MITSUBISHI UFJ FINANCIAL GROUP INC
Form 6-K
February 28, 2006

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 6-K

Report of Foreign Private Issuer

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

the Securities Exchange Act of 1934

For the month of February, 2006

Commission File Number 1-10277

MITSUBISHI UFJ FINANCIAL GROUP, INC.

(Translation of registrant s name into English)

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

Tokyo 100-8330, Japan

(Address of principal executive office)

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

Form 20-F __X__ Form 40-F _____

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

Yes _____ No __X__

SIGNATURES

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

Date: February 28, 2006

MITSUBISHI UFJ FINANCIAL GROUP, INC.

By: /s/ Ryutaro Kusama
Name: Ryutaro Kusama

Title: Chief Manager, General Affairs

Corporate Administration Division

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FINANCIAL REVIEW

Introduction

We are a bank holding company incorporated as a joint stock company (*kabushiki kaisha*) under the Commercial Code of Japan. Formed through the merger between Mitsubishi Tokyo Financial Group, Inc. and UFJ Holdings, Inc. implemented on October 1, 2005, we are the largest banking group in the world when measured by total assets. We are a holding company for The Bank of Tokyo-Mitsubishi UFJ, Ltd., Mitsubishi UFJ Trust and Banking Corporation and Mitsubishi UFJ Securities, Co., Ltd. Through our direct and indirect subsidiaries, we provide a broad range of financial services domestically in Japan and internationally to individual and corporate customers, including commercial banking, investment banking, asset management, trust and securities-related services as well as credit card and consumer financing services. The following operating and financial review relates to our operations and results for the six months ended September 30, 2004 and 2005, which are periods prior to the merger.

Information for the fiscal years ended March 31, 2003, 2004 and 2005 is derived from our audited consolidated financial statements included in our Form 20-F for the fiscal year ended March 31, 2005, as amended by the Form 20-F/A we filed on February 28, 2006.

Core Business Areas

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

The financial performance of our business segments is not measured in accordance with U.S. GAAP. The following chart illustrates the relative contributions to operating profit for the six months ended September 30, 2005 of the three core business areas and the other business areas based on our segment information:

Business Trends and Challenges

Reduction of nonperforming loans. We have been continuously working on reducing nonperforming loans. We met the guideline for the disposal of nonperforming loans, which was based on a Japanese regulation established under the program for financial revival announced by the Japanese government in October 2002. Under the program, the Financial Services Agency stated that it would strive to normalize the problems with nonperforming loans by March 31, 2005, by working with major Japanese banks to reduce their ratio of nonperforming loans to total loans by about half. The following table sets forth a summary of our nonaccrual and restructured loans, accruing loans that are contractually past due 90 days or more as to principal or interest payments and the allowance for credit losses at March 31, 2003, 2004 and 2005 as well as at September 30, 2004 and 2005:

	At March 31,			At September 30,	
	2003	2004	2005	2004	2005
	(in billions, except percentages)				
Nonaccrual loans	¥ 1,413.6	¥ 1,083.1	¥ 822.4	¥ 1,366.3	¥ 676.2
Restructured loans	1,319.0	632.4	454.2	413.9	419.7
Accruing loans contractually past due 90 days or more	20.4	15.6	10.1	11.5	13.1
Nonaccrual and restructured loans, and accruing loans contractually past due 90 days or more as a percentage of loans	5.68%	3.57%	2.52%	3.46%	2.13%
Allowance for credit losses	¥ 1,360.1	¥ 888.1	¥ 740.7	¥ 938.2	¥ 617.3
Allowance for credit losses as a percentage of loans	2.81%	1.83%	1.45%	1.81%	1.19%
Allowance for credit losses as a percentage of nonaccrual and restructured loans and accruing loans contractually past due 90 days or more	49.41%	51.30%	57.57%	52.36%	55.66%

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

Broader range of products. The recent reduction of barriers among the banking, securities and insurance businesses has enabled us to engage in businesses such as sales of annuity and investment trusts to retail banking customers, which we were not permitted to do before. We have been seeking, and will continue to seek, to increase our fees and commissions by taking advantage of the relaxation of regulations that had limited our ability to engage in various business areas.

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

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

Recent Developments

Announcement of Revitalization Plan

On February 17, 2006, we submitted a revitalization plan to the Financial Services Agency of Japan. We were required to submit the revitalization plan because of the preferred stock that we issued to the Resolution and Collection Corporation, a Japanese government entity, as part of our merger with UFJ Holdings. UFJ Holdings was previously a recipient of public funds from the Resolution and Collection Corporation in the form of a preferred stock investment.

As part of our revitalization plan, we outlined our future business strategies including our goals to achieve cost and revenue synergies by integrating the various operations previously held by MTFG and UFJ Holdings, focusing on our core businesses of retail, corporate and trust assets and ensuring system reliability by fully integrating our IT systems. As part of our revitalization plan, we stated our intent to repay the remainder of our preferred shares currently held by the Resolution and Collection Corporation by the end of the fiscal year ending March 31, 2007, subject to our operating results and other factors. We also set forth various operating targets on the basis of Japanese GAAP and other Japanese banking regulatory measures, which we aim to achieve, in the revitalization plan. Material failure to achieve the operating targets outlined in the revitalization plan could result in the following:

- we or our affiliates may be subject to administrative action from the Financial Services Agency;
- the Financial Services Agency may take steps to replace our or our bank subsidiaries senior management; or
- the Resolution and Collection Corporation may convert the preferred shares, which may make the Japanese government our largest shareholder.

Completion of Merger with UFJ Holdings

MTFG implemented the combination of our business and operations with UFJ Holdings on October 1, 2005 by consummating a statutory merger under the Commercial Code of Japan, with MTFG being the surviving entity. The terms of the merger were set forth in the February 18, 2005 integration agreement, which was subsequently amended on April 20, 2005, as well as the April 20, 2005 merger agreement that was approved at the general shareholders meetings of MTFG and UFJ Holdings.

As a result of the merger, UFJ Holdings shareholders of record as of September 30, 2005 received 0.62 shares of our common stock in exchange for each share of UFJ Holdings common stock. As a result of the merger, we issued 3,215,172.03 shares of newly issued common stock to former UFJ Holdings shareholders, representing a 49.12% increase in our common issued shares as of October 3, 2005. Additionally, holders of UFJ Holdings preferred stock received shares of our preferred stock as follows:

- Holders of class II preferred shares of UFJ Holdings: an equal number of shares of our newly issued class 8 preferred shares
- Holders of class IV preferred shares of UFJ Holdings: an equal number of shares of our newly issued class 9 preferred shares

Holders of class V preferred shares of UFJ Holdings: an equal number of shares of our newly issued class 10 preferred shares

Holders of class VI preferred shares of UFJ Holdings: an equal number of shares of our newly issued class 11 preferred shares

Holders of class VII preferred shares of UFJ Holdings: an equal number of shares of our newly issued class 12 preferred shares

Establishment of Private-Banking Joint Venture

In September 2005, we announced that we have entered into a definitive agreement with Merrill Lynch & Co., Inc. and Merrill Lynch Japan Securities Co., Ltd. to establish a private banking and wealth management joint venture in Japan. The joint venture will have a capitalization of ¥10 billion and operate as a securities company serving high-net-worth individuals as well as small-and mid-size institutions in Japan. Bank of Tokyo-Mitsubishi UFJ and Mitsubishi UFJ Securities will own 40% and 10%, respectively, of the voting common shares of the joint venture company, and Merrill Lynch will own the remaining 50%. The joint venture, which is subject to normal regulatory approvals, is expected to commence operations in the first half of 2006.

Partial Redemption of Class 8 and Class 12 Preferred Shares and Share Repurchase

In December 2005, we repurchased 117,969 common shares immediately after they were issued upon the conversion of 51,900 class 8 preferred shares and 24,700 class 12 preferred shares by the Resolution and Collection Corporation. The purchase price was ¥1,630,000 per common share.

Partial Redemption of Class 8 and Class 9 Preferred Shares and Share Repurchase

In October 2005, we repurchased 256,159 common shares immediately after they were issued upon the conversion of 69,300 class 8 preferred shares and 57,850 class 9 preferred shares by the Resolution and Collection Corporation. The purchase price was ¥1,400,000 per common share.

Mitsubishi Securities becomes a Directly-Held Subsidiary

On July 1, 2005, we made Mitsubishi Securities a directly-held subsidiary by acquiring all of the shares of Mitsubishi Securities common stock then held by Bank of Tokyo-Mitsubishi and Mitsubishi Trust Bank. As a result of this transfer of shares within our group, after the merger between us and UFJ Holdings, MUFG held Mitsubishi UFJ Securities common stock representing 63% of the voting rights as of January 4, 2006. Since the share transfer is among our group companies, the transfer did not impact our consolidated financial statements.

Strategic Business and Capital Alliance with Norinchukin Bank

In November 2005, we entered into a definitive agreement regarding a strategic business and capital alliance with Norinchukin Bank. As part of this alliance, we will provide specific infrastructure and know-how to Norinchukin Bank while gaining access to Norinchukin Bank s extensive customer base and operational network. The alliance will enable us to strengthen our retail business and enhance our revenue base by increasing the number of credit card customers. In December 2005, Norinchukin Bank purchased 17,700 shares of class 8 preferred shares and 22,400 shares of class 12 preferred shares of MUFG from the Resolution and Collection Corporation for approximately ¥100 billion. Norinchukin Bank also purchased 50,000,000 shares of First Series Class I Stock of UFJ NICOS Co., Ltd., a consolidated subsidiary of Bank of Tokyo Mitsubishi UFJ that was formed by the merger of Nippon Shinpan Co., Ltd. and UFJ Card Co., Ltd. in October 2005, for approximately ¥100 billion. The parties will continue to discuss the details of the alliance, and will enter into supplemental agreements as necessary.

Transfer to the Japanese Government of the Substitutional Portion of Employee Pension Fund Plans

The substitutional portion of employee pension fund liabilities of Bank of Tokyo-Mitsubishi were transferred to the Japanese government in March 2005. Since the transfer was completed after the measurement date in the fiscal year ended March 31, 2005, the impact of the transfer resulted in an increase in pre-tax income of ¥38.5 billion for the six months ended September 30, 2005. This consists of a ¥108.5 billion increase in non-interest income under a government grant for the transfer of the substitutional portion of employees pension fund plans and a ¥70.0 billion increase in non-interest expense under salaries and employee benefits.

Basic agreement on the merger of UFJ NICOS and DC Card

On January 26, 2006, we, UFJ NICOS and DC Card, our credit card subsidiaries, and Bank of Tokyo-Mitsubishi UFJ, the major shareholder of UFJ NICOS and DC Card, entered into a basic agreement on the merger of UFJ NICOS and DC Card. The merger is planned to take place on April 1, 2007 with UFJ NICOS being the surviving entity. The objective of the merger is to combine UFJ NICOS large and extensive network, reputation and product development capability with DC Card s co-branding relationships and acceptance of regional cards.

Business Environment

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

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

With respect to the economic environment between April 2005 and January 2006, overseas economies such as the United States and China showed signs of steady economic growth. Meanwhile, the Japanese economy started off slowly, as exports were sluggish due to a decline in foreign demand, which was caused by an adjustment in inventory mainly in the IT sector. However, increases in domestic capital expenditures and the steady rise in private consumption continued during this period, and with the rise in exports in the summer, the Japanese economy moved toward recovery and the possible end of deflation.

Regarding the financial environment between April 2005 and January 2006 in the United States, the target for the federal funds rate was raised 6 times, from 2.75% to 4.25%. In the EU, the European Central Bank s policy rate was raised from 2% to 2.25% in December 2005. However, in Japan, the Bank of Japan continued its current easy monetary policy and kept short-term interest rates at near zero percent. Regarding long-term Japanese interest rates, the yield on ten-year Japanese government bonds was around 1.3% in April 2005. Long-term Japanese interest rates gradually rose, to around 1.6% in September 2005. As of mid-February 2006, the yield was around 1.5%.

The following chart shows the interest rate trends in Japan since January 2000:

Source: Bank of Japan

In the foreign exchange markets, the yen depreciated against the US dollar during the six months ended September 30, 2005, due to expectations of the widening in interest rate differentials between the yen and the US dollar. The Japanese yen/US dollar foreign exchange rate was around ¥107 to $1 at the beginning of April 2005. The yen depreciated against the US dollar to around ¥113 at the end of September 2005. As of mid-February 2006, the Japanese yen/US dollar foreign exchange rate was around ¥117.

The Japanese stock markets generally rose during the six months ended September 30, 2005. The Nikkei Stock Average, which is an average of 225 blue chip stocks listed on the Tokyo Stock Exchange, rose approximately 16.3%, from ¥11,668.95 at March 31, 2005 to ¥13,574.30 at September 30, 2005. The Tokyo Stock Price Index, or TOPIX, a composite index of all stocks listed on the First Section of the Tokyo Stock Exchange, rose approximately 19.5%, from 1,182.18 at March 31, 2005 to 1,412.28 at September 30, 2005. As of mid-February 2006, the Nikkei Stock Average and the TOPIX have risen further, trading around ¥16,000 and 1,700 respectively.

Land prices in Japan generally continued to decline, but the extent of the decline was smaller than the previous years. Based on the average government-set official land prices as of January 1, 2005, nationwide residential land prices declined 4.6%, compared to a 5.7% decline in the previous fiscal year, and nationwide land prices for commercial properties declined 5.6%, compared to a 7.4% decline in the previous fiscal year. According to data as of July 2005, land prices in central Tokyo increased for the first time in 15 years compared to the previous year. Land prices in other parts of Japan continued to decline but the decline was smaller than the previous year.

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

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

Critical Accounting Estimates

Our financial statements are prepared in accordance with US GAAP. Many of the accounting policies require management to make difficult, complex or subjective judgments regarding the valuation of assets and liabilities. The accounting policies are fundamental to understanding our operating and financial review and prospects. Critical accounting estimates include allowance for credit losses, impairment of investment securities, valuation of deferred tax assets, accounting for goodwill, accrued severance indemnities and pension liabilities, and valuation of financial instruments with no available market prices. For a further discussion of our critical accounting estimates, see our annual report on Form 20-F for the fiscal year ended March 31, 2005 as amended by the Form 20-F/A filed on February 28, 2006.

Accounting Changes

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

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

Subsequent to the issuance of FIN No. 46R, the Chief Accountant of the U.S. Securities and Exchange Commission, or SEC, stated the SEC staff s position in a letter to the American Institute of Certified Public Accountants, or AICPA, dated March 3, 2004, that the SEC staff does not object to the conclusion that FIN No. 46R should not be required to be applied at a date earlier than the original FIN No. 46 and that foreign private issuers would be required to apply FIN No. 46R at various dates depending on the entity s year-end and the frequency of interim reporting. In accordance with the letter, we adopted FIN No. 46R on April 1, 2004, except for its variable interests in certain investment companies, for which the effective date of FIN No. 46R is deferred. Under FIN No. 46R, any difference between the net amount added to the balance sheet and the amount of any previously recognized interest in the VIE is to be recognized as a cumulative effect of a change in accounting principle. The cumulative effect of the change in accounting principle was to decrease net income by ¥977 million. See note 12 to our condensed consolidated financial statements for further discussion of VIEs in which we hold variable interests.

Accounting for Certain Loans and Debt Securities Acquired in a Transfer In December 2003, the AICPA issued Statement of Position 03-3, Accounting for Certain Loans or Debt Securities Acquired in a

Transfer, or SOP 03-3 which supersedes AICPA Practice Bulletin 6, Amortization of Discounts on Certain Acquired Loans and addresses accounting for differences between contractual cash flows and cash flows expected to be collected from an investor s initial investment in loans or debt securities acquired in a transfer if those differences are attributable, at least, in part, to credit quality. SOP 03-3 requires acquired impaired loans for which it is probable that the investor will be unable to collect all contractually required payments receivable to be recorded at the present value of amounts expected to be received and prohibits carrying over or creation of valuation allowances in the initial accounting for these loans. SOP 03-3 also limits accretable yield to the excess of the investor s estimate of undiscounted cash flows over the investor s initial investment in the loan and prohibits the recognition of the non-accretable difference. Subsequent increases in cash flows expected to be collected generally should be recognized prospectively through adjustment of the loan s yield over its remaining life while any decreases in such cash flows should be recognized as impairments. SOP 03-3 also provides guidance with regard to presentation and disclosures.

SOP 03-3 is effective for loans and debt securities acquired in fiscal years beginning after December 15, 2004. The initial adoption of SOP 03-3 did not have a material impact on our financial position and results of operations for the six month ended September 30, 2005. We have not completed the study of what effect SOP 03-3 will have on our year-end financial position and annual results of operations for loans and debt securities acquired subsequent to September 30, 2005, including those acquired due to our merger.

Recently Issued Accounting Pronouncements

Share-Based Payment In December 2004, the FASB issued Statement of Financial Accounting Standards or SFAS No. 123 (revised 2004), Share-Based Payment, or SFAS No. 123R. SFAS No. 123R replaces SFAS No. 123, Accounting for Stock-Based Compensation, and supersedes Accounting Principles Board Opinion, or APB, No. 25, Accounting for Stock Issued to Employees. SFAS No. 123 preferred a fair-value-based method of accounting for share-based payment transactions with employees, but it permitted the option of continuing to apply the guidance of using intrinsic-value-based measurement method in APB No. 25, as long as the footnotes to the financial statements disclosed what net income would have been had the preferable fair-value-based method been used. SFAS No. 123R establishes fair value as the measurement objective in accounting for share-based payment arrangements and requires a fair-value-based measurement method in accounting for share-based payment transactions with employees. As a result, the cost resulting from all share-based payment transactions shall be recognized in the financial statements. SFAS No. 123R is effective as of the beginning of the first interim and annual reporting period beginning after June 15, 2005. See note 14 to our consolidated financial statements for the pro forma information as if the fair value based method had been applied to all awards in accordance with SFAS No.123.

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

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

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

The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments In November 3, 2005, the FASB staff issued FASB Staff Position or FSP on Statements 115 and 124 (FSP FAS 115-1 and FAS 124-1) The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments. This FSP addresses the determination as to when an investment is considered impaired, whether that impairment is other than temporary, and the measurement of an impairment loss. This FSP also includes accounting considerations subsequent to the recognition of an other-than-temporary impairment and requires certain disclosures about unrealized losses that have not been recognized as other-than-temporary impairments.

The guidance in this FSP is applicable for certain investments such as debt and equity securities that are within the scope of Statement 115 and equity securities that are not subject to the scope of Statement 115 and not accounted for under the equity method pursuant to APB No. 18, The Equity Method of Accounting for Investment in Common Stock, and related interpretations.

This FSP nullifies the requirements of paragraphs 10-18 of the FASB Emerging Issues Task Force, or the EITF, Issue 03-1, The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments, and supersedes EITF Topic No. D-44, Recognition of Other-Than-Temporary Impairment upon the Planned Sale of a Security Whose Cost Exceeds Fair Value. This FSP carries forward the requirements of paragraphs 8 and 9 of EITF Issue 03-1 with respect to cost-method investments, and carries forward the disclosure requirements included in paragraphs 21 and 22 of EITF Issue 03-1. Also the guidance in this FSP amends FASB Statements No. 115, Accounting for Certain Investments in Debt and Equity Securities, and No. 124, Accounting for Certain Investments Held by Not-for-Profit Organizations, and APB No. 18. The guidance in this FSP shall be applied to reporting periods beginning after December 15, 2005, with earlier application permitted. We have not completed the study of what effect the FSP will have on our financial position and results of operations.

Accounting for Certain Hybrid Financial Instruments In February 2006, the FASB issued SFAS No. 155, Accounting for Certain Hybrid Financial Instruments. This Statement amends SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, and SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities and resolves issues addressed in Statement 133 Implementation Issue No. D1, Application of Statement 133 to Beneficial Interests in Securitized Financial Assets.

SFAS No. 155 permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation and clarifies which interest-only strips and principal-only strips are not subject to the requirements of SFAS No. 133. SFAS No. 155 establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation. SFAS No. 155 also clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives and amends SFAS No. 140 to eliminate the prohibition on a qualifying special purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument.

SFAS No. 155 is effective for all financial instruments acquired or issued after the beginning of an entity s first fiscal year that begins after September 15, 2006. We have not completed the study of what effect SFAS No. 155 will have on our financial position and results of operations.

Results of Operations

The following table sets forth a summary of our results of operations for the six months ended September 30, 2004 and 2005:

	Six months ended September 30,	
	2004	**2005**
	(in billions)	
Interest income	¥ 695.5	¥ 813.5
Interest expense	215.6	326.5
Net interest income	479.9	487.0
Provision (credit) for credit losses	167.1	(82.9)
Non-interest income	427.4	570.5
Non-interest expense	538.4	680.0
Income before income tax expense and cumulative effect of a change in accounting principle	201.8	460.4
Income tax expense	69.4	157.9
Income before cumulative effect of a change in accounting principle	132.4	302.5
Cumulative effect of a change in accounting principle, net of tax	(1.0)	
Net income	¥ 131.4	¥ 302.5

Net income for the six months ended September 30, 2005 was ¥302.5 billion, an increase of ¥171.1 billion from ¥131.4 billion for the six months ended September 30, 2004. Our basic earnings per common share (net income available to common shareholders) for the six months ended September 30, 2005 was ¥45,903.29, an increase of ¥26,202.83, from ¥19,700.46 for the six months ended September 30, 2004. Income before income taxes and cumulative effect of a change in accounting principle for the six months ended September 30, 2005 was ¥460.4 billion, an increase of ¥258.6 billion from ¥201.8 billion for the six months ended September 30, 2004. These changes in our operating results were primarily attributable to the following:

For the six months ended September 30, 2005, a reversal of the allowance for credit losses of ¥82.9 billion was recorded, as compared with a provision for credit losses of ¥167.1 billion recorded for the six months ended September 30, 2004. The reversal in 2005 was due to an improvement, in the condition of many borrowers as a result of the general improvement in the Japanese economy and some borrowers successfully implementing their business revitalization plans.

Non-interest income increased ¥143.1 billion from ¥427.4 billion for the six months ended September 30, 2004 to ¥570.5 billion for the six months ended September 30, 2005. This increase was primarily due to the increase of ¥108.5 billion in income from the government grant for the transfer of the substitutional portion of employee pension fund liabilities and an increase in trading account profits of ¥77.7 billion. The increase in trading account profits was mainly due to trading of bonds at Mitsubishi Securities and from equity related investment trusts held by Bank of Tokyo-Mitsubishi. The increase in fees and commissions also contributed to the increase in non-interest income.

Non-interest expenses increased ¥141.6 billion from ¥538.4 billion for the six months ended September 30, 2004 to ¥680.0 billion for the six months ended September 30, 2005. This increase was primarily due to a ¥79.5 billion increase in salaries and employee benefits, which primarily reflected in recognition of ¥71.2 billion of unrecognized actuarial loss due to the transfer to the Japanese government of the substitutional portion of employees pension fund plans.

Net Interest Income

The following is a summary of the interest rate spread for the six months ended September 30, 2004 and 2005:

	Six months ended September 30,			
	2004		2005	
	Average balance	Average rate (Annualized)	Average balance	Average rate (Annualized)
	(in billions, except percentages)			
Interest-earning assets:				
Domestic	¥ 74,211.8	1.01%	¥ 75,789.1	0.97%
Foreign	22,648.3	2.81	24,831.9	3.58
Total	¥ 96,860.1	1.43%	¥ 100,621.0	1.61%
Financed by:				
Interest-bearing funds:				
Domestic	¥ 75,097.7	0.32%	¥ 73,943.5	0.37%
Foreign	14,474.4	1.32	15,691.0	2.38
Total	89,572.1	0.48	89,634.5	0.73
Non-interest-bearing funds	7,288.0		10,986.5	
Total	¥ 96,860.1	0.44%	¥ 100,621.0	0.64%
Spread on:				
Interest-bearing funds		0.95%		0.88%
Total funds		0.99%		0.97%

Net interest income for the six months ended September 30, 2005 was ¥487.0 billion, an increase of ¥7.1 billion from ¥479.9 billion for the six months ended September 30, 2004. This increase was due primarily to an increase in interest-earning assets offset by an increase in non-interest bearing funds.

The average interest rate spread decreased by 7 basis points from 0.95% for the six months ended September 30, 2004 to 0.88% for the six months ended September 30, 2005. This decline was primarily due to a decline in the average rate for domestic loans, which was due to increased competition both in lending to large corporations and in retail housing loans. The average rate of both foreign interest-earning assets and foreign interest-bearing liabilities increased during the six months ended September 30, 2005 due to the general rise in foreign market interest rates.

Average interest-earning assets for the six months ended September 30, 2005 were ¥100,621.0 billion, an increase of ¥3,760.9 billion from ¥96,860.1 billion for the six months ended September 30, 2004. The increase was primarily attributable to an increase of ¥1,287.4 billion in domestic investment securities, which reflected an increase in our holdings of short-term Japanese government bonds, an increase in our equity securities holdings due to the general rise in equity prices and an increase of ¥1,326.2 billion in foreign loans, which mainly reflected the depreciation of the Japanese yen against the US dollar during the six months ended September 30, 2005, as most of those loans were denominated in US dollars. These increases were partially offset by a decrease of ¥307.6 billion in domestic loans.

Average interest-bearing liabilities were ¥89,634.5 billion for the six months ended September 30, 2005, which is an increase of ¥62.4 billion compared to ¥89,572.1 billion for the six months ended September 30, 2004. While domestic average interest-bearing liabilities decreased due to a decrease in domestic deposits, foreign average interest-bearing liabilities increased mainly due to an increase in foreign deposits in US dollars, reflecting the depreciation of the Japanese yen against the US dollar during the six months ended September 30, 2005.

Provision (Credit) for Credit Losses

Provision (credit) for credit losses are charged to operations to maintain the allowance for credit losses at a level deemed appropriate by management.

For the six months ended September 30, 2005, a reversal of the allowance for credit losses of ¥82.9 billion was recorded, as compared with a provision for credit losses of ¥167.1 billion recorded for the six months ended September 30, 2004. The reversal in the six months ended September 30, 2005 was due to an improvement in the condition of many borrowers as a result of the general improvement in the Japanese economy and some borrowers successfully implementing their business revitalization plans.

Non-Interest Income

The following table is a summary of our non-interest income for the six months ended September 30, 2004 and 2005:

	Six months ended September 30,