MITSUBISHI UFJ FINANCIAL GROUP INC
Form 6-K
November 29, 2017

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 November 2017

Commission File No. 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 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 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):

THIS REPORT ON FORM 6-K SHALL BE DEEMED TO BE INCORPORATED BY REFERENCE IN THE REGISTRATION STATEMENT ON FORM F-3 (NO. 333-209455) OF MITSUBISHI UFJ FINANCIAL GROUP, INC. AND TO BE A PART THEREOF FROM THE DATE ON WHICH THIS REPORT IS FURNISHED TO THE U.S. SECURITIES AND EXCHANGE COMMISSION TO THE EXTENT NOT SUPERSEDED BY DOCUMENTS OR REPORTS SUBSEQUENTLY FILED WITH OR FURNISHED TO THE U.S. SECURITIES AND EXCHANGE COMMISSION.

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: November 29, 2017

Mitsubishi UFJ Financial Group, Inc.

By:	/s/ Zenta Morokawa
Name:	Zenta Morokawa
Title:	Chief Manager
	Documentation & Corporate Secretary Department Corporate Administration Division

English Translation of Excerpts from Quarterly Securities Report Filed in Japan

This document is an English translation of selected information included in the Quarterly Securities Report for the quarter ended September 30, 2017 filed by Mitsubishi UFJ Financial Group, Inc. (MUFG or we) with the Kanto Local Financial Bureau, the Ministry of Finance of Japan, on November 29, 2017 (the Quarterly Securities Report). An English translation of certain information included in the Quarterly Securities Report was previously submitted in a report on Form 6-K dated November 14, 2017. Accordingly, this document should be read together with the previously submitted report.

The Quarterly Securities Report has been prepared and filed in Japan in accordance with applicable Japanese disclosure requirements as well as generally accepted accounting principles in Japan (J-GAAP). There are significant differences between J-GAAP and generally accepted accounting principles in the United States. In addition, the Quarterly Securities Report is intended to update prior disclosures filed by MUFG in Japan and discusses selected recent developments in the context of those prior disclosures. Accordingly, the Quarterly Securities Report may not contain all of the information that is important to you. For a more complete discussion of the background to information provided in the Quarterly Securities Report disclosure, please see our annual report on Form 20-F for the fiscal year ended March 31, 2017 and the other reports filed with or submitted to the U.S. Securities and Exchange Commission by MUFG.

Risks Relating to Our Business

We describe below some major developments and changes to update our risk factor disclosure previously included in our annual securities report for the fiscal year ended March 31, 2017 filed in Japan on June 29, 2017. The updates below are not a complete update of the prior disclosure, but instead intended to explain only the significant developments and changes that we believe may have a material impact on the risks to our business and other risks. The discussion below contains forward-looking statements, which, unless specifically described otherwise, reflect our understanding as of the date of filing of the Quarterly Securities Report.

The numbering of the subheading of the risk disclosure below corresponds to the numbering of the subheading of the same risk disclosure in Risks Relating to Our Business in our most recent annual securities report filed in Japan.

19. Risks of receiving potential claims or sanctions regarding inappropriate or illegal practices or other conduct from our customers or regulatory authorities

We conduct our business subject to ongoing regulations and associated compliance risks (including the effects of changes in laws, regulations, policies and voluntary codes of practice in Japan and other markets where we operate). In the current regulatory environment, we are subject to various regulatory inquiries or investigations from time to time in connection with various aspects of our business and operations. Our compliance risk management systems and programs may not be fully effective in preventing all violations of laws, regulations and rules.

Our failure to comply with all applicable laws and regulations, including those relating to money laundering, financial crimes, and other inappropriate or illegal transactions, may lead to penalties, fines, public reprimands, damage to reputation, issuance of business improvement and other administrative orders, enforced suspension of operations or, in extreme cases, withdrawal of authorization to operate. These consequences may harm our reputation resulting in loss of customer or market confidence in us or otherwise in deterioration of our business environment, and may adversely affect our business and results of operations. Our ability to obtain regulatory approvals for future strategic initiatives may also be adversely affected.

In December 2012, BTMU agreed to make a payment to the Office of Foreign Assets Control of the U.S. Department of the Treasury, or OFAC, to settle potential civil liability for apparent violations of certain U.S. sanctions regulations from 2006 to 2007. In addition, in June 2013, BTMU entered into a consent agreement with the New York State Department of Financial Services, or NYDFS, to resolve issues relating to certain U.S. dollar payments that were routed through New York from 2002 to 2007. Under the terms of the agreement with NYDFS, BTMU agreed to make a civil monetary payment to NYDFS and retain an independent consultant to conduct a compliance review of the relevant controls and related matters in BTMU s current operations. In addition, in November 2014, BTMU entered into a consent agreement with NYDFS to resolve issues relating to instructions given to PricewaterhouseCoopers LLP, or PwC, and the disclosures made to NYDFS in connection with BTMU s 2007 and 2008 voluntary investigation of BTMU s U.S. dollar clearing activity toward countries under U.S. economic sanctions. BTMU had hired PwC to conduct a historical transaction review report in connection with that investigation. Under the terms of the agreement with NYDFS, BTMU made a payment of the stipulated amount to NYDFS, and agreed to take actions on persons involved in the matter at that time, relocate its U.S. BSA/AML and OFAC sanctions compliance programs to New York, and extend, if regarded as necessary by NYDFS, the period during which an independent consultant is responsible for assessing BTMU s internal controls regarding compliance with applicable laws and regulations related to U.S. economic sanctions. On November 9, 2017, BTMU entered into a Stipulation and Consent to the Issuance of a Consent Order with the U.S. Office of the Comptroller of the Currency, or OCC, under which BTMU agreed to the entry by the OCC of a Consent Order that includes remedial terms and conditions that are substantively the same as those included in the consent agreements that BTMU had reached with NYDFS in June 2013 and November 2014. This Consent Order, which the OCC executed, enables the OCC to supervise BTMU s plans to enhance its internal controls and compliance program relating to OFAC sanctions requirements. The Stipulation and Consent with the OCC followed MUFG s conversion of its U.S. Branches and Agencies of BTMU and MUTB, including its BTMU New York Branch, from state-licensed branches and agencies under the supervision of state regulatory agencies, including NYDFS, to federally licensed branches and agencies under the supervision of the OCC. BTMU is having continuing discussions on these and related issues with relevant regulators, and is undertaking necessary actions relating to these matters. In addition, BTMU is currently engaged in litigation with NYDFS with regard to the conversion of its New York Branch license. These developments or other similar events may result in additional regulatory actions against us or agreements to make significant settlement payments.

We have received requests and subpoenas for information from government agencies in some jurisdictions that are conducting investigations into past submissions made by panel members, including us, to the bodies that set various interbank benchmark rates as well as investigations into foreign exchange related practices of global financial institutions. We are cooperating with these investigations and have been conducting an internal investigation among other things. In connection with these matters, we and other panel members and global financial institutions have been named as defendants in a number of civil lawsuits, including putative class actions, in the United States. These developments or other similar events may expose us to significant adverse financial and other consequences.

Additional Japanese GAAP Financial Information for the six months ended September 30, 2017

Consolidated Statements of Cash Flows

		(in millions of yen)
	For the six months ended September 30, 2016	For the six months ended September 30, 2017
Cash flows from operating activities:		
Profits before income taxes	738,440	868,377
Depreciation and amortization	150,111	158,598
Impairment losses	4,069	22,597
Amortization of goodwill	7,427	8,519
Equity in losses (gains) of equity method investees	(113,940)	(135,674)
Increase (decrease) in allowance for credit losses	(102,259)	(114,309)
Increase (decrease) in reserve for bonuses	(15,375)	(12,975)
Increase (decrease) in reserve for bonuses to directors	(139)	(327)
Increase (decrease) in reserve for stock payment	1,153	152
Decrease (increase) in net defined benefit assets	(51,275)	(80,612)
Increase (decrease) in net defined benefit liabilities	2,919	8
Increase (decrease) in reserve for retirement benefits to directors	(145)	(186)
Increase (decrease) in reserve for loyalty award credits	2,075	2,049
Increase (decrease) in reserve for contingent losses	(1,180)	(22,020)
Interest income recognized on statement of income	(1,352,690)	(1,533,164)
Interest expenses recognized on statement of income	377,622	559,557
Losses (gains) on securities	(136,713)	(188,470)
Losses (gains) on money held in trust	5,047	5,356
Foreign exchange losses (gains)	2,766,965	(499,690)
Losses (gains) on sales of fixed assets	(3,128)	2,230
Net decrease (increase) in trading assets	(5,848,778)	2,338,325
Net increase (decrease) in trading liabilities	5,062,813	(3,594,083)
Adjustment of unsettled trading accounts	221,891	594,190
Net decrease (increase) in loans and bills discounted	6,637,682	(39,655)
Net increase (decrease) in deposits	3,084,635	1,466,248
Net increase (decrease) in negotiable certificates of deposit	(2,693,181)	424,168
Net increase (decrease) in borrowed money (excluding subordinated borrowings)	1,506,188	1,179,050
Net decrease (increase) in due from banks (excluding cash equivalents)	793,912	(969,700)
Net decrease (increase) in call loans and bills bought and others	1,944,582	1,810,988
Net decrease (increase) in receivables under securities borrowing transactions	(1,066,799)	1,160,053
Net increase (decrease) in call money and bills sold and others	421,432	1,941,965
Net increase (decrease) in commercial papers	(726,809)	419,168
Net increase (decrease) in payables under securities lending transactions	1,769,931	(749,951)
Net decrease (increase) in foreign exchanges (assets)	(240,411)	(7,508)
Net increase (decrease) in foreign exchanges (liabilities)	(341,856)	66,493
Net increase (decrease) in short-term bonds payable	231,506	13,600
	(16,696)	244,674

Net increase (decrease) in issuance and redemption of unsubordinated bonds payable		
Net increase (decrease) in due to trust accounts	(5,194,744)	(399,598)
Interest income (cash basis)	1,465,647	1,565,981
Interest expenses (cash basis)	(378,395)	(542,327)
Others	(253,108)	(1,282,058)
Sub-total	8,658,426	4,680,042
Income taxes	(207,009)	(162,636)
Refund of income taxes	15,463	15,863
Net cash provided by (used in) operating activities	8,466,881	4,533,270

	For the six months ended September 30, 2016	(in millions of yen) For the six months ended September 30, 2017
Cash flows from investing activities:		
Purchases of securities	(24,801,941)	(36,581,978)
Proceeds from sales of securities	14,119,365	19,471,073
Proceeds from redemption of securities	12,261,165	18,116,564
Payments for increase in money held in trust	(406,347)	(299,828)
Proceeds from decrease in money held in trust	349,662	168,197
Purchases of tangible fixed assets	(62,932)	(71,562)
Purchases of intangible fixed assets	(117,374)	(116,475)
Proceeds from sales of tangible fixed assets	12,285	4,011
Proceeds from sales of intangible fixed assets	2,882	700
Payments for acquisition of subsidiaries equity affecting the scope of consolidation	(4,153)	(20)
Proceeds from sales of subsidiaries equity affecting the scope of consolidation	2,761	
Others	(686)	(1,374)
Net cash provided by (used in) investing activities	1,354,688	689,305
Cash flows from financing activities:		
Proceeds from subordinated borrowings	31,000	23,000
Repayments of subordinated borrowings	(36,500)	(37,985)
Proceeds from issuance of subordinated bonds payable and bonds with warrants	254,687	424,461
Payments for redemption of subordinated bonds payable and bonds with warrants	(252,037)	(188,482)
Proceeds from issuance of common stock to non-controlling shareholders	204	2,012
Repayments to non-controlling shareholders		(16)
Payments for redemption of preferred securities	(330,560)	
Dividend paid by MUFG	(124,103)	(121,163)
Dividend paid by subsidiaries to non-controlling shareholders	(45,425)	(19,594)
Purchases of treasury stock	(109,752)	(101,027)
Proceeds from sales of treasury stock	3	2,196
Payments for purchases of subsidiaries equity not affecting the scope of consolidation		(318)
Proceeds from sales of subsidiaries equity not affecting the scope of consolidation	0	0
Others	4	0
Net cash provided by (used in) financing activities	(612,478)	(16,918)
Effect of foreign exchange rate changes on cash and cash equivalents	(248,942)	(25,549)
Net increase (decrease) in cash and cash equivalents	8,960,147	5,180,108
Cash and cash equivalents at the beginning of the period	18,763,856	33,968,391

Cash and cash equivalents at the end of the period	27,724,004	39,148,500

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Additional Japanese GAAP Financial Information for the six months ended September 30, 2017

1. Significant Accounting Policies Applied to the Semi-Annual Consolidated Financial Statements

I. Scope of consolidation

(1) Number of consolidated subsidiaries: 208
Principal companies:

The Bank of Tokyo-Mitsubishi UFJ, Ltd.	Mitsubishi UFJ Trust and Banking Corporation
Mitsubishi UFJ Securities Holdings Co., Ltd.	Mitsubishi UFJ NICOS Co., Ltd.
ACOM CO., LTD.	

(a) Changes in the scope of consolidation in the six months ended September 30, 2017
ACOM CONSUMER FINANCE CORPORATION and another company were newly included in the scope of consolidation due to new establishment or other reasons. In addition, MUFG Capital Finance 4 Limited and six other companies were excluded from the scope of consolidation due to liquidation or other reasons.

(2) Non-consolidated subsidiaries: None

(3) Entities not regarded as subsidiaries even though Mitsubishi UFJ Financial Group, Inc. (MUFG) owns the majority of voting rights:
Hygeia Co., Ltd.

OiDE CapiSEA, Inc.

OiDE Adjubilee, Inc.

(a) Reasons for excluding from the scope of consolidation
These entities were not treated as subsidiaries because they were established as property management agents for land trust projects without any intent to control, or because MUFG s consolidated venture capital subsidiaries owned the majority of voting rights primarily to benefit from the appreciation of their investments resulting from growth of the investees businesses without any intent to control.

II. Application of the equity method

(1) Number of non-consolidated subsidiaries accounted for under the equity method: None

(2) Number of equity method affiliates: 55

Principal companies:

Mitsubishi UFJ Lease & Finance Company Limited

Morgan Stanley

(a) Changes in the scope of application of the equity method in the six months ended September 30, 2017

BOT LEASE MEXICO S.A. DE C.V. and another company were newly included in the scope of application of the equity method due to new establishment or other reasons. In addition, Aberdeen Asset Management PLC and four other companies were excluded from the scope of application of the equity method due to decreases in the ratios of voting rights held by MUFG following share exchange transactions or for other reasons.

(3) Number of non-consolidated subsidiaries not accounted for under the equity method: None

(4) Number of affiliates not accounted for under the equity method: None

(5) Entities not regarded as affiliates in which MUFG owns 20% to 50% of their voting rights

Hirosaki Co., Ltd.

EDP Corporation

ISLE Co., Ltd.

AKITAYA Co., Ltd.

Sanriku Resort Co,. LTD

Fun Place Co., Ltd.

Shonai Paradiso Co,. LTD

(a) Reasons for excluding from the scope of affiliates

These entities were not regarded as affiliates because MUFG s consolidated venture capital subsidiaries owned 20% to 50% of voting rights primarily to benefit from the appreciation of their investments resulting from growth or restructuring of the investees businesses without any intent to control.

III. Semi-annual balance sheet dates of consolidated subsidiaries

(1) The semi-annual balance sheet dates of consolidated subsidiaries were as follows:

The end of February:	1	subsidiary
The end of April:	1	subsidiary
The end of June:	129	subsidiaries
July 24:	9	subsidiaries
The end of September:	68	subsidiaries

(2) A subsidiary whose balance sheet date is the end of February was consolidated based on its preliminary financial statements as of the end of August.

A subsidiary whose balance sheet date is the end of April was consolidated based on its preliminary financial statements as of the end of July.

The remaining subsidiaries were consolidated based on their financial statements as of their respective balance sheet dates.

Adjustments were made to the consolidated financial statements to reflect significant transactions that occurred between the balance sheet dates of the subsidiaries and the consolidated balance sheet date.

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IV. Accounting policies

(1) Trading assets and Trading liabilities; Trading income and expenses

Transactions involving short-term fluctuations or arbitrage opportunities in interest rates, currency exchange rates, market prices of financial instruments or other market indices (trading purposes) are presented in Trading assets and Trading liabilities on the consolidated balance sheet on a trade-date basis, and gains and losses from trading transactions (interest and dividends, gains or losses on sales and gains or losses on valuation) are presented in Trading income and Trading expenses on the consolidated statement of income.

Trading assets and trading liabilities are stated at their fair values on the consolidated balance sheet date.

(2) Securities

(a) Debt securities being held to maturity are stated at amortized cost (using the straight-line method) computed using the moving-average method. Available-for-sale securities are primarily stated at their quoted market prices on the consolidated balance sheet date (cost of securities sold is calculated primarily using the moving-average method), and available-for-sale securities whose fair value cannot be reliably determined are stated at acquisition costs computed using the moving-average method.

Net unrealized gains (losses) on available-for-sale securities are included directly in net assets, net of applicable income taxes, except in the case of application of the fair value hedge accounting method, in which the change in fair value recognized is recorded in current earnings.

(b) Securities included in trust assets in money held in trust are accounted for under the same basis as noted above in Notes (1) and (2)(a).

Net unrealized gains (losses) on securities in money held in trust, which are not held for trading purposes or held to maturity, are included directly in net assets, net of applicable income taxes.

(3) Derivatives

Derivative transactions (excluding those for trading purposes) are calculated primarily at fair value.

(4) Depreciation and amortization of fixed assets

(a) Tangible fixed assets (excluding lease assets)

Depreciation of tangible fixed assets of MUFG and its domestic consolidated banking subsidiaries and trust banking subsidiaries is computed using the declining-balance method, and is recorded based on the semi-annual period allocation of the estimated depreciation amount for the full year computed using the declining-balance method over the estimated useful lives of the assets. The useful lives are primarily estimated as follows:

Buildings: 15 to 50 years

Equipment: 2 to 20 years

Depreciation of tangible fixed assets of other consolidated subsidiaries is computed primarily using the straight-line method based on their estimated useful lives.

(b) Intangible fixed assets (excluding lease assets)

Amortization of intangible fixed assets is computed using the straight-line method.

Development costs for internally used software are amortized using the straight-line method over the estimated useful lives of primarily 3 to 10 years.

(c) Lease assets

Depreciation or amortization of lease assets in Tangible fixed assets or Intangible fixed assets of the finance leases other than those that are deemed to transfer the ownership of leased property to the lessees is computed using the straight-line method over the lease periods with zero residual value unless residual value is guaranteed by the corresponding lease contracts.

(5) Deferred assets

Bond issuance costs and stock issuance costs are expensed as incurred.

(6) Allowance for Credit Losses

Principal domestic consolidated subsidiaries determine the allowance for credit losses in accordance with the internal standards for self-assessment of asset quality and the internal standards for write-offs and provisions.

For claims on borrowers that have entered into bankruptcy, special liquidation proceedings or similar legal proceedings or whose notes have been dishonored and suspended from processing through clearing houses (bankrupt borrowers) or borrowers that are not legally or formally bankrupt but are regarded as substantially in a similar condition (virtually bankrupt borrowers), allowances are provided based on the amount of claims, after the write-offs as stated below, net of expected amounts to be collected through the disposal of collateral and the execution of guarantees.

For claims on borrowers that are not yet legally or formally bankrupt but deemed to have a high possibility of becoming bankrupt (likely to become bankrupt borrowers), where the amounts of principal repayments and interest payments cannot be reasonably estimated from the borrowers cash flows, allowances are provided based on an overall solvency assessment of the claims, net of expected amounts to be collected through the disposal of collateral and the execution of guarantees.

For claims on likely to become bankrupt borrowers and claims on borrowers requiring close monitoring, where the amounts of principal repayments and interest payments can be reasonably estimated from the borrowers cash flows, allowances are provided in an amount equal to the difference between the book value of the claims and the relevant cash flows discounted by the initial contractual interest rates.

For other claims, allowances are provided based on historical credit loss experience.

For claims originated in certain foreign countries, additional allowances are provided based on an assessment of political and economic conditions of these countries.

All claims are assessed by the relevant branches and credit supervision departments in accordance with the internal standards for self-assessment of asset quality. The credit review department, which is independent from those operating sections, subsequently audits these assessments.

For claims on bankrupt borrowers and virtually bankrupt borrowers, the amount of claims exceeding the estimated value of collateral or guarantees, which is deemed uncollectible, is written off. The total amount of write-offs was ¥381,288 million as of September 30, 2017 (¥377,463 million as of March 31, 2017).

Consolidated subsidiaries, not adopting the procedures stated above provide for allowances based on their historical credit loss experience for collectively assessed claims and based on individual assessments of the possibility of collection for specific deteriorated claims.

(7) Reserve for bonuses

Reserve for bonuses, which is provided for future bonus payments to employees, is recorded in the amount deemed to have accrued based on the estimated amount of bonuses as of the consolidated balance sheet date.

(8) Reserve for bonuses to directors

Reserve for bonuses to directors, which is provided for future bonus payments to directors, is recorded in the amount deemed to have accrued based on the estimated amount of bonuses as of the consolidated balance sheet date.

(9) Reserve for stocks payment

Reserve for stocks payment, which is provided for future payments of compensation under the stock compensation plan for directors and officers of MUFG and certain domestic consolidated subsidiaries, is recorded in the amount deemed to have accrued based on the estimated amount of compensation as of the consolidated balance sheet date.

(10) Reserve for retirement benefits to directors

Reserve for retirement benefits to directors, which is provided for future payments of retirement benefits to directors of consolidated subsidiaries, is recorded in the amount deemed to have accrued based on the estimated amount of benefits as of the consolidated balance sheet date.

(11) Reserve for loyalty award credits

Reserve for loyalty award credits, which is provided for the future redemption of points awarded to customers through Super IC Cards, etc., is calculated by rationally estimating an amount that will be redeemed in the future based on the monetary amount converted from the awarded but unused points, and is recorded in the appropriate amount as a reserve.

(12) Reserve for contingent losses

Reserve for contingent losses, which is provided for possible losses from contingent events related to off-balance sheet transactions and various litigation and regulatory matters, is calculated by estimating the impact of such contingent events. This reserve also includes future claims for repayment of excess interest payments on consumer loans that are estimated based on the past repayments, the pending claims and other factors.

(13) Reserves under special laws

Reserves under special laws represent the reserve for contingent liabilities from derivative financial instruments transactions executed for clients, which are recorded in accordance with Article 46-5-1 of the Financial Instruments and Exchange Law and Article 175 of the Cabinet Office Ordinance on Financial Instruments Business.

(14) Retirement benefits

In calculating benefit obligation, the portion of the projected benefit obligation attributed to the six-month period ended September 30, 2017 is determined using the benefit formula basis.

Unrecognized prior service cost is amortized using the straight-line method for a fixed period, primarily over 10 years, within the employees average remaining service period.

Unrecognized net actuarial gains (losses) are amortized using the straight-line method for a fixed period, primarily over 10 years, within the employees average remaining service period, beginning in the subsequent fiscal year after its occurrence.

For certain overseas branches of domestic consolidated subsidiaries and some of consolidated subsidiaries, net defined benefit liability and retirement benefit expenses are calculated by the simplified method.

(15) Translation of assets and liabilities denominated in foreign currencies

Assets and liabilities denominated in foreign currencies or booked at overseas branches of domestic consolidated banking subsidiaries and domestic consolidated trust banking subsidiaries are translated into yen primarily at exchange rates prevailing at the consolidated balance sheet date, except for investments in non-consolidated affiliates which are translated into yen at exchange rates prevailing at the acquisition dates.

Assets and liabilities denominated in foreign currencies of other consolidated subsidiaries are translated into yen at the exchange rates prevailing at the respective balance sheet date.

(16) Leasing transactions

(As Lessees)

Domestic consolidated subsidiaries finance leases other than those that are deemed to transfer the ownership of leased property to the lessees are accounted for in a similar way to purchases, and depreciation for lease assets is computed using the straight-line method over the lease term with zero residual value unless residual value is guaranteed by the corresponding lease contracts.

(As Lessors)

Finance leases other than those that are deemed to transfer the ownership of leased property to the lessees are accounted for in a similar way to sales and income and expenses related to such leases are recognized by allocating interest equivalents to applicable fiscal periods instead of recording sales as Other ordinary income.

(17) Hedge accounting

(a) Hedge accounting for interest rate risks

Domestic consolidated banking subsidiaries and domestic consolidated trust banking subsidiaries have adopted the deferred hedge accounting method for hedging transactions to hedge interest rate risks arising from financial assets and liabilities. Portfolio hedging or individual hedging, as described in the Japanese Institute of Certified Public Accountants (JICPA) Industry Audit Committee Report No. 24, Treatment of Accounting and Auditing of Application of Accounting Standard for Financial Instruments in Banking Industry (February 13, 2002) and JICPA Accounting Committee Report No. 14, Practical Guidelines for Accounting for Financial Instruments (January 31, 2000), are primarily applied to determine hedged items.

With respect to hedging transactions to offset fluctuations in the fair value of fixed rate deposits, loans and other instruments, hedging instruments (e.g. interest rate swaps) are designated to hedged items individually or collectively by their maturities in accordance with JICPA Industry Audit Committee Report No. 24. With respect to hedging transactions to offset fluctuations in fair value of fixed rate bonds classified as available-for-sale securities, hedging instruments (e.g. interest rate swaps) are designated to hedged items collectively by the type of bond. Since material terms related to hedged items and hedging instruments are substantially identical, and such hedging transactions are deemed highly effective, the assessment of effectiveness is based on the similarity of the terms.

With respect to hedging transactions to fix the cash flows related to floating rate deposits and loans as well as forecasted transactions related to short-term fixed rate deposits, loans and other instruments, hedging instruments (e.g. interest rate swaps) are designated to hedged items collectively by interest rate indices and tenors in accordance with JICPA Industry Audit Committee Report No. 24. Since material terms related to hedged items and hedging instruments are substantially identical, and such hedging transactions are deemed highly effective, the assessment of effectiveness is based on the similarity of the terms. The effectiveness of hedging transactions is also assessed by the correlation between factors that cause fluctuations in interest rates of hedged items and those of hedging instruments.

(b) Hedge accounting for foreign currency risks

Domestic consolidated banking subsidiaries and domestic consolidated trust banking subsidiaries have adopted the deferred hedge accounting method for hedging foreign currency risks arising from financial assets and liabilities denominated in foreign currencies. Portfolio hedging is applied to determine hedged items as described in JICPA

Industry Audit Committee Report No. 25 Treatment of Accounting and Auditing concerning Accounting for Foreign Currency Transactions in the Banking Industry (July 29, 2002). Hedging instruments (e.g. currency swaps and forward exchange contracts) are designated to hedged items collectively by currencies.

Portfolio hedging and individual hedging are applied to hedge foreign currency risks arising from equity investments in foreign subsidiaries and foreign affiliates, and available-for-sale securities (other than bonds) denominated in foreign currencies. Monetary claims and liabilities denominated in the same foreign currencies or forward exchange contracts are used as hedging instruments. As for the hedge accounting method applied to equity investments in foreign subsidiaries and foreign affiliates, foreign currency translation differences arising from hedging instruments are recorded as foreign currency translation adjustments. The fair value hedge accounting method is applied to available-for-sale securities (other than bonds) denominated in foreign currencies.

(c) Hedge accounting for stock price fluctuation risks

Individual hedging is applied to hedge market fluctuation risks arising from strategic equity securities held by domestic consolidated banking subsidiaries. Instruments such as total return swaps are used as hedging instruments. The effectiveness of hedging transactions is assessed by the correlation between changes in fair value of hedged items and changes in fair value of hedging instruments. The fair value hedge accounting method is applied.

(d) Transactions among consolidated subsidiaries

Derivative transactions including interest rate swaps and currency swaps which are designated as hedging instruments among consolidated subsidiaries or between trading accounts and other accounts (or among internal sections) are not eliminated from the consolidated statements of income or valuation difference, but are recognized as related gains or losses or deferred under hedge accounting because these derivative transactions meet certain criteria under JICPA Industry Audit Committee Reports No.