keep short-term interest rates low by maintaining its quantitative and qualitative monetary easing policy throughout the reporting period. As a result, the average interest rate on domestic interest-earning assets continued to decline, while the average interest rate on domestic interest-bearing liabilities reached and remained at historically low levels. If the Bank of Japan continues to maintain its current policy on its short-term policy interest rate as well as other monetary easing policies, our interest rate spread on domestic activities will likely continue to be under severe pressure. Moreover, monetary easing policies adopted in foreign markets in the Americas, Europe, Asia and other regions have negatively affected our interest rate spread on foreign activities in recent periods. In addition, our interest rate spread may be affected by changes in long-term interest rates, which, for example, have been fluctuating to an increasing degree in Japan in recent periods due to wider fluctuations in long-term Japanese government bond prices. For further information on the Bank of Japan s monetary policy and recent interest rate fluctuations in Japan, see Business Environment Economic Environment in Japan.

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Average interest-earning assets for the six months ended September 30, 2013 were ¥206,853.5 billion, an increase of ¥14,499.8 billion from ¥192,353.7 billion for the six months ended September 30, 2012. Average domestic interest-earning assets for the six months ended September 30, 2013 were ¥133,873.2 billion, a decrease of ¥1,615.3 billion from ¥135,488.5 billion for the six months ended September 30, 2012, mainly due to a decrease in investment securities. The decrease in domestic investment securities was mainly due to a decrease in our investment in Japanese government bonds as part of our asset and liability management and interest rate risk management strategies within our banking and trust banking subsidiaries. Average foreign interest-earning assets for the six months ended September 30, 2013 were ¥72,980.3 billion, an increase of ¥16,115.1 billion from ¥56,865.2 billion for the six months ended September 30, 2012. This was mainly due to increases in loans to both local and Japanese borrowers particularly in the Americas and Asia, reflecting the economic recovery in the United States and the loans acquired in connection with Union Bank s transaction with PB Capital Corporation, as well as our strategic efforts to expand our lending operations in Asian markets. The increase in foreign loans also reflected the appreciation of the relevant foreign currencies against the Japanese yen.

Average interest-bearing liabilities for the six months ended September 30, 2013 were ¥184,302.0 billion, an increase of ¥11,746.6 billion from ¥172,555.4 billion for the six months ended September 30, 2012. Average domestic interest-bearing liabilities for the six months ended September 30, 2013 were ¥139,238.0 billion, an increase of ¥3,444.5 billion from ¥135,793.5 billion for the six months ended September 30, 2012. Interest-bearing deposits from our retail customers in the domestic branches increased as retired baby-boomers tended to choose to deposit their retirement allowances and pension benefit payments and avoided higher risk investment alternatives. However, interest-bearing deposits from our wholesale customers in the domestic branches decreased primarily due to the downward pressure on short-term interest rates, resulting in a decrease in interest-bearing deposits maintained in corporate accounts, particularly negotiable certificates of deposit. Average foreign interest-bearing liabilities for the six months ended September 30, 2013 were ¥45,064.0 billion, an increase of ¥8,302.1 billion from ¥36,761.9 billion for the six months ended September 30, 2012, mainly due to an increase in interest-bearing deposits in foreign branches and subsidiaries particularly in the United States, including Union Bank.

Provision (credit) for credit losses

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

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Non-Interest Income

The following table is a summary of our non-interest income for the six months ended September 30, 2012 and 2013:

	Six months ended September 30, 2012	2013
	(in billions)	
Fees and commissions income:		
Trust fees	¥45.5	¥52.6
Fees on funds transfer and service charges for collections	68.5	69.1
Fees and commissions on international business	27.7	33.2
Fees and commissions on credit card business	74.5	76.4
Service charges on deposits	8.5	10.0
Fees and commissions on securities business	66.6	117.8
Fees on real estate business	12.0	15.4
Insurance commissions	16.9	18.8
Fees and commissions on stock transfer agency services	25.4	25.7
Guarantee fees	28.1	27.1
Fees on investment funds business	57.9	75.4
Other fees and commissions	109.4	117.9
Total	541.0	639.4
Foreign exchange gains (losses) net	76.6	(35.7)
Trading account profits (losses) net:		
Net profits (losses) on interest rate and other derivative contracts	93.6	(62.1)
Net profits (losses) on trading account securities, excluding derivatives	208.2	(130.0)
Total	301.8	(192.1)
Investment securities gains net:		
Net gains on sales of securities available for sale:		
Debt securities	135.8	73.8
Marketable equity securities	8.7	48.2
Impairment losses on securities available for sale:		
Debt securities	(6.2)	(1.3)
Marketable equity securities	(112.8)	(0.2)
Other	10.2	9.5
Total	35.7	130.0
Equity in earnings of equity method investees net	10.0	87.2
Other non-interest income	61.9	64.7
Total non-interest income	¥ 1,027.0	¥693.5

Non-interest income for the six months ended September 30, 2013 was ¥693.5 billion, a decrease of ¥333.5 billion from ¥1,027.0 billion for the six months ended September 30, 2012. This decrease was mainly attributable to a decrease of ¥493.9 billion in the trading account profits which reflected a decrease in the value of foreign debt securities accounted for under the fair value option and an increase in losses resulting from risk management activities relating to the equity holdings in our securities subsidiaries. The decrease in non-interest income was also attributable to larger net foreign exchange losses, which reflected losses on foreign currency transactions entered into in connection with funding for foreign currency purchases and losses related to foreign exchange risk management activities. These losses were partially offset by an increase in fees and commissions income, including equity brokerage fees, and a decrease in impairment losses on marketable equity securities, which reflected an improvement in the stock market in Japan.

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Fees and commissions income

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

Fees and commissions income for the six months ended September 30, 2013 was ¥639.4 billion, an increase of ¥98.4 billion from ¥541.0 billion for the six months ended September 30, 2012. This increase was primarily due to an increase of ¥51.2 billion in fees and commissions on securities business, particularly brokerage fees, reflecting increased activity in the Japanese equity market. The increase in fees and commissions income was also due to an increase of ¥17.5 billion in fees from our investment funds business. The higher fees on investment funds business was mainly attributable to increased mutual fund sales at our banking and trust banking subsidiaries as equity market conditions improved in Japan.

Net foreign exchange gains (losses)

The following table sets forth the details of our foreign exchange gains and losses for the six months ended September 30, 2012 and 2013:

	Six months ended September 30,	
	2012	**2013**
	(in billions)	
Foreign exchange gains (losses) net:		
Foreign exchange gains (losses) on derivative contracts	¥ 98.9	¥ (5.1)
Foreign exchange gains (losses) on other than derivative contracts	878.7	(812.6)
Foreign exchange gains (losses) related to the fair value option	(901.0)	782.0
Total	¥ 76.6	¥ (35.7)

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

Foreign exchange gains (losses) related to derivative contracts were net gains (losses) primarily on currency derivative instruments entered into for trading purposes. For the details of derivative contracts, see Note 13 to our unaudited condensed consolidated financial statements included elsewhere in this Report. Foreign exchange gains (losses) on other than derivative contracts include foreign exchange trading gains (losses) as well as transaction gains (losses) on the translation into Japanese yen of monetary assets and liabilities denominated in

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

Net foreign exchange losses for the six months ended September 30, 2013 were ¥35.7 billion, compared to net foreign exchange gains of ¥76.6 billion for the six months ended September 30, 2012. The Japanese yen depreciated against the U.S. dollar from ¥77.96 to U.S.$1 on September 30, 2012 to ¥98.27 to U.S.$1 on September 30, 2013. The depreciation of the Japanese yen resulted in an increase in yen-denominated foreign exchange translation gains on securities under the fair value option. However, this increase was more than offset by an increase in losses related to foreign exchange risk management activities and an increase in losses on foreign currency transactions entered into in connection with funding raised in foreign currencies for the purchases of foreign government bonds and loans to customers in foreign currencies.

Net trading account profits (losses)

The following table sets forth details of our trading account profits and losses for the six months ended September 30, 2012 and 2013:

	Six months ended September 30, 2012	Six months ended September 30, 2013
	(in billions)	
Trading account profits (losses) net:		
Net profits (losses) on interest rate and other derivative contracts		
Interest rate contracts	¥ 30.2	¥ 33.7
Equity contracts	66.8	(94.0)
Commodity contracts	3.9	(3.7)
Credit derivatives	(9.8)	(0.2)
Other	2.5	2.1
Total	93.6	(62.1)
Net profits (losses) on trading account securities, excluding derivatives		
Trading account securities	(6.0)	119.1
Trading account securities under the fair value option	214.2	(249.1)
Total	208.2	(130.0)
Total	¥ 301.8	¥ (192.1)

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

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

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

Of the two categories, trading purpose activities represent a smaller portion of our trading account profits.

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

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

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

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

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

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

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

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

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

Net trading account losses for the six months ended September 30, 2013 were ¥192.1 billion, compared to net profits of ¥301.8 billion for the six months ended September 30, 2012. This was mainly due to ¥249.1 billion of net losses on trading account securities under the fair value option resulting from a decrease in the value of foreign debt securities, reflecting the general increase in interest rates in the United States, particularly from late May through the summer of 2013, in anticipation of a tapering of the FRB s quantitative monetary easing program, and ¥94.0 billion of net losses on equity contracts reflecting losses resulting from risk management activities relating to the equity holdings in our securities subsidiaries.

Net profits (losses) on interest rate and other derivative contracts are comprised of net profits (losses) on interest rate contracts, equity contracts, commodity contracts, credit derivatives and others. Net losses on interest rate and other derivative contracts were ¥62.1 billion for the six months ended September 30, 2013, compared to net profits of ¥93.6 billion for the same period of the previous fiscal year. This was primarily due to the ¥94.0 billion of net losses on equity contracts, resulting from risk management activities relating to the equity

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holdings in our securities subsidiaries, partially offset by an increase in net profits on interest rate contracts, reflecting an increase in realized gains on interest rate swap contracts in our trust banking subsidiaries.

Net profits (losses) on trading account securities, excluding derivatives, are comprised of net profits (losses) on trading account securities and net profits (losses) on trading account securities under the fair value option. Net losses on trading account securities, excluding derivatives, were ¥130.0 billion for the six months ended September 30, 2013, compared to net profits of ¥208.2 billion for the same period of the previous fiscal year. This was mainly attributable to the ¥249.1 billion of net losses on trading account securities under the fair value option resulting from a decline in the value of foreign debt securities at our banking and trust banking subsidiaries, which reflected the general decline in the values of debt securities in anticipation of a tapering of the quantitative monetary easing program by the FRB in the United States. Net profits on trading account securities of ¥119.1 billion for the six months ended September 30, 2013 reflected ¥155.8 billion of gains on sales and trading in Japanese government bonds and foreign debt securities in our securities subsidiaries. The gains reflected the gains recognized by our securities subsidiaries as part of their adjustments of holdings of Japanese government bonds and foreign debt securities especially when interest rates increased from late May 2013 through the summer of 2013, and increased trade flows resulting from stronger customer demand in subsequent months as interest rates declined. The gains were partially offset by ¥65.4 billion of losses on trading in Japanese government bonds in our banking subsidiaries mainly due to a reduction in Japanese government bonds in the rising interest rate environment.

Net investment securities gains (losses)

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

Net investment securities gains of ¥130.0 billion were recorded for the six months ended September 30, 2013, compared to net investment securities gains of ¥35.7 billion for the same period of the previous fiscal year. This improvement was primarily due to an increase of ¥39.5 billion in net gains on sales of marketable equity securities available for sale and a reduction of ¥112.6 billion in impairment losses on marketable equity securities available for sale, reflecting an improvement in the Japanese equity market. These positive factors were partially offset by a decrease of ¥62.0 billion in net gains on sales of debt securities available for sale. This decrease reflected lower net gains on sales of Japanese government bonds for the six months ended September 30, 2013 compared to the same period of the previous fiscal year when our banking subsidiaries took advantage of higher prices of such bonds. The decrease in net gains on sales of debt securities available for sale also reflected losses on sales by our trust banking subsidiaries of foreign debt securities because of the general increase in interest rates in the United States, particularly from late May through the summer of 2013, in anticipation of a tapering of the FRB s quantitative monetary easing program.

Net equity in earnings of equity method investees

Net equity in earnings of equity method investees for the six months ended September 30, 2013 was ¥87.2 billion, compared to net equity in earnings of equity method investees of ¥10.0 billion for the same period of the previous fiscal year. This increase reflected an increase of ¥53.2 billion in equity in earnings of Morgan Stanley as Morgan Stanley s earnings improved.

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Non-Interest Expense

The following table shows a summary of our non-interest expense for the six months ended September 30, 2012 and 2013:

	Six months ended September 30, 2012	2013
	(in billions)	
Salaries and employee benefits	¥ 460.9	¥ 496.8
Occupancy expenses net	77.5	78.6
Fees and commission expenses	100.6	111.4
Outsourcing expenses, including data processing	98.7	105.1
Depreciation of premises and equipment	46.6	49.4
Amortization of intangible assets	103.0	99.6
Impairment of intangible assets	0.2	0.1
Insurance premiums, including deposit insurance	48.8	50.4
Communications	23.6	24.9
Taxes and public charges	33.4	34.5
Other non-interest expenses	189.0	138.9
Total non-interest expense	¥ 1,182.3	¥ 1,189.7

Non-interest expense for the six months ended September 30, 2013 was ¥1,189.7 billion, an increase of ¥7.4 billion from ¥1,182.3 billion for the six months ended September 30, 2012. This increase was primarily attributable to increases in salaries and employee benefits as well as fees and commission expenses.

Salaries and employee benefits

Salaries and employee benefits for the six months ended September 30, 2013 were ¥496.8 billion, an increase of ¥35.9 billion from ¥460.9 billion for the six months ended September 30, 2012. This increase was mainly due to an increase in salaries in our foreign offices and subsidiaries, reflecting an increase in the number of employees and the depreciation of the Japanese yen, as well as an increase in performance-based bonuses in our securities subsidiaries.

Fees and commission expenses

Fees and commission expenses for the six months ended September 30, 2013 were ¥111.4 billion, an increase of ¥10.8 billion from ¥100.6 billion for the six months ended September 30, 2012. The increase included increases in transaction fees in our banking and securities subsidiaries as the volume of market transactions increased mainly due to improved economic conditions in Japan.

Other non-interest expenses

Other non-interest expenses for the six months ended September 30, 2013 were ¥138.9 billion, a decrease of ¥50.1 billion from ¥189.0 billion for the same period of the previous fiscal year. This decrease reflected the absence of realized losses from the deconsolidation of variable interest entities, or VIEs, which were recorded for the six months ended September 30, 2012.

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Income Tax Expense

The following table shows a summary of our income tax expense for the six months ended September 30, 2012 and 2013:

	Six months ended September 30, 2012	2013
	(in billions, except percentages)	
Income before income tax expense	¥ 683.6	¥ 530.4
Income tax expense	¥70.5	¥99.4
Effective income tax rate	10.3%	18.7%
Combined normal effective statutory tax rate	38.0%	38.0%

The combined normal effective statutory income tax rate was 38.0% for the six months ended September 30, 2012 and 2013.

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

For the six months ended September 30, 2012, the effective income tax rate was 10.3%, which was 27.7 percentage points lower than the combined normal effective statutory tax rate of 38.0%. This primarily reflected the liquidation of a subsidiary, whose assets and operations we took over after the liquidation, and the realization of tax benefits from the temporary differences not previously recognized as a deferred tax asset.

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

Net Income Attributable to Noncontrolling Interests

We recorded net income attributable to noncontrolling interests of ¥47.7 billion for the six months ended September 30, 2013, compared to net income attributable to noncontrolling interests of ¥17.1 billion for the six months ended September 30, 2012. This increase was mainly due to an increase in net income recorded at MUMSS, in which MUFG has a 60% economic interest, for the six months ended September 30, 2013.

Business Segment Analysis

We measure the performance of each of our business segments primarily in terms of operating profit. Operating profit and other segment information in this Report are based on the financial information prepared in accordance with Japanese GAAP as adjusted in accordance with internal management accounting rules and practices. Accordingly, the format and information are not consistent with our unaudited condensed consolidated financial statements prepared on the basis of U.S. GAAP. For example, operating profit does not reflect items such as a part of the provision for credit losses (primarily equivalent to the formula allowance under U.S. GAAP), foreign exchange gains (losses) and investment securities gains (losses). For information on a

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reconciliation of operating profit under the internal management reporting system to income before income tax expense shown on the unaudited condensed consolidated statements of income, see Note 17 to our unaudited condensed consolidated financial statements included elsewhere in this Report. We do not use information on the segments total assets to allocate our resources and assess performance. Accordingly, business segment information on total assets is not presented.

We operate our main businesses under an integrated business group system, which integrates the operations of BTMU, MUTB, MUMSS (through MUSHD), Mitsubishi UFJ NICOS and other subsidiaries in the following five areas Retail, Corporate, Trust Assets, Global, and Global Markets. Operations that are not covered by the integrated business group system are classified under Other.

The following is a brief explanation of our business segments:

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

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

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

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

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

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

Effective October 1, 2012 and April 1, 2013, in order to further streamline and integrate our managerial accounting methodologies on a group-wide basis, we made modifications to such methodologies, which mainly affected the Integrated Retail Banking Business Group and the Corporate Banking Business Group. These modifications had no impact on our total operating profit for the six months ended September 30, 2012, but affected net revenue and operating expense allocations among segments.

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Prior period business segment information included in this Report has been reclassified to enable comparison between the relevant amounts for the six months ended September 30, 2012 and 2013.

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

The following table set forth our business segment information for the six months ended September 30, 2012 and 2013:

	Integrated Retail Banking Business Group	Integrated Corporate Banking Business Group	Integrated Trust Assets Business Group	Integrated Global Business Group			Global Markets	Other	Total
				Other than UNBC	UNBC	Total			
	(in billions)								
Six months ended September 30, 2012									
Net revenue	¥ 587.8	¥ 424.5	¥ 67.0	¥ 190.8	¥ 130.8	¥ 321.6	¥ 461.5	¥ 11.7	¥ 1,874.1
Operating expenses	455.2	215.4	43.3	112.8	92.0	204.8	66.0	88.3	