MUFG Americas Holdings Corporation and Subsidiaries

Independent Auditor's Report

Consolidated Financial Statements

As of and for the Years Ended

December 31, 2021 and December 31, 2020

MUFG Americas Holdings Corporation and Subsidiaries

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Glossary of Defined Terms

The following acronyms and abbreviations are used throughout these consolidated financial statements.

ADR	American Depositary Receipt
AOCI	Accumulated other comprehensive income
ASU	Accounting Standards Update
BHC	U.S. Bank Holding Company
CARES Act	Coronavirus Aid, Relief, and Economic Security Act
CECL	Current Expected Credit Loss
COVID-19	Coronavirus Disease 2019
EAD	Exposure at default
EAFE	Europe, Australia and Far East
ESBP	Executive Supplemental Benefit Plan
EURIBOR	Euro Interbank Offered Rate
FASB	Financial Accounting Standards Board
FDIC	Federal Deposit Insurance Corporation
Federal Reserve	Board of Governors of the Federal Reserve System
FHLB	Federal Home Loan Bank
GAAP	Accounting principles generally accepted in the United States of America
HLBV	Hypothetical liquidation of book value
LGD	Loss given default
LIBOR	London Inter-bank Offered Rate
LLC	Limited Liability Company
MUAH	MUFG Americas Holdings Corporation
MUAH Plan	MUFG Americas Holdings Corporation Stock Bonus Plan
MUB	MUFG Union Bank, N.A.
MUFG	Mitsubishi UFJ Financial Group, Inc.
MUSA	MUFG Securities Americas Inc.
OCC	Office of the Comptroller of the Currency
PD	Probability of default
S&P	Standard & Poor's Global Ratings
TDR	Troubled debt restructuring
TLAC	Total Loss Absorbing Capacity
VIE	Variable interest entity

Financial Statements

MUFG Americas Holdings Corporation and Subsidiaries
Consolidated Statements of Income

(Dollars in millions)	For the Years Ended December 31, 2021	2020
Interest Income		
Loans	$ 575	$ 589
Securities	23	16
Securities borrowed or purchased under resale agreements	34	190
Trading assets	352	357
Other	8	11
Total interest income	992	1,163
Interest Expense		
Deposits	10	23
Commercial paper and other short-term borrowings	5	5
Long-term debt	5	12
Securities loaned or sold under repurchase agreements	24	155
Trading liabilities	67	64
Total interest expense	111	259
Net Interest Income	881	904
Provision for credit losses	15	77
Net interest income after provision for credit losses	866	827
Noninterest Income		
Investment banking and syndication fees	584	569
Credit facility fees	95	85
Trading account activities	(385)	202
Fees from affiliates	1,536	1,489
Gains on sales of businesses	197	—
Other, net	169	189
Total noninterest income	2,196	2,534
Noninterest Expense		
Salaries and employee benefits	1,511	1,490
Net occupancy and equipment	161	176
Professional and outside services	354	355
Software	246	232
Goodwill impairment	—	270
Software impairment	204	—
Other	203	219
Total noninterest expense	2,679	2,742
Income from continuing operations before income taxes	383	619
Income tax expense (benefit)	(57)	99
Net Income from Continuing Operations	440	520
Income (loss) from discontinued operations, net of taxes (See Note 2)	831	(354)
Net Income Attributable to MUAH	$ 1,271	$ 166

See accompanying Notes to Consolidated Financial Statements.

MUFG Americas Holdings Corporation and Subsidiaries
Consolidated Statements of Comprehensive Income

(Dollars in millions)	For the Years Ended December 31, 2021	2020
Net Income Attributable to MUAH	$ 1,271	$ 166
Other Comprehensive Income (Loss), Net of Tax:		
Net change in unrealized gains (losses) on cash flow hedges	(147)	318
Net change in unrealized gains (losses) on investment securities	(500)	485
Pension and other postretirement benefit adjustments	333	72
Other	(6)	—
Total other comprehensive income (loss)	(320)	875
Comprehensive Income Attributable to MUAH	951	1,041
Comprehensive income (loss) from noncontrolling interests	(10)	(16)
Total Comprehensive Income	$ 941	$ 1,025

See accompanying Notes to Consolidated Financial Statements.

MUFG Americas Holdings Corporation and Subsidiaries
Consolidated Balance Sheets

(Dollars in millions except per share amount)	December 31, 2021	December 31, 2020
Assets		
Cash and due from banks	$ 469	$ 2,056
Interest bearing deposits in banks	111	2,566
Total cash and cash equivalents	580	4,622
Securities borrowed or purchased under resale agreements	23,236	17,608
Trading account assets (includes $2,822 at December 31, 2021 and $3,246 at December 31, 2020 pledged as collateral that may be repledged)	8,796	14,913
Securities available for sale	280	647
Loans held for investment	23,486	20,116
Allowance for loan losses	(264)	(272)
Loans held for investment, net	23,222	19,844
Goodwill	547	626
Loans held for sale	616	545
Other assets	4,095	4,282
Assets of discontinued operations	101,748	104,759
Total assets	$ 163,120	$ 167,846
Liabilities		
Deposits:		
Noninterest bearing	$ 5,167	$ 5,968
Interest bearing	4,544	7,911
Total deposits	9,711	13,879
Securities loaned or sold under repurchase agreements	26,542	27,161
Commercial paper and other short-term borrowings	69	87
Long-term debt	7,124	7,747
Trading account liabilities	3,476	3,119
Other liabilities	1,133	937
Liabilities of discontinued operations	96,819	97,637
Total liabilities	144,874	150,567
Commitments, contingencies and guarantees—See Note 19		
Equity		
MUAH stockholders' equity:		
Preferred stock:		
Authorized 5,000,000 shares; no shares issued or outstanding	—	—
Common stock, par value $1 per share:		
Authorized 1,700,000,000 shares, 132,076,912 shares issued and outstanding at December 31, 2021 and December 31, 2020	132	132
Additional paid-in capital	8,267	8,242
Retained earnings	10,065	8,802
Accumulated other comprehensive income (loss)	(307)	13
Total MUAH stockholders' equity	18,157	17,189
Noncontrolling interests	89	90
Total equity	18,246	17,279
Total liabilities and equity	$ 163,120	$ 167,846

See accompanying Notes to Consolidated Financial Statements.

MUFG Americas Holdings Corporation and Subsidiaries
Consolidated Statements of Changes in Stockholders' Equity

(Dollars in millions)	MUAH Stockholders' Equity Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests	Total Equity
BALANCE DECEMBER 31, 2019	$ 132	$ 8,222	$ 8,788	$ (862)	$ 87	$ 16,367
Cumulative effect from adoption of ASU 2016-13	—	—	(147)	—	—	(147)
Net income (loss)	—	—	166	—	(16)	150
Other comprehensive income (loss), net of tax	—	—	—	875	—	875
Compensation—restricted stock units	—	20	(9)	—	—	11
Other	—	—	4	—	19	23
Net change	—	20	14	875	3	912
BALANCE DECEMBER 31, 2020	$ 132	$ 8,242	$ 8,802	$ 13	$ 90	$ 17,279
Net income (loss)	—	—	1,271	—	(10)	1,261
Other comprehensive income (loss), net of tax	—	—	—	(320)	—	(320)
Compensation—restricted stock units	—	6	(8)	—	—	(2)
Other	—	19	—	—	9	28
Net change	—	25	1,263	(320)	(1)	967
BALANCE DECEMBER 31, 2021	$ 132	$ 8,267	$ 10,065	$ (307)	$ 89	$ 18,246

See accompanying Notes to Consolidated Financial Statements.

MUFG Americas Holdings Corporation and Subsidiaries
Consolidated Statements of Cash Flows

(Dollars in millions)	For the Years Ended December 31, 2021	2020
Cash Flows from Operating Activities:		
Net income including noncontrolling interests	$ 1,261	$ 150
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
(Reversal of) provision for credit losses	(916)	829
Depreciation, amortization and accretion, net	323	597
Stock-based compensation—restricted stock units	107	83
Deferred income taxes	(70)	(346)
Gains on sales of businesses	(197)	—
Net gains on sales of securities	(69)	(144)
Net decrease (increase) in securities borrowed or purchased under resale agreements	(5,628)	6,335
Net decrease (increase) in securities loaned or sold under repurchase agreements	(619)	(1,705)
Net decrease (increase) in trading account assets	6,652	(5,661)
Net decrease (increase) in other assets	615	922
Net increase (decrease) in trading account liabilities	306	67
Net increase (decrease) in other liabilities	(352)	38
Loans originated for sale	(10,243)	(5,664)
Net proceeds from sale of loans originated for sale	9,422	5,164
Pension and other benefits adjustment	(45)	(22)
Goodwill impairment	—	357
Software impairment	204	—
Discontinued operations disposal group valuation loss	394	—
Other, net	(3)	(7)
Total adjustments	(119)	843
Net cash provided by (used in) operating activities	1,142	993
Cash Flows from Investing Activities:		
Proceeds from sales of securities available for sale	2,666	4,342
Proceeds from paydowns and maturities of securities available for sale	3,189	2,491
Purchases of securities available for sale	(9,338)	(6,441)
Proceeds from paydowns and maturities of securities held to maturity	2,171	3,948
Purchases of securities held to maturity	(1,756)	(1,847)
Proceeds from sales of loans	267	472
Net decrease (increase) in loans	2,283	5,734
Purchases of other investments	(115)	(214)
Net cash paid for dispositions	(6,291)	—
Other, net	(251)	(374)
Net cash provided by (used in) investing activities	(7,175)	8,111
Cash Flows from Financing Activities:		
Net increase (decrease) in deposits	4,772	6,565
Net increase (decrease) in commercial paper and other short-term borrowings	(27)	(6,376)
Proceeds from issuance of long-term debt	5,735	3,663
Repayment of long-term debt	(8,888)	(6,166)
Other, net	(123)	(59)
Change in noncontrolling interests	9	19
Net cash provided by (used in) financing activities	1,478	(2,354)
Net change in cash, cash equivalents and restricted cash	(4,555)	6,750
Cash, cash equivalents and restricted cash at beginning of period	16,445	9,695
Cash, cash equivalents and restricted cash at end of period	$ 11,890	$ 16,445
Cash Paid During the Period For:		
Interest	$ 460	$ 1,061
Income taxes, net	222	230
Supplemental Schedule of Noncash Investing and Financing Activities:		
Net transfer of loans held for investment to (from) loans held for sale	$ 56,201	$ (228)
Securities held to maturity transferred to securities available for sale	6,862	—
Reconciliation of Cash, Cash Equivalents and Restricted Cash:		
Cash and cash equivalents	$ 11,854	$ 16,414
Restricted cash included in other assets	36	31
Total cash, cash equivalents and restricted cash per consolidated statement of cash flows	$ 11,890	$ 16,445

See accompanying Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

Note 1—Summary of Significant Accounting Policies and Nature of Operations

Introduction

MUFG Americas Holdings Corporation (MUAH) is a financial holding company, bank holding company and intermediate holding company whose principal subsidiaries are MUFG Union Bank, N.A. (MUB or the Bank) and MUFG Securities Americas Inc. (MUSA). MUAH is owned by MUFG Bank, Ltd. and MUFG. MUFG Bank, Ltd. is a wholly-owned subsidiary of MUFG. As used in these consolidated financial statements, terms such as "the Company," "we," "us" and "our" refer to MUAH, one or more of its consolidated subsidiaries, or to all of them together.

MUAH provides a wide range of financial services to consumers, small businesses, middle-market companies and major corporations nationally and internationally. The Company also provides various business, banking, financial, administrative and support services, and facilities for MUFG Bank, Ltd. in connection with the operation and administration of MUFG Bank, Ltd.'s business in the U.S. (including MUFG Bank, Ltd.'s U.S. branches).

As discussed in Note 2 "Discontinued Operations," on September 21, 2021, MUAH and its ultimate parent corporation, MUFG, entered into an agreement to sell all the issued and outstanding shares of common stock of MUB to U.S. Bancorp. The completion of the sale is subject to certain conditions, including, among others, the receipt of required governmental approvals and the expiration of certain waiting periods. U.S. Bancorp is not acquiring MUB's Global Corporate & Investment Bank - U.S. business, certain middle and back office functions, and certain other assets and liabilities (including Intrepid Investment Bankers LLC and Union Bank of California Leasing, Inc.). The Company is retaining its subsidiaries other than MUB, including MUSA.

Principles of Consolidation and Basis of Financial Statement Presentation

The consolidated financial statements include the accounts of the Company and other entities in which the Company has a controlling financial interest. The Company determines whether it has a controlling financial interest in an entity by first evaluating whether the entity is a voting interest entity or a VIE. The primary beneficiary of a VIE is the entity that has the power to direct the activities of the VIE that most significantly impact the VIE's economic performance and has the obligation to absorb losses or receive benefits from the VIE that could potentially be significant to the VIE. Results of operations from VIEs are included from the dates that the Company became the primary beneficiary. All intercompany transactions and balances with consolidated entities are eliminated in consolidation.

The Company accounts for equity investments over which it exerts significant influence using the equity method of accounting. Non-marketable equity investments where the Company does not exert significant influence are accounted for at cost or using the proportional amortization method. Investments accounted for under the equity method and proportional amortization method are included in other assets.

The accounting and reporting policies of the Company conform to accounting principles generally accepted in the United States of America (GAAP). The policies that materially affect the determination of financial position, results of operations and cash flows are summarized below.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense during the reporting period. Although such estimates contemplate current conditions and management's expectations of how they may change in the future, it is reasonably possible that actual results could differ significantly from those estimates. This could materially affect the Company's results of operations and financial condition in the near term. Critical estimates made by management in the preparation of the Company's financial statements include, but are not limited to, estimates of certain revenues and costs included in discontinued operations (see "Assets Held for Sale and Discontinued Operations" in this note and Note 2 "Discontinued Operations"), the allowance for credit losses (Note 4 "Loans and Allowance for Loan Losses"), goodwill impairment (Note 5 "Goodwill and Other Intangible Assets"), income taxes (Note 16 "Income Taxes"), and transfer pricing (Note 20 "Related Party Transactions").

Note 1—Summary of Significant Accounting Policies and Nature of Operations (Continued)

Cash and Cash Equivalents

Cash and cash equivalents include cash and due from banks, interest bearing deposits in banks, and federal funds sold.

Securities Borrowed or Purchased under Agreements to Resell and Securities Loaned or Sold under Agreements to Repurchase

Securities borrowed and securities loaned transactions do not qualify for sale accounting and are accounted for as collateralized financings. Securities borrowed and securities loaned represent the amount of cash collateral advanced or received, respectively. The Company monitors the market value of the borrowed and loaned securities on a daily basis, with additional collateral obtained or refunded as necessary. Accrued interest associated with securities borrowed and securities loaned is included in other assets and other liabilities, respectively. Interest associated with securities borrowed and securities loaned is recorded as interest income and interest expense, respectively.

Securities purchased under agreements to resell (“reverse repurchase agreements”) and securities sold under agreements to repurchase (“repurchase agreements”) do not qualify for sale accounting and are accounted for as collateralized financings. These agreements are recorded at the amounts at which the securities were acquired or sold and are carried at amortized cost. The Company generally obtains possession of collateral with a market value equal to or in excess of the principal amount financed under reverse repurchase agreements. Collateral is valued daily, and the Company may require counterparties to deposit additional collateral or return collateral pledged, when appropriate. Accrued interest associated with reverse repurchase agreements and repurchase agreements is included in other assets and other liabilities, respectively. Interest associated with reverse repurchase agreements and repurchase agreements is recorded as interest income and interest expense, respectively. The Company generally enters into reverse repurchase and repurchase agreements under legally enforceable master repurchase agreements that give the Company, in the event of counterparty default, the right to liquidate securities held and offset receivables and payables with the same counterparty. The Company offsets reverse repurchase and repurchase agreements with the same counterparty where they have a legally enforceable master netting agreement and the transactions have the same maturity date.

Trading Account Assets and Liabilities

Trading account assets and liabilities are recorded at fair value and include certain securities and derivatives. Securities are classified as trading when management acquires them with the intent to hold for short periods, primarily at MUAH's broker-dealer subsidiary, MUSA, or as an accommodation to customers. Substantially all of these securities have a high degree of liquidity and a readily determinable fair value. Interest on securities classified as trading is included in interest income, and realized gains and losses from sale and unrealized fair value adjustments are recognized in noninterest income. Trading securities that are pledged under an agreement to repurchase and which may be sold or repledged under that agreement are separately identified as pledged as collateral.

Derivatives included in trading account assets and liabilities are entered into for trading purposes or as an accommodation to customers. Contracts primarily include interest rate swaps and options, equity contracts, and foreign exchange contracts. The Company nets derivative assets and liabilities, and the related cash collateral receivables and payables, when a legally enforceable master netting arrangement exists between the Company and the derivative counterparty. Changes in fair values and realized income or expense for trading asset and liability derivatives are included in noninterest income.

Securities

Securities are recorded on the consolidated balance sheet as of the trade date, when acquired in a regular-way trade. Debt securities that are not classified as trading assets or held to maturity are classified as available for sale and are carried at fair value, with the unrealized gains or losses reported net of taxes as a component of AOCI in stockholders' equity until realized. However, unrealized losses on securities available for sale that we intend to sell, or if it is more likely than not that we will be required to sell, before recovery of the security's amortized cost basis are included in noninterest income. Credit losses on securities available for sale that we do not expect to sell are recorded as discussed in "Allowance for Credit Losses" in this note.

Interest income on debt securities classified as available for sale includes the amortization of premiums and the accretion of discounts using a method that produces a level yield based on the estimated lives of the securities and is included in interest income on securities.

Realized gains and losses on the sale of available for sale securities are included in noninterest income. The specific identification method is used to calculate realized gains and losses on sales.

Securities available for sale that are pledged under an agreement to repurchase and which may be sold or repledged under that agreement are separately identified as pledged as collateral.

For further information on our debt securities, see Note 3 to these consolidated financial statements.

Loans Held for Investment, Loans Held for Sale and Leases

Loans held for investment are reported at the principal amounts outstanding, net of charge-offs, unamortized nonrefundable loan fees, direct loan origination costs, and purchase premiums and discounts. Where loans are held for investment, the net basis adjustment excluding charge-offs on the loan is generally recognized in interest income on an effective yield basis over the contractual loan term.

Nonaccrual loans are those for which management has discontinued accrual of interest because there exists significant uncertainty as to the full and timely collection of either principal or interest. Loans are generally placed on nonaccrual when such loans have become contractually past due 90 days with respect to principal or interest. Past due status is determined based on the contractual terms of the loan and the number of payment cycles since the last payment date. Interest accruals are continued past 90 days for certain small business loans and consumer installment loans, which are charged off at 120 days. For the commercial loan portfolio segment, interest accruals are also continued for loans that are both well-secured and in the process of collection.

When a loan is placed on nonaccrual status, all previously accrued but uncollected interest is reversed against current period interest income. When full collection of the outstanding principal balance is in doubt, subsequent payments received are first applied to unpaid principal and then to uncollected interest. A loan may be returned to accrual status at such time as the loan is brought fully current as to both principal and interest, and such loan is considered to be fully collectible on a timely basis. The Company's policy also allows management to continue the recognition of interest income on certain loans placed on nonaccrual status. Interest income may be recognized on these nonaccrual loans, referred to as "Cash Basis Nonaccrual", only when payments are collected. This policy applies to consumer portfolio segment loans and commercial portfolio segment loans that are well-secured and in management's judgment are considered to be fully collectible but the timely collection of payments is in doubt.

A TDR is a restructuring of a loan in which the creditor, for economic or legal reasons related to the borrower's financial difficulties, grants a concession to the borrower that it would not otherwise consider. A loan subject to such a restructuring is accounted for as a TDR. A TDR typically involves a modification of terms such as a reduction of the interest rate below the current market rate for a loan with similar risk characteristics or extending the maturity date of the loan without corresponding compensation. Credit losses on TDR's are recorded as discussed in "Allowance for Credit Losses" in this note. For the commercial portfolio segment, the Company generally determines accrual status for TDRs by performing an individual assessment of each loan, which may include, among other factors, demonstrated performance by the borrower under the previous terms.

On March 22, 2020, the federal bank regulatory agencies issued joint guidance advising that the agencies have confirmed with the staff of the FASB that short-term modifications due to COVID-19 made on a good faith basis to borrowers who were current prior to relief, are not TDRs. On March 27, 2020, the CARES Act, which provides relief from TDR classification for certain COVID-19-related loan modifications, was signed into law. The Company did not classify loan modifications, which were largely payment deferrals, that met the criteria under either the CARES Act or the criteria specified by the regulatory agencies as TDRs. At December 31, 2021, there were no modified commercial loans that were still in deferral and not classified as TDRs. At December 31, 2020, $219 million of modified commercial loans were still in deferral and not classified as TDRs. For loan modifications that include a payment deferral and are not TDRs, the borrower's past due and nonaccrual status will not be impacted during the deferral period. Interest income will continue to be recognized over the contractual life of the loan.

Except for certain transactions between entities under common control, loans acquired in a transfer, including business combinations, are recorded at fair value at the acquisition date.

Loans held for sale are carried at the lower of cost or fair value. Changes in fair value are recognized in other noninterest income. Nonrefundable fees, direct loan origination costs, and purchase premiums and discounts related to loans held for sale are deferred and recognized as a component of the gain or loss on sale. Contractual interest earned on loans held for sale is recognized in interest income.

The Company provides lease financing to its customers as lessor. Direct financing leases are recorded based on the amount of minimum lease payments receivable, unguaranteed residual value accruing to the benefit of the lessor, unamortized initial direct costs, and are reduced for any unearned income.

Allowance for Credit Losses

Allowance for loan losses

Allowance for loan losses is a valuation account that is deducted from the assets' amortized cost basis to present the net amount expected to be collected on the loans. Loans are charged off against the allowance when management confirms the uncollectibility of a loan balance. Expected recoveries, if any, do not exceed the aggregate of amounts previously charged-off.

Management develops and documents its systematic methodology for determining the allowance by dividing its portfolio into portfolio segments and then into classes based on initial measurement attributes, risk characteristics or its method of monitoring and assessing credit risk. The classes for the Company include commercial and industrial, commercial mortgage, and construction. While the Company's methodology attributes portions of the allowance to specific portfolio segments and classes, the allowance estimate is provided to cover all credit losses expected in the loan portfolio.

The Company's methodology for estimating the allowance uses relevant available information relating to past events, current conditions, and reasonable and supportable forecasts. Historical credit loss experience provides the basis for the estimation of expected credit losses. Adjustments to historical loss information are made to account for differences between current and expected future conditions and those reflected in historical loss information. The allowance is measured on a collective basis when similar risk characteristics exist. Loans that do not share risk characteristics are evaluated on an individual basis.

The collectively-assessed allowance methodology incorporated an economic forecast over a 36-month period when ASU 2016-13, *Measurement of Credit Losses on Financial Instruments*, was adopted as of January 1, 2020. However, the economic forecast was shortened to a 24-month period during the first quarter of 2020 due to heightened volatility and uncertainty in the economy due to the emergence of COVID-19. In 2021, the Company reverted to a 36-month economic forecast period. Beyond the economic forecast period, the allowance methodology reverted to average historical loss information on a straight-line basis over a 24-month period. These timeframes are regularly reviewed and approved by management and may be adjusted if economic conditions warrant.

An expected loss approach is used to estimate the collectively-assessed allowance for the commercial portfolio segment. Expected loss is calculated as the product of PD, LGD, and EAD modeled parameters that are projected on a monthly basis over the assets' remaining contractual lives. The sum of each month's expected loss calculation results in the collectively-assessed allowance estimate. Expected loss models use historical loss information and a variety of economic assumptions to estimate PD, LGD, and EAD. These models are tailored to different loan segments, classes and products by changing the economic variables or their weighting in the calculation used to estimate expected losses.

The allowance is an estimate of expected credit losses over the remaining contractual term of each asset. Expected prepayments are incorporated into the estimation of the EAD for each asset over the asset's remaining term, which shortens the expected remaining term. Contractual term is not adjusted for expected extensions, renewals, and modifications unless management has a reasonable expectation that a TDR will be executed with a borrower. Credit cards do not have defined contractual terms. In order to estimate the expected credit losses on actively used revolving credit card balances, we make assumptions about expected payments and expected spending on the unconditionally cancelable unfunded amount at the measurement date. Expected spending after the measurement date reduces the expected payments that are allocated to the outstanding balance at the measurement date. Expected credit losses are calculated only on the outstanding balances component at the measurement date, which is amortized by applying the proportion of the expected payment allocated to the outstanding balance. Expected payments applied to the expected spending after the measurement date are excluded from the analysis because unconditionally cancelable unfunded commitments are not reservable.

Loans that do not share risk characteristics are evaluated individually to determine the allowance. Loans assessed individually include larger nonaccruing loans within the commercial portfolio, TDRs, reasonably expected TDRs and collateral-dependent loans. Collateral-dependent assets' expected credit losses are assessed when the fair value of the collateral is less than the amortized cost basis of the asset. Collateral-dependent assets are evaluated in this manner when foreclosure is probable, or when repayment is expected to be provided substantially through the operation or sale of the collateral when the borrower is experiencing financial difficulty. Estimated costs to sell are included in the estimate when repayment is expected by the sale of the collateral. Collateral-dependent assets are generally secured by real estate collateral. When the discounted cash flow method is used to determine the allowance for individually-assessed loans, management does not adjust the interest rate used to discount expected cash flows to incorporate expected prepayments.

Management implements qualitative adjustments to the collectively-assessed allowance to account for the risks not incorporated in the model between current conditions and those reflected in the historical loss information used to estimate the models. These qualitative factors include changes in credit policies, problem loan trends, identification of new risks not incorporated into the modeling framework, credit concentrations, changes in lending management and other external factors. Qualitative adjustments are also used to adjust the collectively-assessed allowance to account for risks attributed to imprecision in the economic forecast and when risks emerge that impact specific portfolio components (i.e., natural disasters).

TDRs are loans where we have granted a concession to a borrower as a result of the borrower experiencing financial difficulty and, consequently, we receive less than the current market-based compensation for loans with similar risk characteristics. Such loans' allowance is measured either individually or in pools with similar risk characteristics. The allowance for a TDR loan is measured using the same method as all other loans when evaluated in pools. The allowance for individually assessed TDR loans is measured using a discounted cash flow methodology, or by evaluating the fair value of the collateral, if collateral dependent. When the value of a concession cannot be measured using a method other than the discounted cash flow method, the value of a concession is measured by discounting the expected future cash flows at the original interest rate of the loan. When we have a reasonable expectation that a TDR loan may be executed with a borrower at the evaluation date, we may modify the allowance calculation to align with the expected modification terms, which may include modifying the expected contractual term.

We generally do not record an allowance for accrued interest receivable on loans held for investment, which is included in other assets on the consolidated balance sheet. Uncollectible accrued interest is generally reversed through interest income.

Allowance for Credit Losses on Debt Securities

The Company's debt securities generally are explicitly or implicitly guaranteed by U.S. government entities or agencies or are non-agency-backed assets that are highly rated and have not incurred credit losses historically. No credit losses are expected on these assets and thus no allowance is estimated on these debt securities.

Note 1—Summary of Significant Accounting Policies and Nature of Operations (Continued)

Allowance for Credit Losses on Securities Borrowed or Purchased under Resale Agreements

Securities borrowed or purchased under resale agreements are subject to allowance estimation, however management has no history of credit losses on these assets and has portfolio monitoring practices that ensure collateral is maintained at appropriate levels. As borrowers have a history of replenishing collateral securing the financial assets, when needed, and are expected to continue to maintain such behavior in the future, no allowance is estimated on these assets.

Allowance for Credit Losses on Unfunded Credit Commitments

The Company maintains an allowance for losses on unfunded credit commitments for the contractual term over which we are exposed to credit risk that is not unconditionally cancelable by the Company. The Company's allowance methodology for unfunded credit commitments is the same as that used for the allowance for the other collectively-evaluated assets and includes an estimate of commitments that are expected to fund over the remaining contractual term. The allowance for losses on unfunded credit commitments is classified as other liabilities on the balance sheet, with changes recognized in the provision for credit losses.

Goodwill and Identifiable Intangible Assets

Intangible assets represent purchased assets that lack physical substance and can be separately distinguished from goodwill because of contractual or other legal rights or because the asset is capable of being sold, exchanged, or licensed. Intangible assets are recorded at fair value at the date of acquisition.

Intangible assets that have finite lives, which include core deposit intangibles, customer relationships, non-compete agreements and trade names, are amortized either using the straight-line method or a method that patterns the consumption of the economic benefit. Intangible assets are amortized over their estimated periods of benefit, which range from three to forty years. The Company periodically evaluates the recoverability of intangible assets and takes into account events or circumstances that warrant revised estimates of useful lives or that indicate impairment exists. Intangible assets that have indefinite lives are tested for impairment at least annually, and more frequently in certain circumstances.

Goodwill is assessed for impairment at least annually at the reporting unit level either qualitatively or quantitatively. If the elected qualitative assessment results indicate that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, then the quantitative impairment test is required. Various valuation methodologies are applied to carry out the impairment test by comparing the fair value of the reporting unit to its carrying amount, including goodwill. A goodwill impairment loss is measured as the amount by which a reporting unit’s carrying amount exceeds its fair value; however, the loss recognized cannot exceed the total amount of goodwill allocated to that reporting unit. Goodwill impairment is recognized through noninterest expense as a direct write down to its carrying amount and subsequent reversals of goodwill impairment are prohibited.

Other Investments

The Company invests in limited partnerships that operate renewable energy projects, either directly or indirectly. Tax credits, taxable income and distributions associated with these renewable energy projects may be allocated to investors according to the terms of the partnership agreements. These investments are accounted for under the equity method and are reviewed periodically for impairment, considering projected operating results and realizability of tax credits. For those projects where economic benefits are not allocated based on pro rata ownership percentage, the Company accounts for its investments using the HLBV method. Under the HLBV method, the Company determines its share of an investee’s earnings by comparing the amount it would hypothetically receive at each balance sheet reporting date under the liquidation provisions of the partnership agreements, assuming the investee's net assets were liquidated at amounts determined in accordance with GAAP and distributed to the Company, after taking capital transactions during the period into account.

Note 1—Summary of Significant Accounting Policies and Nature of Operations (Continued)

Transfers of Financial Assets

Transfers of financial assets in which the Company has surrendered control over the transferred assets are accounted for as sales. Control is generally considered to have been surrendered when the transferred assets have been legally isolated from the Company, the transferee has the right to pledge or exchange the assets without any significant constraints, and the Company has not entered into a repurchase agreement, does not hold unconditional call options and has not written put options on the transferred assets. In assessing whether control has been surrendered, the Company considers whether the transferee would be a consolidated affiliate and the impact of all arrangements or agreements made contemporaneously with, or in contemplation of, the transfer, even if they were not entered into at the time of transfer.

Revenues from Contracts with Customers

Revenues from contracts with customers include service charges on deposit accounts, trust and investment management fees, brokerage commissions and fees, card processing fees, net, investment banking and syndication fees, and fees from affiliates. The Company recognizes revenue from contracts with customers according to a five-step revenue recognition model: (1) identify the contract(s) with a customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract, and (5) recognize revenue when (or as) the entity satisfies a performance obligation. The Company's contracts with customers generally contain a single performance obligation or separately identified performance obligations, each with a stated transaction price and generally do not involve a significant timing difference between satisfaction of the performance obligation and customer payment. Revenues are recognized over time or at a point in time as the performance obligations are satisfied. Revenues are generally not variable and do not involve significant estimates or constraints.

Transfer Pricing

Employees of the Company perform management and support services for MUFG Bank, Ltd. in connection with the operation and administration of MUFG Bank, Ltd.'s businesses in the Americas. In consideration for the services provided, MUFG Bank, Ltd. pays the Company fees under a master services agreement, which reflects market-based pricing for those services. The Company recognizes transfer pricing revenue when delivery (performance) has occurred or services have been rendered. Revenue is typically recognized based on the gross amount billed to MUFG Bank, Ltd. without netting the associated costs to perform those services. Gross presentation is typically deemed appropriate in these instances as the Company acts as a principal when providing these services directly to MUFG Bank, Ltd. Transfer pricing revenue is included in fees from affiliates revenue.

Income Taxes

The Company files consolidated U.S. federal income tax returns, foreign tax returns and various combined and separate company state income tax returns.

We record a provision for income taxes for the anticipated tax consequences of the reported results of operations using the asset and liability method. Under this method, we recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the financial reporting and tax bases of assets and liabilities, as well as for loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using the tax rates that are expected to apply to taxable income for the years in which those tax assets and liabilities are expected to be realized or settled. We recognize the deferred income tax effects of a change in tax rates in the period of the enactment.

We recognize tax benefits from uncertain tax positions only if we believe that it is more likely than not that the tax position will be sustained on examination by the taxing authorities based on the technical merits of the position. We make adjustments to these reserves in accordance with the income tax accounting guidance when facts and circumstances change, such as the closing of a tax audit or the refinement of an estimate. To the extent that the final tax outcome of these matters is different from the amounts recorded, such differences will affect the provision for income taxes in the period in which such determination is made, and could have a material impact on our financial condition and operating results. Foreign taxes paid are generally applied as credits to reduce U.S. federal income taxes payable.

Note 1—Summary of Significant Accounting Policies and Nature of Operations (Continued)

Employee Pension and Other Postretirement Benefits

The Company provides a variety of pension and other postretirement benefit plans for eligible employees and retirees. Net periodic pension and other postretirement benefit cost is recognized over the approximate service period of plan participants and includes significant discount rate and plan asset return assumptions.

Stock-Based Compensation

The Company grants restricted stock units settled in ADRs representing shares of common stock of the Company's ultimate parent company, MUFG, to employees. The Company recognizes compensation expense on restricted stock units granted on a straight-line basis over the vesting period for non-retirement eligible employees based on the grant date fair value of MUFG ADRs. Restricted stock units granted to employees who are retirement eligible or will become retirement eligible during the vesting period are expensed as of the grant date or on a straight-line basis over the period from the grant date to the date the employee becomes retirement eligible. Forfeitures are recognized as incurred in earnings.

Assets Held for Sale and Discontinued Operations

Assets and liabilities of a business that meet the accounting requirements to be classified as held for sale are excluded from the net assets of continuing operations and separated in a disposal group. Disposal group net assets are recorded at the lower of their carrying amount or estimated fair value less expected costs to sell and any unrecognized other comprehensive income or loss. After being classified as held for sale, loans held for investment are transferred to loans held for sale, carried at the lower of cost or fair value measured on a portfolio basis, and no allowance for loan losses is estimated. After being classified as held for sale, securities held to maturity are transferred to securities available for sale and assets are not depreciated or amortized.

Assets and liabilities of a disposal group classified as held for sale that meet the accounting requirements to be classified as discontinued operations are presented separately for all current and prior periods in the consolidated balance sheets. The results of discontinued operations are reported in income (loss) from discontinued operations, net of tax in the accompanying consolidated statements of income for the current and prior periods beginning in the period in which the business meets the held for sale criteria, and include any adjustment of the carrying amount to fair value less cost to sell while being held for sale or gain or loss recognized on closing of the sale. Income from discontinued operations includes direct costs attributable to the business held for sale and an estimate of costs from corporate functions dedicated to the business held for sale, but excludes corporate overhead. Interest costs from corporate debt are allocated to discontinued operations using a funds transfer pricing system that assigns a cost of funds or a credit for funds to assets or liabilities based on their type, maturity or repricing characteristics. Losses on extinguishment of debt required to be repaid or directly related to the business held for sale are included in income from discontinued operations, net of tax. See Note 2 "Discontinued Operations."

Note 1—Summary of Significant Accounting Policies and Nature of Operations (Continued)

Recently Adopted Accounting Pronouncements

Reference Rate Reform

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848) - Facilitation of the Effects of Reference Rate Reform on Financial Reporting*, which provides optional expedients and exceptions for applying generally accepted accounting principles to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. This ASU applies only to contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform. This guidance is effective on a prospective basis to new modifications made before December 31, 2022. The Company adopted this guidance in 2020 and management does not expect the adoption of this guidance to significantly impact the Company's financial position or results of operations. In January 2021, the FASB issued ASU 2021-01, *Reference Rate Reform (Topic 848) – Scope*, which clarifies that certain optional expedients and exceptions in Topic 848 for contract modifications and hedge accounting apply to derivatives that use an interest rate for margining, discounting, or contract price alignment that is modified as a result of reference rate reform. We will continue to assess the impact as the reference rate transition occurs over the next two years.

Note 2—Discontinued Operations

On September 21, 2021, MUAH and its ultimate parent corporation, MUFG, entered into a Share Purchase Agreement with U.S. Bancorp (USB). Upon the terms and subject to the conditions set forth in the Share Purchase Agreement, USB will purchase all the issued and outstanding shares of common stock of MUB for a purchase price of approximately $8.0 billion, consisting of $5.5 billion in cash, subject to certain customary adjustments, and 44,374,155 shares of common stock of USB. The purchase price is based on the tangible book value of MUB at the closing of the sale being equal to $6.25 billion. Prior to closing, MUB will pay a special dividend to reduce its tangible book value to $6.25 billion. The completion of the sale is subject to certain conditions, including, among others, the receipt of required governmental approvals and the expiration of certain waiting periods, including approvals from the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, the Japanese Financial Services Agency, and the Financial Industry Regulatory Authority.

USB is not acquiring MUB's Global Corporate & Investment Bank - U.S. business, certain middle and back office functions, and certain other assets and liabilities (including Intrepid Investment Bankers LLC and Union Bank of California Leasing, Inc.). The Company is retaining its subsidiaries other than MUB, including MUSA.

Net assets to be sold to USB were classified as held for sale as of September 30, 2021. Loans included in the disposal group were recorded at the lower of cost or fair value and the related allowance for loan losses was reversed. The Company recorded a loss of $394 million to reduce the disposal group carrying value at December 31, 2021 to its fair value less costs to sell.

The following table represents the condensed results of operations for the businesses held for sale.

	Years Ended December 31,	
(Dollars in millions)	**2021**	**2020**
Results of operations		
Net interest income	$ 2,066	$ 2,173
Noninterest income	407	371
Total revenue	2,473	2,544
Noninterest expense	2,234	2,279
(Reversal of) provision for credit losses	(931)	752
Income (loss) from discontinued operations before income taxes	1,170	(487)
Income tax expense (benefit)	349	(117)
Net income (loss) from discontinued operations, net of taxes	821	(370)
Deduct: Net loss (income) from noncontrolling interests	10	16
Net income (loss) from discontinued operations, excluding noncontrolling interests	$ 831	$ (354)

Note 2—Discontinued Operations (Continued)

The following table shows the assets and liabilities of discontinued operations.

(Dollars in millions, except per share amount)	December 31, 2021	December 31, 2020
Assets		
Cash and due from banks	$ 1,618	$ 49
Interest bearing deposits in banks	9,656	11,743
Total cash and cash equivalents	11,274	11,792
Trading account assets	590	1,125
Securities available for sale	27,688	17,612
Securities held to maturity	—	7,311
Loans held for investment	—	62,050
Allowance for loan losses	—	(1,001)
Loans held for investment, net	—	61,049
Goodwill	781	781
Loans held for sale	57,045	304
Other assets	4,370	4,785
Assets of discontinued operations	$ 101,748	$ 104,759
Liabilities		
Deposits:		
Noninterest bearing	$ 38,870	$ 34,162
Interest bearing	52,021	54,385
Total deposits	90,891	88,547
Commercial paper and other short-term borrowings	8	23
Long-term debt	4,327	6,884
Trading account liabilities	163	214
Other liabilities	1,430	1,969
Liabilities of discontinued operations	$ 96,819	$ 97,637

Depreciation and amortization included in discontinued operations was $138 million and $150 million for the years ended December 31, 2021 and 2020, respectively. Purchases of securities were $11.1 billion and $7.9 billion, respectively, for the years ended December 31, 2021 and 2020. Significant operating noncash items from discontinued operations for the years ended December 31, 2021 and 2020 included a reversal of provision for credit losses of $931 million and a provision for credit losses of $752 million, respectively, for the years ended December 31, 2021 and 2020, and a disposal group valuation loss of $394 million for the year ended December 31, 2021.

Note 3—Securities

Securities Available for Sale

The amortized cost, gross unrealized gains, gross unrealized losses and fair value of securities available for sale for December 31, 2021 and 2020 are presented below.

	December 31, 2021				December 31, 2020			
(Dollars in millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Direct bank purchase bonds	$ 89	$ 14	$ —	$ 103	$ 92	$ 17	$ —	$ 109
Other	175	2	—	177	531	7	—	538
Total securities available for sale	$ 264	$ 16	$ —	$ 280	$ 623	$ 24	$ —	$ 647

There were no securities available for sale with a continuous unrealized loss position at December 31, 2021 or 2020.

The fair value of debt securities available for sale by contractual maturity are shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to prepay obligations with or without prepayment penalties.

	December 31, 2021				
(Dollars in millions)	One Year or Less	Over One Year Through Five Years	Over Five Years Through Ten Years	Over Ten Years	Total Fair Value
Direct bank purchase bonds	$ 12	$ 50	$ 41	$ —	$ 103
Other	76	101	—	—	177
Total securities available for sale	$ 88	$ 151	$ 41	$ —	$ 280

Securities Pledged and Received as Collateral

At December 31, 2021 and December 31, 2020, the Company pledged $8.3 billion and $14.1 billion of trading securities as collateral of which $2.8 billion and $3.2 billion, respectively, was permitted to be sold or repledged. These securities were pledged as collateral for securities loaned or sold under repurchase agreements.

At December 31, 2021 and December 31, 2020, the Company received $33.7 billion and $29.9 billion, respectively, of collateral for securities borrowed or purchased under resale agreements, of which $33.7 billion and $29.9 billion, respectively, was permitted to be sold or repledged. Of the collateral received, the Company sold or repledged $33.2 billion and $29.7 billion at December 31, 2021 and December 31, 2020, respectively, for securities loaned or sold under repurchase agreements.

For additional information related to the Company's significant accounting policies on securities pledged as collateral, see Note 1 to these consolidated financial statements.

Note 4—Loans and Allowance for Loan Losses

The following table provides the outstanding balances of loans held for investment at December 31, 2021 and 2020.

(Dollars in millions)	December 31, 2021	December 31, 2020
Loans held for investment:		
Commercial and industrial	$ 22,336	$ 18,958
Commercial mortgage	93	103
Construction	131	17
Lease financing	926	1,038
Total commercial portfolio	23,486	20,116
Total loans held for investment(1)	23,486	20,116
Allowance for loan losses	(264)	(272)
Loans held for investment, net	$ 23,222	$ 19,844

(1) Includes $(135) million and $(104) million at December 31, 2021 and December 31, 2020, respectively, for net unamortized (discounts) and premiums and deferred (fees) and costs.

Accrued interest receivable on loans held for investment totaled $76 million at December 31, 2021 and is included in other assets on the consolidated balance sheet.

Allowance for Loan Losses

The provision for loan losses was $(10) million for the commercial loan segment at December 31, 2021, largely due to the stabilization of the economic environment with a modest recovery from the COVID-19 pandemic. The economic forecast incorporated management's expectations at December 31, 2021, which included a continuing economic recovery in subsequent years, and significantly lower COVID-19-related uncertainty than at December 31, 2020 due to fiscal stimulus and economic indicators that were better than previously forecasted.

	For the Year Ended December 31,	
	2021	2020
(Dollars in millions)	Commercial	Commercial
Allowance for loan losses, beginning of period	$ 272	$ 189
Cumulative effect adjustment from adoption of ASU 2016-13 (1)	—	34
Allowance for loan losses, beginning of period, adjusted for adoption of ASU 2016-13 (1)	272	223
(Reversal of) provision for loan losses	(10)	97
Loans charged-off	(3)	(61)
Recoveries of loans previously charged-off	5	13
Allowance for loan losses, end of period	$ 264	$ 272

Note 4—Loans and Allowance for Loan Losses (Continued)

Nonaccrual and Past Due Loans

The following table presents nonaccrual loans as of December 31, 2021 and 2020. The nonaccrual loans all have a related allowance for loan losses recorded as of December 31, 2021.

(Dollars in millions)	December 31, 2021	December 31, 2020
Commercial and industrial	$ 133	$ 93
Commercial mortgage	—	4
Total commercial portfolio	133	97
Total nonaccrual loans	$ 133	$ 97
Troubled debt restructured loans that continue to accrue interest	$ 43	$ 32
Troubled debt restructured nonaccrual loans (included in total nonaccrual loans above)	$ 43	$ 18

The following tables show the aging of the balance of loans held for investment by class as of December 31, 2021 and 2020.

	December 31, 2021				
	Aging Analysis of Loans				
(Dollars in millions)	Current	30 to 89 Days Past Due	90 Days or More Past Due	Total Past Due	Total
Commercial and industrial	$ 23,257	$ 5	$ —	$ 5	$ 23,262
Commercial mortgage	93	—	—	—	93
Construction	131	—	—	—	131
Total commercial portfolio	23,481	5	—	5	23,486
Total loans held for investment	$ 23,481	$ 5	$ —	$ 5	$ 23,486

	December 31, 2020				
	Aging Analysis of Loans				
(Dollars in millions)	Current	30 to 89 Days Past Due	90 Days or More Past Due	Total Past Due	Total
Commercial and industrial	$ 19,930	$ 16	$ 50	$ 66	$ 19,996
Commercial mortgage	103	—	—	—	103
Construction	17	—	—	—	17
Total commercial portfolio	20,050	16	50	66	20,116
Total loans held for investment	$ 20,050	$ 16	$ 50	$ 66	$ 20,116

There were no loans held for investment 90 days or more past due and still accruing interest at December 31, 2021 and $10 million at December 31, 2020. The following table presents the loans that are 90 days or more past due, but are not on nonaccrual status, by loan class.

(Dollars in millions)	December 31, 2021	December 31, 2020
Commercial and industrial	$ —	$ 10
Total commercial portfolio	—	10
Total loans that are 90 days or more past due and still accruing	$ —	$ 10

Credit Quality Indicators

Management analyzes the Company's loan portfolios by applying specific monitoring policies and procedures that vary according to the relative risk profile and other characteristics within the various loan portfolios. Loans within the commercial portfolio segment are classified as either pass or criticized. Criticized credits are those that have regulatory risk ratings of special mention, substandard or doubtful; classified

Note 4—Loans and Allowance for Loan Losses (Continued)

credits are those that have regulatory risk ratings of substandard or doubtful. Special mention credits are potentially weak, as the borrower has begun to exhibit deteriorating trends, which, if not corrected, may jeopardize repayment of the loan and result in further downgrade. Substandard credits have well-defined weaknesses, which, if not corrected, could jeopardize the full satisfaction of the debt. A credit classified as doubtful has critical weaknesses that make full collection improbable on the basis of currently existing facts and conditions.

The following tables summarize the loans in the commercial portfolio segment monitored for credit quality based on regulatory risk ratings.

	December 31, 2021							
	Non-Revolving Loans at Amortized Cost by Origination Year							
(Dollars in millions)	2021	2020	2019	2018	2017	Prior	Revolving Loans	Total
Commercial and industrial:								
Pass	$2,743	$2,248	$ 973	$ 420	$ 306	$ 527	$14,191	$ 21,408
Criticized:								
Special Mention	27	—	174	21	52	7	291	572
Classified	33	65	15	99	3	31	110	356
Total	2,803	2,313	1,162	540	361	565	14,592	22,336
Commercial mortgage:								
Pass	—	—	—	—	74	19	—	93
Criticized:								
Special Mention	—	—	—	—	—	—	—	—
Classified	—	—	—	—	—	—	—	—
Total	—	—	—	—	74	19	—	93
Construction:								
Pass	127	—	—	—	—	—	4	131
Criticized:								
Special Mention	—	—	—	—	—	—	—	—
Classified	—	—	—	—	—	—	—	—
Total	127	—	—	—	—	—	4	131
Lease financing:								
Pass	177	270	95	—	—	384	—	926
Criticized:								
Special Mention	—	—	—	—	—	—	—	—
Classified	—	—	—	—	—	—	—	—
Total	177	270	95	—	—	384	—	926
Total commercial portfolio	$3,107	$2,583	$1,257	$ 540	$ 435	$ 968	$14,596	$ 23,486
Percentage of total	13 %	11 %	5 %	2 %	2 %	4 %	63 %	100 %

Note 4—Loans and Allowance for Loan Losses (Continued)

	December 31, 2020							
	Non-Revolving Loans at Amortized Cost by Origination Year							
(Dollars in millions)	**2020**	**2019**	**2018**	**2017**	**2016**	**Prior**	**Revolving Loans**	**Total**
Commercial and industrial:								
Pass	$ 3,309	$ 1,253	$ 1,066	$ 437	$ 395	$ 623	$ 10,412	$ 17,495
Criticized:								
Special Mention	12	146	23	56	—	70	529	836
Classified	36	57	107	20	—	23	384	627
Total	3,357	1,456	1,196	513	395	716	11,325	18,958
Commercial mortgage:								
Pass	—	—	—	78	—	25	—	103
Criticized:								
Special Mention	—	—	—	—	—	—	—	—
Classified	—	—	—	—	—	—	—	—
Total	—	—	—	78	—	25	—	103
Construction:								
Pass	17	—	—	—	—	—	—	17
Criticized:								
Special Mention	—	—	—	—	—	—	—	—
Classified	—	—			—	—	—	—
Total	17	—	—	—	—	—	—	17
Lease financing:								
Pass	387	140	1	—	48	462	—	1,038
Criticized:								
Special Mention	—	—	—	—	—	—	—	—
Classified	—	—	—	—	—	—	—	—
Total	387	140	1	—	48	462	—	1,038
Total commercial portfolio	$ 3,761	$ 1,596	$ 1,197	$ 591	$ 443	$ 1,203	$ 11,325	$ 20,116
Percentage of total	19%	8%	6%	3%	2%	6%	56%	100%

Troubled Debt Restructurings

The following table provides a summary of the Company's recorded investment in TDRs as of December 31, 2021 and 2020. The summary includes those TDRs that are on nonaccrual status and those that continue to accrue interest. The Company had no commitments to lend additional funds to borrowers with loan modifications classified as TDRs at December 31, 2021 and $219 million at December 31, 2020.

(Dollars in millions)	**December 31, 2021**	**December 31, 2020**
Commercial and industrial	$ 86	$ 50
Total restructured loans	$ 86	$ 50

In 2021, TDR modifications in the commercial portfolio segment were substantially composed of maturity extensions. There were no charge-offs related to TDR modifications for 2021 or 2020. The allowance for loan losses for TDRs was measured on an individual loan basis or in pools with similar risk characteristics.

Note 4—Loans and Allowance for Loan Losses (Continued)

The following table provides the pre- and post-modification outstanding recorded investment amounts of TDRs as of the date of the restructuring that occurred during the years ended December 31, 2021 and 2020.

	For the Year Ended December 31, 2021		For the Year Ended December 31, 2020	
(Dollars in millions)	Pre-Modification Outstanding Recorded Investment[1]	Post-Modification Outstanding Recorded Investment[2]	Pre-Modification Outstanding Recorded Investment[1]	Post-Modification Outstanding Recorded Investment[2]
Commercial and industrial	$ 104	$ 104	$ 89	$ 89
Total	$ 104	$ 104	$ 89	$ 89

(1) Represents the recorded investment in the loan immediately prior to the restructuring event.
(2) Represents the recorded investment in the loan immediately following the restructuring event. It includes the effect of paydowns that were required as part of the restructuring terms.

The following table provides the recorded investment amounts of TDRs at the date of default, for which there was a payment default during the years ended December 31, 2021 and 2020, and where the default occurred within the first twelve months after modification into a TDR. A payment default is defined as the loan being 60 days or more past due.

(Dollars in millions)	For the Year Ended December 31, 2021	For the Year Ended December 31, 2020
Commercial and industrial	$ —	$ 17
Total	$ —	$ 17

Loan Concentrations

The Company's most significant concentrations of credit risk within its loan portfolio include commercial and industrial loans made to the financial and insurance industries, power and utilities industry, entertainment and media industry, manufacturing industry, and business services industry. At December 31, 2021, the Company had $11.4 billion in loans made to the financial and insurance industries and an additional $8.4 billion in unfunded commitments. At December 31, 2021, the Company had $2.7 billion in loans made to the power and utilities industry and an additional $4.9 billion in unfunded commitments. At December 31, 2021, the Company had $3 billion in loans made to the entertainment and media industry and an additional $1.8 billion in unfunded commitments. At December 31, 2021, the Company had $1.5 billion in loans made to the manufacturing industry and an additional $2.1 billion in unfunded commitments. At December 31, 2021, the Company had $1.5 billion in loans made to the business services industry and an additional $1.6 billion in unfunded commitments.

Note 5—Goodwill and Other Intangible Assets

Goodwill

The changes in the carrying amount of goodwill during 2021 and 2020 are shown in the table below.

(Dollars in millions)	Goodwill	Accumulated impairment losses	Total
Goodwill, December 31, 2019	$ 1,087	$ (191)	$ 896
Impairment losses	—	(270)	(270)
Goodwill, December 31, 2020	$ 1,087	$ (461)	$ 626
Dispositions	$ (79)	$ —	(79)
Goodwill, December 31, 2021	$ 1,008	$ (461)	$ 547

The Company performs goodwill impairment tests on an annual basis as of April 1, and between annual tests if an event occurs or circumstances change that would more-likely-than-not reduce the fair value

Note 5—Goodwill and Other Intangible Assets (Continued)

of a reporting unit below its carrying amount. The Company estimates the fair value of its reporting units using a combination of income and market approaches. The income approach estimates the fair value of the reporting units by discounting management's projections of each reporting unit's cash flows, including a terminal value to estimate the fair value of cash flows beyond the final year of projected results, using a discount rate derived from the Capital Asset Pricing Model. The market approach incorporates comparable public company price to tangible book value and price to earnings multiples.

During the third quarter of 2020, due to revisions to multiples used in the market approach component of its fair value estimation, the Company initiated an interim quantitative impairment test of goodwill allocated to its Global Corporate & Investment Banking - U.S reporting unit. Due largely to increases in observed market discount rates, the Company recorded an impairment charge of $270 million. The impairment charge did not result in a cash outflow and did not significantly affect the regulatory capital ratios or the Company's liquidity position as of December 31, 2021.

During 2021, the Company disposed of its debt servicing and securities custody services business and its homeowners association services division, resulting in a $79 million decrease in goodwill.

Intangible Assets

The table below reflects the Company's identifiable intangible assets and accumulated amortization at December 31, 2021 and 2020.

	December 31, 2021			December 31, 2020		
(Dollars in millions)	**Gross Carrying Amount**	**Accumulated Amortization**	**Net Carrying Amount**	**Gross Carrying Amount**	**Accumulated Amortization**	**Net Carrying Amount**
Core deposit intangibles	$ 33	$ (33)	$ —	$ 33	$ (19)	$ 14
Trade names	3	(2)	1	3	(2)	1
Customer relationships	120	(30)	90	120	(23)	97
Other	1	(1)	—	2	(2)	—
Total intangible assets with a definite useful life	$ 157	$ (66)	$ 91	$ 158	$ (46)	$ 112

Total amortization expense for 2021 and 2020 was $7 million and $7 million, respectively.

Estimated future amortization expense at December 31, 2021 is as follows:

(Dollars in millions)	**Trade Name**	**Customer Relationships**	**Total Identifiable Intangible Assets**
Years ending December 31, :			
2022	$ 1	$ 7	$ 8
2023	—	7	7
2024	—	7	7
2025	—	6	6
2026	—	6	6
Thereafter	—	57	57
Total estimated amortization expense	$ 1	$ 90	$ 91

Note 6—Variable Interest Entities

In the normal course of business, the Company has certain financial interests in entities which have been determined to be VIEs. Generally, a VIE is a corporation, partnership, trust or other legal structure where the equity investors do not have substantive voting rights, an obligation to absorb the entity's losses or the right to receive the entity's returns, or the ability to direct the significant activities of the entity. The following discusses the Company's consolidated and unconsolidated VIEs.

Consolidated VIEs

The following tables present the assets and liabilities of consolidated VIEs recorded on the Company's consolidated balance sheets at December 31, 2021 and 2020.

	December 31, 2021				
	Consolidated Assets			Consolidated Liabilities	
(Dollars in millions)	Loans Held for Investment, Net	Other Assets	Total Assets	Other Liabilities	Total Liabilities
Leasing investments	237	106	343	2	2
Total consolidated VIEs	$ 237	$ 106	$ 343	$ 2	$ 2

	December 31, 2020				
	Consolidated Assets			Consolidated Liabilities	
(Dollars in millions)	Loans Held for Investment, Net	Other Assets	Total Assets	Other Liabilities	Total Liabilities
Leasing investments	310	111	421	5	5
Total consolidated VIEs	$ 310	$ 111	$ 421	$ 5	$ 5

Leasing Investments

The Company has leasing investments primarily in the wind energy and rail industries. The Company is considered the primary beneficiary and has consolidated these investments because the Company has the power to direct the activities of these entities that significantly impact the entities' economic performances. The Company also has the right to receive potentially significant benefits or the obligation to absorb potentially significant losses of these investments.

Unconsolidated VIEs

The following tables present the Company's carrying amounts related to the unconsolidated VIEs at December 31, 2021 and 2020. The tables also present the Company's maximum exposure to loss resulting from its involvement with these VIEs. The maximum exposure to loss represents the carrying amount of the Company's involvement plus any legally binding unfunded commitments in the unlikely event that all of the assets in the VIEs become worthless.

	December 31, 2021					
	Unconsolidated Assets			Unconsolidated Liabilities		
(Dollars in millions)	Loans Held for Investment, Net	Other Assets	Total Assets	Other Liabilities	Total Liabilities	Maximum Exposure to Loss
Renewable energy investments	16	1,044	1,060	—	—	1,080
Other investments	—	17	17	4	4	18
Total unconsolidated VIEs	$ 16	$ 1,061	$ 1,077	$ 4	$ 4	$ 1,098

Note 6—Variable Interest Entities (Continued)

	December 31, 2020					
	Unconsolidated Assets			Unconsolidated Liabilities		
(Dollars in millions)	Loans Held for Investment, Net	Other Assets	Total Assets	Other Liabilities	Total Liabilities	Maximum Exposure to Loss
Renewable energy investments	—	1,215	1,215	—	—	1,235
Other investments	—	18	18	4	4	20
Total unconsolidated VIEs	$ —	$ 1,233	$ 1,233	$ 4	$ 4	$ 1,255

Renewable Energy Investments

Through its subsidiaries, the Company makes equity investments in LLCs established by third party sponsors to operate and manage wind, solar, hydroelectric and cogeneration power plant projects. Power generated by the projects is sold to third parties through long-term purchase power agreements. As a limited investor member, the Company is allocated production tax credits and taxable income or losses associated with the projects. The Company has no voting or other rights to direct the significant activities of the LLCs, and therefore is not considered the primary beneficiary and does not consolidate these investments.

Other Investments

The Company has other investments in structures formed by third parties. The Company has no voting or other rights to direct the activities of the investments that would most significantly impact the entities' performance, and therefore is not considered the primary beneficiary and does not consolidate these investments.

Note 7—Deposits

The aggregate amount of time deposits that meet or exceed the FDIC insurance limit was $0.5 billion and $0.3 billion at December 31, 2021 and 2020, respectively.

At December 31, 2021, the Company had $525 million in interest bearing time deposits. Maturity information for all interest bearing time deposits is summarized below.

(Dollars in millions)	December 31, 2021
Due in one year or less	$ 525
Total	$ 525

Note 8—Securities Financing Arrangements

The Company enters into repurchase agreements and securities lending agreements to facilitate customer match-book activity, cover short positions and fund the Company's trading inventory. The Company manages credit exposure from certain transactions by entering into master netting agreements and collateral arrangements with counterparties. The relevant agreements allow for the efficient closeout of the transaction, liquidation and set-off of collateral against the net amount owed by the counterparty following a default. Under these agreements and transactions, the Company either receives or provides collateral in the form of securities. In many cases, the Company is permitted to sell or repledge these securities held as collateral and use the securities to secure repurchase agreements or enter into securities lending transactions. In certain cases, the Company may agree for collateral to be posted to a third-party custodian under a tri-party arrangement that enables the Company to take control of such collateral in the event of a counterparty default. Default events generally include, among other things, failure to pay, insolvency or bankruptcy of a counterparty. For additional information related to securities pledged and received as collateral, see Note 3 to these consolidated financial statements.

Note 8—Securities Financing Arrangements (Continued)

The following table presents the gross obligations for securities sold under agreements to repurchase and securities loaned by remaining contractual maturity and class of collateral pledged as of December 31, 2021 and December 31, 2020.

	December 31, 2021					December 31, 2020				
(Dollars in millions)	Overnight and Continuous	Up to 30 Days	31 - 90 Days	Greater than 90 Days	Total	Overnight and Continuous	Up to 30 Days	31 - 90 Days	Greater than 90 Days	Total
Securities sold under agreements to repurchase:										
U.S. Treasury and government agencies	$ 10,827	$ 3,026	$ 1,638	$ 751	$16,242	$ —	$14,642	$ 296	$ —	$14,938
Mortgage-backed:										
U.S. agencies	5,275	1,038	4,479	—	10,792	—	8,069	5,465	—	13,534
Corporate debt	226	—	1,185	—	1,411	—	676	756	—	1,432
Other debt	88	—	485	—	573	—	401	377	—	778
Equity	1,580	357	237	—	2,174	—	1,377	1,067	—	2,444
Total	$ 17,996	$ 4,421	$ 8,024	$ 751	$31,192	$ —	$25,165	$ 7,961	$ —	$33,126
Securities loaned:										
Corporate bonds	$ 11	$ —	$ —	$ —	$ 11	$ 1	$ —	$ —	$ —	$ 1
Other debt	—	—	—	—	—	11	—	241	—	252
Equity	961	399	—	—	1,360	366	243	—	—	609
Total	$ 972	$ 399	$ —	$ —	$ 1,371	$ 378	$ 243	$ 241	$ —	$ 862

Offsetting Financial Assets and Liabilities

The Company primarily enters into derivative contracts, repurchase agreements and securities lending agreements with counterparties utilizing standard International Swaps and Derivatives Association Master Agreements and Credit Support Annex Agreements, Master Repurchase Agreements, and Master Securities Lending Agreements, respectively. These agreements generally establish the terms and conditions of the transactions, including a legal right to set-off amounts payable and receivable between the Company and a counterparty, regardless of whether or not such amounts have matured or have contingency features.

The following tables present the offsetting of financial assets and liabilities as of December 31, 2021 and December 31, 2020.

	December 31, 2021					
				Gross Amounts Not Offset in Balance Sheet		
(Dollars in millions)	Gross Amounts of Recognized Assets/Liabilities	Gross Amounts Offset in Balance Sheet	Net Amounts Presented in Balance Sheet	Financial Instruments	Cash Collateral Received/Pledged	Net Amount
Financial Assets:						
Derivative assets	$ 538	$ 75	$ 463	$ 19	$ —	$ 444
Securities borrowed or purchased under resale agreements	29,257	6,021	23,236	23,011	—	225
Total	$ 29,795	$ 6,096	$ 23,699	$ 23,030	$ —	$ 669
Financial Liabilities:						
Derivative liabilities	$ 212	$ 67	$ 145	$ 1	$ —	$ 144
Securities loaned or sold under repurchase agreements	32,563	6,021	26,542	23,015	—	3,527
Total	$ 32,775	$ 6,088	$ 26,687	$ 23,016	$ —	$ 3,671

Note 8—Securities Financing Arrangements (Continued)

	December 31, 2020					
				Gross Amounts Not Offset in Balance Sheet		
(Dollars in millions)	Gross Amounts of Recognized Assets/Liabilities	Gross Amounts Offset in Balance Sheet	Net Amounts Presented in Balance Sheet	Financial Instruments	Cash Collateral Received/Pledged	Net Amount
Financial Assets:						
Derivative assets	$ 1,050	$ 189	$ 861	$ 38	$ —	$ 823
Securities borrowed or purchased under resale agreements	24,435	6,827	17,608	17,539	—	69
Total	$ 25,485	$ 7,016	$ 18,469	$ 17,577	$ —	$ 892
Financial Liabilities:						
Derivative liabilities	$ 290	$ 156	$ 134	$ 2	$ —	$ 132
Securities loaned or sold under repurchase agreements	33,988	6,827	27,161	26,063	—	1,098
Total	$ 34,278	$ 6,983	$ 27,295	$ 26,065	$ —	$ 1,230

Note 9—Commercial Paper and Other Short-Term Borrowings

The following table is a summary of the Company's commercial paper and other short-term borrowings:

(Dollars in millions)	December 31, 2021	December 31, 2020
Short-term debt due to MUFG Bank, Ltd., with a weighted average interest rate of 0.60% at December 31, 2020	$ —	$ 9
Short-term debt due to affiliates, with weighted average interest rates of (-0.04)% and (-0.08%) at December 31, 2021 and December 31, 2020, respectively	69	78
Total commercial paper and other short-term borrowings	$ 69	$ 87

At December 31, 2021, the short-term debt due to affiliates had a weighted average remaining maturity of 217 days.

Short-term debt due to MUFG Bank, Ltd. consisted of both secured and unsecured fixed and floating rate borrowings.

MUSA maintains an uncommitted, unsecured lending facility with Mitsubishi UFJ Securities Holdings Co., Ltd. under which it may borrow up to JPY 160 billion (USD $1.4 billion equivalent). Under the terms of the facility, MUSA can choose to borrow in Japanese Yen or U.S. Dollars. Japanese Yen denominated borrowings include an irrevocable extension option allowing MUSA to extend the maturity of an individual draw by 100 days at any time prior to its original, stated maturity. At December 31, 2021, MUSA had JPY 8 billion (USD $69 million equivalent) drawn under this facility.

Note 10—Long-Term Debt

Long-term debt consists of borrowings having an original maturity of one year or more. The following is a summary of the Company's long-term debt.

(Dollars in millions)	December 31, 2021	December 31, 2020
Debt issued by MUAH		
Senior debt:		
Fixed rate due June 2022. This note had an interest rate of 3.50% at December 31, 2020	$ —	$ 399
Fixed rate due February 2025. This note had an interest rate of 3.00% at December 31, 2020	—	398
Senior debt due to MUFG Bank, Ltd:		
Floating rate debt due December 2023. This note, which bore interest at 0.99% above 3-month LIBOR, had a rate of 1.23% at December 31, 2020	—	1,625
Floating rate debt due December 2023. This note, which bore interest at 0.94% above 3-month LIBOR, had a rate of 1.15% at December 31, 2020	—	1,765
Floating rate debt due December 2023. This note, which bears interest at 0.76% above 3-month EURIBOR, had a rate of 0.76% at December 31, 2021 and 0.76% at December 31, 2020	25	27
Floating rate debt due March 2024. This note, which bears interest at 0.76% above 3-month LIBOR, had a rate of 0.88% at December 31, 2021 and 0.98% at December 31, 2020	775	775
Floating rate debt due June 2024. This note, which bears interest at 0.79% above 3-month LIBOR, had a rate of 0.90% at December 31, 2021 and 1.00% at December 31, 2020	750	750
Floating rate debt due September 2024. This note, which bears interest at 0.82% above 3-month LIBOR, had a rate of 0.93% at December 31, 2021 and 1.03% at December 31, 2020	750	750
Floating rate debt due December 2024. This note, which bears interest at 0.84% above 3-month LIBOR, had a rate of 0.96% at December 31, 2021 and 1.06% at December 31, 2020	750	750
Floating rate debt due March 2024. This note, which bears interest at 0.66% above 3-month LIBOR, had a rate of 0.77% at December 31, 2021	90	—
Floating rate debt due September 2025. This note, which bears interest at 0.69% above the secured overnight financing rate , had a rate of 0.74% at December 31, 2021	60	—
Floating rate debt due March 2025. This note, which bears interest at 0.56% above the secured overnight financing rate , had a rate of 0.74% at December 31, 2021	885	—
Floating rate debt due June 2025. This note, which bears interest at 0.58% above the secured overnight financing rate , had a rate of 0.63% at December 31, 2021	885	—
Floating rate debt due September 2025. This note, which bears interest at 0.62% above the secured overnight financing rate , had a rate of 0.67% at December 31, 2021	880	—
Floating rate debt due December 2025. This note, which bears interest at 0.65% above the secured overnight financing rate , had a rate of 0.70% at December 31, 2021	880	—
Junior subordinated debt payable to trusts:		
Floating rate note due September 2036. This note had an interest rate of 1.92% at December 31, 2020	—	37
Total debt issued by MUAH	6,730	7,276
Debt issued by other MUAH subsidiaries		
Senior debt due to MUFG Bank, Ltd:		
Various fixed rate borrowings due between March 2023 and September 2027 with a weighted average interest rate of 1.33% (between 1.23% and 2.44%) at December 31, 2021 and 1.48% (between 1.23% and 2.44%) at December 31, 2020	275	323
Non-recourse debt due to MUFG Bank, Ltd:		
Various floating rate non-recourse borrowings due December 2021. These notes, which bear interest above 1- or 3-month LIBOR had an interest rate of 0% at December 31, 2021 and 0.51% at December 31, 2020	—	3
Fixed rate non-recourse borrowings due between July 2022 and December 2023 with a weighted average interest rate of 3.21% (between 2.18% and 3.72%) at December 31, 2021 and 3.15% (between 1.96% and 3.72%) at December 31, 2020	92	119
Other non-recourse debt:		
Floating rate non-recourse borrowings due December 2023 which had an interest rate of 2.2% at December 31, 2021	4	—
Fixed rate non-recourse borrowings due December 2026 which had an interest rate of 5.34% at December 31, 2021 and 5.34% at December 31, 2020	22	26
Other	1	—
Total debt issued by other MUAH subsidiaries	394	471
Total long-term debt	$ 7,124	$ 7,747

Note 10—Long-Term Debt (Continued)

A summary of maturities for the Company's long-term debt at December 31, 2021 is presented below.

(Dollars in millions)	Debt issued by MUAH	Debt issued by other MUAH subsidiaries	Total
2022	$ —	$ 35	$ 35
2023	25	85	110
2024	3,115	—	3,115
2025	3,590	—	3,590
2026	—	22	22
Thereafter	—	252	252
Total long-term debt	$ 6,730	$ 394	$ 7,124

MUAH Senior Debt

Certain debt issuances were repayable prior to maturity at the Company's option at a redemption price equal to 100% of par plus accrued interest, plus a make-whole premium. MUAH senior debt was issued under a shelf registration statement with the SEC, which expired as of January 29, 2018. This debt was repaid in the fourth quarter of 2021 as required due to the announced sale of MUB discussed in Note 2 "Discontinued Operations."

MUAH Senior Debt due to MUFG Bank, Ltd.

In December 2018, MUAH entered into a Master Internal Total Loss Absorbing Capacity Loan Agreement with MUFG Bank, Ltd. to comply with the Federal Reserve's TLAC rule (12 CFR Section 252.165). MUAH may prepay the notes, in whole or in part, two years prior to the stated maturities. The outstanding principal of the notes can be declared due and payable immediately, together with any accrued and unpaid interest, in the event of liquidation, insolvency or similar proceeding with respect to MUAH or all or substantially all of its property. As the TLAC long-term debt is repaid and refinanced from time to time, it is expected that such debt will be replaced by new TLAC long-term debt of similar terms. Under certain circumstances, the Federal Reserve may issue a conversion order pursuant to the TLAC rule (12 CFR Section 252.163) that would result in the conversion of any then-outstanding note, in whole or in part, to MUAH equity issued to MUFG Bank, Ltd.

Senior Debt due to MUFG Bank, Ltd. by other MUAH subsidiaries

MUAH's subsidiaries also borrow on a long-term basis from MUFG Bank, Ltd. At December 31, 2021, $275 million of senior debt issued to MUFG Bank, Ltd. was fixed rate, amortizing funding tied to specific assets owned by MUAH's subsidiaries.

Non-recourse Debt

Non-recourse debt serves as funding for certain lease financings offered to customers. The lenders are secured by an interest in the underlying leased assets and have no recourse to the Company or its subsidiaries. Interest and principal on this debt is serviced entirely by the underlying assets and is not supported by the Company.

Note 11—Fair Value Measurement and Fair Value of Financial Instruments

Valuation Methodologies

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., an exit price) in an orderly transaction between willing market participants at the measurement date. The Company has an established and documented process for determining fair value for financial assets and liabilities that are measured at fair value on either a recurring or nonrecurring basis. When available, quoted market prices are used to determine fair value. If quoted market prices are not available, fair value is based upon valuation techniques that use, where possible, current market-based or independently sourced parameters, such as yield curves, foreign exchange rates, credit spreads, commodity prices and implied volatilities. Valuation adjustments may be made to ensure the financial instruments are recorded at fair value. These adjustments include amounts that reflect counterparty credit quality and that consider the Company's own creditworthiness in determining the fair value of its trading assets and liabilities.

Fair Value Hierarchy

In determining fair value, the Company maximizes the use of observable market inputs and minimizes the use of unobservable inputs. Observable inputs reflect market-derived or market-based information obtained from independent sources, while unobservable inputs reflect the Company's estimate about market data. Based on the observability of the significant inputs used, the Company classifies its fair value measurements in accordance with the three-level hierarchy as defined by GAAP. This hierarchy is based on the quality, observability, and reliability of the information used to determine fair value.

Level 1: Valuations are based on quoted prices in active markets for identical assets or liabilities. Since the valuations are based on quoted prices that are readily available in an active market, they do not entail a significant degree of judgment.

Level 2: Valuations are based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuations for which all significant assumptions are observable or can be corroborated by observable market data.

Level 3: Valuations are based on at least one significant unobservable input that is supported by little or no market activity and is significant to the fair value measurement. Values are determined using pricing models and discounted cash flow models that include management judgment and estimation, which may be significant.

In assigning the appropriate levels, the Company performs a detailed analysis of the assets and liabilities that are measured at fair value. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. The level within which the fair value measurement is categorized is based on the lowest level input that is significant to the fair value measurement in its entirety. Therefore, an item may be classified in Level 3 even though there may be many significant inputs that are readily observable.

Valuation Processes

The Company has established a valuation committee to oversee its valuation framework for measuring fair value and to establish valuation policies and procedures. The valuation committee's responsibilities include reviewing fair value measurements and categorizations within the fair value hierarchy and monitoring the use of pricing sources, mark-to-model valuations, dealer quotes and other valuation processes. The valuation committee reports to the Company's Disclosure & Accounting Committee and meets at least quarterly.

Independent price verification is performed periodically by the Company to test the market data and valuations of substantially all instruments measured at fair value on a recurring basis. As part of its independent price verification procedures, the Company compares pricing sources, tests data variances within certain thresholds and performs variance analysis, utilizing third party valuations and both internal and external models. Results are formally reported on a quarterly basis to the valuation committee.

Note 11—Fair Value Measurement and Fair Value of Financial Instruments (Continued)

A description of the valuation methodologies used for certain financial assets and liabilities measured at fair value is as follows:

Recurring Fair Value Measurements:

Trading Account Assets: Trading account assets are recorded at fair value and primarily consist of securities and derivatives held for trading purposes. See discussion below on securities available for sale, which utilize the same valuation methodology as trading account securities. See also discussion below on derivatives valuation.

Securities Available for Sale: Securities available for sale are recorded at fair value based on readily available quoted market prices, if available. When available, these securities are classified as Level 1. If such quoted market prices are not available, management utilizes third-party pricing services and broker quotations from dealers in the specific instruments. These securities are classified as Level 2 and include certain other debt securities. If no market prices or broker quotes are available, internal pricing models are used. To the extent possible, these pricing model valuations utilize observable market inputs obtained for similar securities. Typical inputs include LIBOR and U.S. Treasury yield curves, benchmark yields, consensus prepayment estimates and credit spreads. When pricing model valuations use significant unobservable inputs, the securities are classified as Level 3. These other debt securities primarily include direct bank purchase bonds. The valuation of these securities is based upon a return on equity method, which incorporates a market-required return on capital, probability of default and loss severity.

Other Assets: Other assets include derivative contracts. See discussion below on derivatives.

Derivatives: The Company's derivatives are primarily traded in over-the-counter markets where quoted market prices are not readily available. The Company values its derivatives using pricing models that are widely accepted in the financial services industry with inputs that are observable in the market or can be derived from or corroborated by observable market data. These models reflect the contractual terms of the derivatives including the period to maturity and market observable inputs such as yield curves and option volatility. Valuation adjustments are made to reflect counterparty credit quality and to consider the creditworthiness of the Company. These derivatives, which are included in trading account assets, trading account liabilities, other assets and other liabilities are generally classified as Level 2.

Trading Account Liabilities: Trading account liabilities are recorded at fair value and primarily consist of securities sold, not yet purchased and derivatives. See discussion above on derivatives valuation. Securities sold, not yet purchased consist of U.S. Treasury, U.S. government-sponsored agencies, state and municipal, sovereign government obligations, corporate bonds, ABS and equities and are classified as Level 2, which utilize the same valuation methodology as securities available for sale.

Other Liabilities: Other liabilities include derivative contracts. See discussion above on derivatives.

Nonrecurring Fair Value Measurements:

Loans Held for Investment: A collateral-dependent individually assessed loan may be measured based on a loan's observable market price or the underlying collateral securing the loan, which approximates fair value. Collateral may be real estate or business assets, including equipment. The value of collateral is determined based on independent appraisals. Appraised values may be adjusted based on management's historical knowledge, changes in market conditions from the time of valuation, and management's knowledge of the client and the client's business. The loan's market price is determined using market pricing for similar assets, adjusted for management judgment. These loans are reviewed and evaluated at least quarterly for additional impairment and adjusted accordingly. Loans that are adjusted to fair value based on underlying collateral or the loan's market price are classified as Level 3.

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Note 11—Fair Value Measurement and Fair Value of Financial Instruments (Continued)

Fair Value Measurements on a Recurring Basis

The following table presents financial assets and financial liabilities measured at fair value on a recurring basis at December 31, 2021 and 2020, by major category and by valuation hierarchy level.

	December 31, 2021					December 31, 2020				
(Dollars in millions)	Level 1	Level 2	Level 3	Netting[1]	Fair Value	Level 1	Level 2	Level 3	Netting[1]	Fair Value
Assets										
Trading account assets:										
U.S. Treasury and government agencies	$ —	$ 2,255	$ —	$ —	$ 2,255	$ —	$ 3,002	$ —	$ —	$ 3,002
Mortgage-backed:										
U.S. agencies	—	4,467	—	—	4,467	—	8,936	—	—	8,936
Corporate debt	—	1,126	—	—	1,126	—	838	—	—	838
Other debt	—	485	—	—	485	—	351	—	—	351
Equity	1	—	—	—	1	925	—	—	—	925
Derivative contracts	9	527	—	(74)	462	18	1,031	—	(188)	861
Total trading account assets	10	8,860	—	(74)	8,796	943	14,158	—	(188)	14,913
Securities available for sale:										
Direct bank purchase bonds	—	—	104	—	104	—	—	109	—	109
Other	—	—	176	—	176	—	10	528	—	538
Total securities available for sale	—	—	280	—	280	—	10	637	—	647
Other assets:										
Derivative contracts	—	2	—	(1)	1	—	1	—	(1)	—
Total assets	$ 10	$ 8,862	$ 280	$ (75)	$ 9,077	$ 943	$14,169	$ 637	$ (189)	$15,560
Percentage of total	— %	98 %	3 %	(1)%	100 %	6 %	91 %	4 %	(1)%	100 %
Percentage of total Company assets from continuing operations	— %	15 %	— %	— %	15 %	1 %	23 %	1 %	— %	25 %
Liabilities										
Trading account liabilities:										
U.S. Treasury and government agencies	$ —	$ 2,575	$ —	$ —	$ 2,575	$ —	$ 2,359	$ —	$ —	$ 2,359
Corporate debt	—	756	—	—	756	—	483	—	—	483
Other debt	—	—	—	—	—	—	—	—	—	—
Equity	—	—	—	—	—	144	—	—	—	144
Derivative contracts	5	207	—	(67)	145	54	235	—	(156)	133
Total trading account liabilities	5	3,538	—	(67)	3,476	198	3,077	—	(156)	3,119
Other liabilities:										
Derivative contracts	—	—	—	—	—	—	1	—	—	1
Total liabilities	$ 5	$ 3,538	$ —	$ (67)	$ 3,476	$ 198	$ 3,078	$ —	$ (156)	$ 3,120
Percentage of total	— %	102 %	— %	(2)%	100 %	6 %	99 %	— %	(5)%	100 %
Percentage of total Company liabilities from continuing operations	— %	7 %	— %	— %	7 %	— %	6 %	— %	— %	6 %

(1) Amounts represent the impact of legally enforceable master netting agreements between the same counterparties that allow the Company to net settle all contracts.

Level 3 securities available for sale at December 31, 2021 and 2020 largely consist of direct bank purchase bonds and other securities. In 2021, the Company sold $350 million of other securities that were purchased in 2020. There were no transfers in or out of level 3 securities available for sale in 2021 or 2020.

Note 11—Fair Value Measurement and Fair Value of Financial Instruments (Continued)

Fair Value Measurement on a Nonrecurring Basis

Certain assets may be measured at fair value on a nonrecurring basis. These assets are subject to fair value adjustments that result from the application of the lower of cost or fair value accounting or write-downs of individual assets. For assets measured at fair value on a nonrecurring basis during the years ended December 31, 2021 and 2020 that were still held on the consolidated balance sheet as of the respective periods ended, the following tables present the fair value of such assets by the level of valuation assumptions used to determine each fair value adjustment.

	December 31, 2021				For the Year Ended December 31, 2021
(Dollars in millions)	**Fair Value**	**Level 1**	**Level 2**	**Level 3**	**Gains (Losses)**
Loans held for investment	$ 44	$ —	$ —	$ 44	$ (5)
Other assets [(1)]	9	—	—	9	(222)
Total	$ 53	$ —	$ —	$ 53	$ (227)

(1) Losses are substantially related to capitalized software costs written off during 2021.

	December 31, 2020				For the Year Ended December 31, 2020
(Dollars in millions)	**Fair Value**	**Level 1**	**Level 2**	**Level 3**	**Gains (Losses)**
Loans held for investment	$ 100	$ —	$ —	$ 100	$ (53)
Goodwill [(1)]	462	—	—	462	(270)
Other assets	18	—	—	18	(11)
Total	$ 580	$ —	$ —	$ 580	$ (334)

(1) For further information, see Note 5 to these consolidated financial statements.

Note 12—Derivative Instruments and Other Financial Instruments Used For Hedging

The Company enters into certain derivative and other financial instruments primarily to assist customers with their risk management objectives and to manage the Company's exposure to interest rate risk. When entering into derivatives on behalf of customers, the Company generally acts as a financial intermediary by offsetting a significant portion of the market risk for these derivatives with third parties. The Company may also enter into derivatives for other risk management purposes. All derivative instruments are recognized as assets or liabilities on the consolidated balance sheets at fair value.

Counterparty credit risk is inherent in derivative instruments. In order to reduce its exposure to counterparty credit risk, the Company utilizes credit approvals, limits, monitoring procedures and master netting and credit support annex agreements. Additionally, the Company considers counterparty credit quality and the creditworthiness of the Company in estimating the fair value of derivative instruments.

The table below presents the notional amounts and fair value amounts of the Company's derivative instruments reported on the consolidated balance sheets. All derivative instruments from continuing operations are designated as derivative instruments not designated as hedging instruments. Asset and liability values are presented gross, excluding the impact of legally enforceable master netting and credit support annex agreements. The fair value of asset and liability trading derivatives are included in trading account assets and trading account liabilities, respectively.

	December 31, 2021			December 31, 2020		
		Fair Value			Fair Value	
(Dollars in millions)	**Notional Amount**	**Asset Derivatives**	**Liability Derivatives**	**Notional Amount**	**Asset Derivatives**	**Liability Derivatives**
Derivative instruments						
Not designated as hedging instruments:						
Trading:						
Interest rate contracts	$ 19,907	$ 423	$ 85	$ 40,320	$ 784	$ 186
Foreign exchange contracts	6,372	113	118	5,030	250	51
Equity contracts	—	—	—	1,587	15	50
Other contracts	251	—	9	51	—	2
Total Trading	26,530	536	212	46,988	1,049	289
Other risk management	103	2	—	75	1	1
Total derivative instruments	$ 26,633	$ 538	$ 212	$ 47,063	$ 1,050	$ 290

We recognized net losses of $6 million and net gains of $17 million on other risk management derivatives for the years ended December 31, 2021 and 2020, respectively, which are included in other noninterest income.

Derivatives Not Designated as Hedging Instruments

Trading Derivatives

Derivative instruments classified as trading include derivatives entered into at MUAH's broker-dealer subsidiary, MUSA, and derivatives entered into as an accommodation for customers and for certain economic hedging activities at MUB. Trading derivatives are included in trading assets or trading liabilities with changes in fair value reflected in income from trading account activities.

Note 12—Derivative Instruments and Other Financial Instruments Used For Hedging (Continued)

The following table presents the amount of the net gains and losses for derivative instruments classified as trading reported in the consolidated statements of income under the heading trading account activities for the years ended December 31, 2021 and 2020:

	Gains (Losses) Recognized in Income on Trading Derivatives	
	For the Years Ended	
(Dollars in millions)	December 31, 2021	December 31, 2020
Trading derivatives		
Interest rate contracts	$ (88)	$ 160
Equity contracts	(299)	43
Foreign exchange contracts	1	(1)
Total	$ (386)	$ 202

Offsetting Financial Assets and Liabilities

The Company primarily enters into derivative contracts with counterparties utilizing standard International Swaps and Derivatives Association Master Agreements and Credit Support Annex Agreements. These agreements generally establish the terms and conditions of the transactions, including a legal right to set-off amounts payable and receivable between the Company and a counterparty, regardless of whether or not such amounts have matured or have contingency features. For additional information related to offsetting of financial assets and liabilities, refer to Note 8 "Securities Financing Arrangements" to these consolidated financial statements.

Note 13—Accumulated Other Comprehensive Income

The following tables present the change in each of the components of accumulated other comprehensive income and the related tax effect of the change allocated to each component.

(Dollars in millions)	Before Tax Amount	Tax Effect	Net of Tax
For the Year Ended December 31, 2021			
Cash flow hedge activities:			
Unrealized net gains (losses) on hedges arising during the period	$ (89)	$ 23	$ (66)
Reclassification adjustment for net (gains) losses on hedges included in interest income for loans and interest expense on long-term debt	(110)	29	(81)
Net change	(199)	52	(147)
Securities:			
Unrealized holding gains (losses) arising during the period on securities available for sale	(742)	194	(548)
Amortization of net unrealized (gains) losses on held to maturity securities	65	(17)	48
Net change	(677)	177	(500)
Pension and other benefits:			
Amortization of prior service credit(1)	(26)	7	(19)
Recognized net actuarial (gain) loss(1)	125	(33)	92
Pension and other benefits arising during the year	353	(93)	260
Net change	452	(119)	333
Other	(8)	2	(6)
Net change in AOCI	$ (432)	$ 112	$ (320)

(1) These amounts are included in the computation of net periodic pension cost. For additional information, see Note 15 to these consolidated financial statements.

Note 13—Accumulated Other Comprehensive Income (Continued)

(Dollars in millions)	Before Tax Amount	Tax Effect	Net of Tax
For the Year Ended December 31, 2020			
Cash flow hedge activities:			
Unrealized net gains (losses) on hedges arising during the period	$ 465	$ (122)	$ 343
Reclassification adjustment for net (gains) losses on hedges included in interest income for loans and interest expense on long-term debt	(34)	9	(25)
Net change	431	(113)	318
Securities:			
Unrealized holding gains (losses) arising during the period on securities available for sale	763	(200)	563
Reclassification adjustment for net (gains) losses on securities available for sale included in securities gains, net	(144)	38	(106)
Amortization of net unrealized (gains) losses on held to maturity securities	38	(10)	28
Net change	657	(172)	485
Pension and other benefits:			
Amortization of prior service credit (1)	(27)	7	(20)
Recognized net actuarial (gain) loss(1)	112	(29)	83
Pension and other benefits arising during the year	13	(4)	9
Net change	98	(26)	72
Net change in AOCI	$ 1,186	$ (311)	$ 875

(1) These amounts are included in the computation of net periodic pension cost. For additional information, see Note 15 to these consolidated financial statements.

The following table presents the change in accumulated other comprehensive loss balances.

(Dollars in millions)	Net Unrealized Gains (Losses) on Cash Flow Hedges	Net Unrealized Gains (Losses) on Securities	Pension and Other Postretirement Benefits Adjustment	Other	Accumulated Other Comprehensive Income (Loss)
Balance, December 31, 2019	$ (115)	$ (93)	$ (654)	$ —	$ (862)
Other comprehensive income (loss) before reclassifications	343	563	9		915
Amounts reclassified from AOCI	(25)	(78)	63	—	(40)
Balance, December 31, 2020	$ 203	$ 392	$ (582)	$ —	$ 13
Other comprehensive income (loss) before reclassifications	(66)	(548)	260	—	(354)
Amounts reclassified from AOCI	(81)	48	73	(6)	34
Balance, December 31, 2021	$ 56	$ (108)	$ (249)	$ (6)	$ (307)

Note 14—Management Stock Plans

The Company adopted the MUAH Plan on June 8, 2015. Under the MUAH Plan, the Company grants restricted stock units settled in ADRs representing shares of common stock of the Company's indirect parent company, MUFG, to key employees at the discretion of the Human Capital Committee of the Board of Directors (the Committee). The Committee determines the number of shares, vesting requirements and other features and conditions of the restricted stock units. Under the MUAH Plan, MUFG ADRs are purchased in the open market upon the vesting of the restricted stock units, through a revocable trust. There is no amount authorized to be issued under the MUAH Plan since all shares are purchased in the open market. For grants issued prior to June 2020, these awards generally vest pro-rata on each anniversary of the grant date and become fully vested 3 years from the grant date, provided that the employee has completed the specified continuous service requirement. Beginning with grants issued in June 2020, awards generally vest pro-rata one month before each anniversary of the grant date and become fully vested thirty-five months from the grant date. Generally, the grants vest earlier if the employee dies, is permanently and totally disabled, retires under certain grant, age and service conditions, or terminates employment under certain conditions. The Company also issues a small number of off-cycle grants each year, primarily for reasons related to

Note 14—Management Stock Plans (Continued)

recruitment of new employees. The weighted-average service period for grants issued under the MUAH Plan with outstanding restricted stock units as of December 31, 2021 was 2.9 years.

Participants in the MUAH Plan are entitled to “dividend equivalent credits” on their unvested restricted stock units when MUFG pays dividends to its shareholders. The credit is equal to the dividends that the participants would have received on the shares had the shares been issued to the participants when the restricted stock units were granted. "Dividend equivalent credits" arising from grants under the MUAH Plan are paid to participants in shares on each vesting date for the underlying restricted stock units.

The following table is a rollforward of the restricted stock units under the MUAH Plan for the year ended December 31, 2021:

	Restricted Stock Units	
	2021	
	Number of Units	Weighted-Average Grant Date Fair Value
Units outstanding, beginning of year	45,426,074	4.40
Activity during the year:		
Granted	21,841,473	5.47
Vested	(21,234,042)	4.68
Forfeited	(2,434,718)	4.87
Units outstanding, end of year	43,598,787	4.81

The weighted-average grant date fair value of restricted stock units granted during 2020 was 4.04. The total fair value of restricted stock units that vested during the years ended December 31, 2021 and 2020 was $120 million and $69 million respectively.

The following table is a summary of the Company's compensation costs, the corresponding tax benefit, and unrecognized compensation costs:

	Years Ended December 31,	
(Dollars in millions)	2021	2020
Compensation costs	$ 107	$ 83
Tax benefit	29	22
Unrecognized compensation costs	108	129

At December 31, 2021, approximately $108 million (pretax) of compensation expense related to unvested grants had not yet been charged to net income. Unrecognized compensation costs as of December 31, 2021 are expected to be recognized over a weighted-average period of 1.9 years.

Note 15—Employee Pension and Other Postretirement Benefits

As part of the anticipated transaction discussed in Note 2 "Discontinued Operations," the assets and obligations of the Pension Plan, Other Benefits Plan, and MUFG Union Bank, N.A. Excess Benefit Plan (the Excess Plan, one of the ESBPs) will be assigned to MUFG Bank, Ltd. and U.S. Bank in proportion to each entity's share of the underlying participant obligations of the Plans. As of December 31, 2021, the shares are estimated as follows:

	December 31, 2021	
Plan:	**MUFG Bank, Ltd. Share**	**U.S. Bank share**
Pension Plan	81.7 %	18.3%
Other Benefits Plan	82.9 %	17.1 %
Excess Plan	96.2 %	3.8 %

The disclosures in the remainder of this note involving future years disregard the impact of the U.S. Bank transaction.

Retirement Plan

The Company maintains the MUFG Union Bank, N.A. Retirement Plan (the Pension Plan), which is a noncontributory qualified defined benefit pension plan covering substantially all of the domestic employees of the Company. The Pension Plan provides retirement benefits based on a cash balance formula, with annual pay credits based on a participant's eligible pay multiplied by a percentage determined by age and years of service, with annual interest credits based on 30-year Treasury bond yields. Employees become eligible for the Pension Plan after one year of service, and participants become vested upon completing three years of vesting service. Prior to 2017, certain participants earned retirement benefits based on years of credited service and final average earnings amount, as defined in the Pension Plan; such benefits became fixed as of the effective date of certain Plan amendments implementing the cash balance formula.

The Company's funding policy is to make contributions between the minimum required and the maximum deductible amount as allowed by the Internal Revenue Code. Contributions are intended to provide for benefits attributed to services to date, as well as benefits expected to be earned in the future.

Other Postretirement Benefits

The Company maintains the MUFG Union Bank, N.A. Retiree Health Reimbursement Account Plan (the HRA Plan), the MUFG Union Bank, N.A. Health Benefit Plan (the Health Plan), and the MUFG Union Bank, N.A. Employee Insurance Plan (the Insurance Plan). Under the HRA Plan, eligible post-65 retirees and dependents receive Company-provided financial support to purchase individual health coverage through annual allocations to a Health Reimbursement Account (HRA). Such annual allocations are designed to keep pace with medical inflation. The Health Plan provides certain healthcare benefits for eligible pre-65 retired employees and dependents; costs are shared between the Company and the retiree at a level of approximately 25% to 50%, depending on the retiree's age and length of service with the Company. The Insurance Plan provides life insurance benefits for those eligible employees who retired prior to January 1, 2001 and is noncontributory. Together, the HRA Plan, the Health Plan, and the Insurance Plan are presented as "Other Benefits Plan." The accounting for the Other Benefits Plan anticipates future cost-sharing changes described above that are consistent with the Company's intent. Assets set aside to cover such obligations are primarily invested in collective investment funds and an insurance contract. In April 2014, the Health Benefit Plan was amended to discontinue the availability of retiree health benefits for the majority of employees.

Note 15—Employee Pension and Other Postretirement Benefits (Continued)

The following table sets forth the fair value of the assets in the Company's Pension Plan and Other Benefits Plan as of December 31, 2021 and 2020.

	Pension Plan		Other Benefits Plan	
	Years Ended December 31,		Years Ended December 31,	
(Dollars in millions)	2021	2020	2021	2020
Change in Plan Assets:				
Fair value of plan assets, beginning of year	$ 4,669	$ 4,140	$ 322	$ 291
Actual return on plan assets	513	682	42	48
Employer contributions	—	—	(2)	—
Plan participants' contributions	—	—	4	4
Benefits paid	(168)	(153)	(22)	(21)
Fair value of plan assets, end of year	$ 5,014	$ 4,669	$ 344	$ 322

The investment objective for the Company's Pension Plan and Other Benefits Plan, collectively the Plans, is to maximize total return within reasonable and prudent levels of risk. The Plans' asset allocation strategy is the principal determinant in achieving expected investment returns on the Plans' assets. The Pension Plan asset allocation targets 48% in equity securities, 40% in debt securities, and 12% in real estate investments as of December 31, 2021 and 2020. The Other Benefits Plan asset allocation strategy favors equities with a target allocation of 63% in equity securities, 27% in debt securities and 10% in real estate investments as of December 31, 2021 and 2020. Additionally, the Other Benefits Plan holds an investment in an insurance contract with Talcott Resolution Life Insurance Company, the cash value of which is invested fully in equity securities and, when combined with other assets in the Other Benefits Plan, aligns with the target allocation . Actual asset allocations may fluctuate within acceptable ranges due to market value variability and capital call arrangements. If market fluctuations or capital call arrangements cause an asset class to fall outside of its strategic asset allocation range, the portfolio is subject to re-balancing as designated in the applicable investment policy statement. A core equity position of domestic large cap and small cap stocks is maintained, in conjunction with a diversified portfolio of international equities and fixed income securities. Plan asset performance is compared against established indexes and peer groups to evaluate whether the risk associated with the portfolio is appropriate for the level of return.

The Company periodically reviews the Plans' strategic asset allocation policy and the expected long-term rate of return on plan assets. The investment return volatility of different asset classes and the liability structure of the plans are evaluated to determine whether adjustments are required to the Plans' strategic asset allocation policy, taking into account the principles established in the Company's funding policy. Management periodically reviews and adjusts the expected long-term rate of return on plan assets assumption for the Plans based on the expected long-term rate of return for the asset classes and their weightings in the Plans' strategic asset allocation policy, taking into account the prevailing economic and regulatory climate and practices of other companies both within and outside our industry.

Note 15—Employee Pension and Other Postretirement Benefits (Continued)

The following tables provide the fair value by level within the fair value hierarchy of the Company's period-end assets by major asset category for the Pension Plan and Other Benefits Plan. For information about the fair value hierarchy levels, refer to Note 11 to these consolidated financial statements. The Plans do not hold any equity or debt securities issued by the Company or any related parties.

	December 31, 2021			
(Dollars in millions)	**Level 1**	**Level 2**	**Level 3**	**Total**
Pension Plan Investments:				
Cash and cash equivalents	$ 6	$ 80	$ —	$ 86
Collective investment funds	—	1,271	—	1,271
U.S. government securities	—	667	—	667
Fixed and variable income securities	—	1,044	—	1,044
Equity securities	301	5	—	306
Mutual funds	754	—	—	754
Municipal bonds	—	40	—	40
Other	2	28	—	30
Total investments in the fair value hierarchy	$ 1,063	$ 3,135	$ —	$ 4,198
Investments measured at net asset value (1)				834
Investments at fair value				5,032
Accrued dividends and interest receivable				11
Net pending trades				(29)
Total plan assets				$ 5,014

(1) In accordance with ASU No. 2015-07, investments in which fair value was measured based on net asset value per share (or its equivalent) using the practical expedient have not been categorized in the fair value hierarchy. The fair value amounts presented in these tables are intended to permit reconciliation of the fair value hierarchy to total plan assets.

	December 31, 2020			
(Dollars in millions)	**Level 1**	**Level 2**	**Level 3**	**Total**
Pension Plan Investments:				
Cash and cash equivalents	$ 8	$ 75	$ —	$ 83
Collective investment funds	—	1,237	—	1,237
U.S. government securities	—	495	—	495
Fixed and variable income securities	—	985	—	985
Equity securities	334	7	—	341
Mutual funds	780	—	—	780
Municipal bonds	—	73	—	73
Other	(1)	25	—	24
Total investments in the fair value hierarchy	$ 1,121	$ 2,897	$ —	$ 4,018
Investments measured at net asset value (1)				681
Investments at fair value				4,699
Accrued dividends and interest receivable				11
Net pending trades				(41)
Total plan assets				$ 4,669

(1) In accordance with ASU No. 2015-07, investments in which fair value was measured based on net asset value per share (or its equivalent) using the practical expedient have not been categorized in the fair value hierarchy. The fair value amounts presented in these tables are intended to permit reconciliation of the fair value hierarchy to total plan assets.

Note 15—Employee Pension and Other Postretirement Benefits (Continued)

	December 31, 2021			
(Dollars in millions)	Level 1	Level 2	Level 3	Total
Other Postretirement Benefits Plan Investments:				
Cash and cash equivalents	$ 1	$ 6	$ —	$ 7
Collective investment funds	—	190	—	190
U.S. government securities	—	15	—	15
Fixed and variable income securities	—	23	—	23
Municipal bonds	—	1	—	1
Pooled separate account	—	75	—	75
Total investments in the fair value hierarchy	$ 1	$ 310	$ —	$ 311
Investments measured at net asset value (1)				34
Investments at fair value				345
Net pending trades				(1)
Total plan assets				$ 344

(1) In accordance with ASU No. 2015-07, investments in which fair value was measured based on net asset value per share (or its equivalent) using the practical expedient have not been categorized in the fair value hierarchy. The fair value amounts presented in these tables are intended to permit reconciliation of the fair value hierarchy to total plan assets.

	December 31, 2020			
(Dollars in millions)	Level 1	Level 2	Level 3	Total
Other Postretirement Benefits Plan Investments:				
Cash and cash equivalents	$ 1	$ 5	$ —	$ 6
Collective investment funds	$ —	$ 210	$ —	$ 210
U.S. government securities	—	11	—	11
Fixed and variable income securities	—	22	—	22
Municipal bonds	—	1	—	1
Pooled separate account	—	63	—	63
Total investments in the fair value hierarchy	$ 1	$ 312	$ —	$ 313
Investments measured at net asset value (1)				11
Investments at fair value				324
Net pending trades				(2)
Total plan assets				$ 322

(1) In accordance with ASU No. 2015-07, investments in which fair value was measured based on net asset value per share (or its equivalent) using the practical expedient have not been categorized in the fair value hierarchy. The fair value amounts presented in these tables are intended to permit reconciliation of the fair value hierarchy to total plan assets.

The following tables as of December 31, 2021 and 2020 present the Company's Pension Plan and Other Benefits Plan investments in which fair value is measured using net asset value per share (or its equivalent) as a practical expedient.

	December 31, 2021				
(Dollars in millions)	Fair Value	Unfunded Commitment	Redemption Frequency	Other Redemption Restrictions	Redemption Notice Period
Pension Plan Investments					
Real estate funds	$ 667	$ —	Quarterly	Availability of fund's liquid assets and approval of the board of directors	45-90 days
Real estate funds	4	—	None	Hold until dissolution date	None
International equity funds	163	—	Monthly	None	15 days
Total	$ 834	$ —			

Note 15—Employee Pension and Other Postretirement Benefits (Continued)

	December 31, 2020				
(Dollars in millions)	Fair Value	Unfunded Commitment	Redemption Frequency	Other Redemption Restrictions	Redemption Notice Period
Pension Plan Investments					
Real estate funds	$ 480	$ —	Quarterly	Availability of fund's liquid assets and approval of the board of directors	45-90 days
Real estate funds	4	2	None	Hold until dissolution date	None
International equity funds	197	—	Monthly	None	15 days
Total	$ 681	$ 2			

	December 31, 2021				
(Dollars in millions)	Fair Value	Unfunded Commitment	Redemption Frequency	Other Redemption Restrictions	Redemption Notice Period
Other Postretirement Benefits Plan Investments					
Real estate funds	$ 34	$ 5	Quarterly	Availability of fund's liquid assets and approval of the board of directors	90 days
Total	$ 34	$ 5			

	December 31, 2020				
(Dollars in millions)	Fair Value	Unfunded Commitment	Redemption Frequency	Other Redemption Restrictions	Redemption Notice Period
Other Postretirement Benefits Plan Investments					
Real estate funds	$ 11	$ —	Quarterly	Availability of fund's liquid assets and approval of the board of directors	90 days
Total	$ 11	$ —			

A description of the valuation methodologies used to determine the fair value of the Plans' assets included within the tables above is as follows:

Cash and Cash Equivalents

Cash and cash equivalents include short-term investments of government securities and other debt securities with remaining maturities of less than three months. These short-term investments are classified as Level 2 based on unadjusted prices in active markets for similar securities.

U.S. Government Securities

U.S. government securities include U.S. Treasury securities and U.S. agency mortgage-backed securities. U.S. Treasury securities are fixed income securities that are debt instruments issued by the United States Department of the Treasury. U.S. agency mortgage-backed securities are collateralized by residential mortgage loans and may be prepaid at par prior to maturity. U.S. government securities are classified as Level 2 based on valuations provided by third-party pricing services using quoted market prices in active markets for similar securities.

Fixed and Variable Income Securities

Fixed and variable income securities include a variety of debt instruments, including corporate bonds, private placements and asset-backed securities. These securities are classified as Level 2 based on

Note 15—Employee Pension and Other Postretirement Benefits (Continued)

valuations provided by third-party pricing services using quoted market prices in active markets for similar securities.

Equity Securities

Equity securities are comprised of common stock and preferred securities. The fair value of common stock is recorded based on quoted market prices obtained from an exchange. These securities are classified as Level 1 based on unadjusted prices for identical instruments in active markets. The fair value of preferred securities is based on discounted cash flow models. These securities are classified as Level 2 based on valuations provided by third-party pricing services using observable market data.

Real Estate Funds

Real estate funds invest in real estate property with a focus on apartment, office, industrial and retail properties. These investments are measured at NAV per share and are included in the tables above showing Plan investments that are measured using NAV per share (or its equivalent) as a practical expedient.

International Equity Funds

International equity funds invest in equity securities of foreign companies in developed and emerging markets across diverse industries. These investments are measured at NAV per share and are included in the tables above showing Plan investments that are measured using NAV per share (or its equivalent) as a practical expedient.

Mutual Funds

Mutual funds invest in equity securities that may be benchmarked to the performance of market indexes including the MSCI EAFE® or MSCI All Country World ex US. These funds are valued using NAV at the end of the period and are classified as Level 1 based on unadjusted prices for identical instruments in active markets.

Collective Investment Funds and Pooled Separate Account

The pooled separate account refers to private placement, variable life insurance policies with Talcott Resolution Life Insurance Company, a successor to Hartford Life Insurance Company. The cash value of the life insurance is invested in a managed division that seeks to track the S&P 500 index.

Collective investment funds and the pooled separate account investment are reported within the fair value hierarchy as Level 2. These investments are redeemable at NAV, which is determined daily and is the readily determinable fair value. The price per share is quoted on a private market based on the value of the underlying investments.

Note 15—Employee Pension and Other Postretirement Benefits (Continued)

The following table sets forth the benefit obligation activity and the funded status for each of the Company's plans at December 31, 2021 and 2020. In addition, the table sets forth the over (under) funded status at December 31, 2021 and 2020. This pension benefits table does not include the obligations for ESBPs.

	Pension Benefits		Other Postretirement Benefits	
	Years Ended December 31,		Years Ended December 31,	
(Dollars in millions)	2021	2020	2021	2020
Accumulated benefit obligation	$ 3,846	$ 3,944		
Change in benefit obligation				
Benefit obligation, beginning of year	$ 3,970	$ 3,536	$ 257	$ 251
Service cost	92	84	1	2
Interest cost	68	95	4	6
Plan participants' contributions	—	—	4	4
Actuarial loss/(gain)	(88)	408	(5)	15
Benefits paid	(168)	(153)	(22)	(21)
Benefit obligation, end of year	3,874	3,970	239	257
Fair value of plan assets, end of year	5,014	4,669	344	322
Over (Under) funded status	$ 1,140	$ 699	$ 105	$ 65

The Pension Plan obligation experienced a net gain of $88 million and a net loss of $408 million during 2021 and 2020, respectively, primarily due to changes in the discount rate. The discount rate decreased from 3.08% at December 31, 2019 to 2.30% at December 31, 2020 and increased to 2.67% at December 31, 2021. The Other Benefits Plan obligation experienced a net gain of $5 million and a net loss of $15 million during 2021 and 2020, respectively, primarily due to changes in the discount rate. The discount rate decreased from 2.93% at December 31, 2019 to 2.08% at December 31, 2020 and increased to 2.52% at December 31, 2021.

The following table illustrates the changes that were reflected in AOCI during 2021 and 2020. Pension benefits do not include the ESBPs.

	Pension Benefits		Other Postretirement Benefits	
(Dollars in millions)	Net Actuarial (Gain) Loss	Prior Service Credit	Net Actuarial (Gain) Loss	Prior Service Credit
Amounts Recognized in Other Comprehensive Loss:				
Balance, December 31, 2019	$ 916	$ (100)	$ 33	$ —
Arising during the year	(9)	—	(13)	—
Recognized in net income during the year	(107)	27	—	—
Balance, December 31, 2020	$ 800	$ (73)	$ 20	$ —
Arising during the year	(326)	—	(25)	—
Recognized in net income during the year	(118)	26	—	—
Balance, December 31, 2021	$ 356	$ (47)	$ (5)	$ —

Note 15—Employee Pension and Other Postretirement Benefits (Continued)

At December 31, 2021 and 2020, the following amounts were recognized in accumulated other comprehensive loss for pension, including ESBPs, and other benefits.

	December 31, 2021					
	Pension Benefits			Other Postretirement Benefits		
(Dollars in millions)	Gross	Tax	Net of Tax	Gross	Tax	Net of Tax
Net actuarial loss	$ 356	$ (93)	$ 263	$ (5)	$ 1	$ (4)
Prior service credit	(47)	12	(35)	—	—	—
Pension and other postretirement benefits	309	(81)	228	(5)	1	(4)
Executive Supplemental Benefits Plans						
Net actuarial loss	34	(9)	25	—	—	—
Executive supplemental benefits plans adjustment	34	(9)	25	—	—	—
Pension and other postretirement benefits, as adjusted	$ 343	$ (90)	$ 253	$ (5)	$ 1	$ (4)

	December 31, 2020					
	Pension Benefits			Other Postretirement Benefits		
(Dollars in millions)	Gross	Tax	Net of Tax	Gross	Tax	Net of Tax
Net actuarial loss	$ 800	$ (210)	$ 590	$ 20	$ (5)	$ 15
Prior service credit	(73)	19	(54)	—	—	—
Pension and other postretirement benefits	727	(191)	536	20	(5)	15
Executive Supplemental Benefits Plans						
Net actuarial loss	42	(11)	31	—	—	—
Executive supplemental benefits plans adjustment	42	(11)	31	—	—	—
Pension and other postretirement benefits, as adjusted	$ 769	$ (202)	$ 567	$ 20	$ (5)	$ 15

Pension Benefits

Our pre-tax net actuarial losses decreased $418 million in 2021 from 2020. At December 31, 2021, the net actuarial loss totaled $309 million, which is net of $47 million in prior service credits. In addition, $510 million, representing the excess of the fair value of plan assets over the market-related value of plan assets, is recognized separately through the asset smoothing method over four years. $416 million of loss is subject to amortization over approximately eight years, and the prior service credits are being amortized until 2022 and 2025. The cumulative net actuarial loss resulted primarily from differences between expected and actual rate of return on plan assets and the discount rate. We estimate that our total 2022 net periodic pension cost will be a credit of approximately $43 million, assuming no contributions in 2022, which includes $59 million of amortization related to net actuarial losses. The 2022 estimate for net periodic pension cost was actuarially determined using the individual spot rates of 2.72% for service cost and 2.21% for interest cost, an expected return on plan assets of 6% and an expected compensation increase assumption of 5.1%.

A 50 basis point increase in the discount rate or in the expected return on plan assets would decrease the 2022 periodic pension cost by $28 million and $22 million, respectively, while a 50 basis point increase in the rate of future compensation levels would increase the 2022 periodic pension cost by $3 million. A 50 basis point decrease in the discount rate or in the expected return on plan assets would increase the 2022 periodic pension cost by $30 million and $22 million, respectively, while a 50 basis point decrease in the rate of future compensation levels would decrease the 2022 periodic pension cost by $3 million.

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Note 15—Employee Pension and Other Postretirement Benefits (Continued)

Estimated Future Benefit Payments and Subsidies

The following pension and postretirement benefit payments, which reflect expected future service, as appropriate, are expected to be paid over the next 10 years. This table does not include the ESBPs.

(Dollars in millions)	Pension Benefits	Postretirement Benefits
Years ending December 31,		
2022	$ 173	$ 17
2023	183	18
2024	188	17
2025	195	17
2026	201	16
Years 2026 - 2030	1,066	64

The following tables summarize the weighted average assumptions used in computing the present value of the benefit obligations and the net periodic benefit cost.

	Pension Benefits		Other Postretirement Benefits	
	Years Ended December 31,		Years Ended December 31,	
	2021	2020	2021	2020
Discount rate in determining net periodic benefit cost				
For service cost	2.35 %	3.16 %	2.27 %	3.04 %
For interest cost	1.73	2.72	1.43	2.52
Discount rate in determining benefit obligations at year end	2.67	2.30	2.52	2.08
Rate of increase in future compensation levels for determining net periodic benefit cost	5.10	5.10	n/a	n/a
Rate of increase in future compensation levels for determining benefit obligations at year end	5.10	5.10	n/a	n/a
Expected return on plan assets	6.75	7.00	7.00	7.00
Cash balance crediting rate for determining net periodic benefit cost	1.62	2.39	n/a	n/a
Cash balance crediting rate for determining benefit obligations at year end	1.94	1.62	n/a	n/a

	Pension Benefits		Other Postretirement Benefits		ESBPs	
	Years Ended December 31,		Years Ended December 31,		Years Ended December 31,	
(Dollars in millions)	2021	2020	2021	2020	2021	2020
Components of net periodic benefit cost:						
Service cost	$ 92	$ 84	$ 1	$ 2	$ —	$ —
Interest cost	68	95	4	6	1	2
Expected return on plan assets	(275)	(265)	(22)	(20)	—	—
Amortization of prior service credit	(26)	(27)	—	—	—	—
Recognized net actuarial loss	119	107	—	—	6	5
Total net periodic benefit cost	$ (22)	$ (6)	$ (17)	$ (12)	$ 7	$ 7

Note 15—Employee Pension and Other Postretirement Benefits (Continued)

The Company's assumed weighted-average healthcare cost trend rates are as follows.

	Years Ended December 31,	
	2021	2020
Healthcare cost trend rate assumed for next year	4.13 %	4.17 %
Rate to which cost trend rate is assumed to decline (the ultimate trend rate)	3.77 %	3.78 %
Year the rate reaches the ultimate trend rate	2029	2028

Executive Supplemental Benefit Plans

The Company has several frozen ESBPs, which provide covered participants with supplemental retirement benefits. The plans are nonqualified defined benefit plans and unfunded. The accrued liability for ESBPs included in other liabilities on the Company's consolidated balance sheets was $90 million and $98 million at December 31, 2021 and 2020, respectively.

Section 401(k) Savings Plans

The Company has a defined contribution plan authorized under Section 401(k) of the Internal Revenue Code. All benefits-eligible employees are eligible to participate in the plan. Employees may contribute up to 75% of their eligible compensation on a pre-tax or Roth basis, or up to 10% of their eligible compensation on an after-tax basis, through payroll deductions, to a combined maximum of 75% of eligible compensation, subject to statutory limits. The Company makes a matching contribution equal to 100% of every pre-tax or Roth dollar an employee contributes on the first 3% of the employee's eligible compensation and 50% of every pre-tax or Roth dollar an employee contributes on the next 2% of the employee's eligible compensation, for a maximum matching opportunity of 4%. Company matching contributions are credited to eligible participants' accounts annually following year-end. Matching contributions are fully vested when credited. All employer contributions are tax deductible by the Company. The Company's combined matching contribution expense was $66 million and $64 million for the years ended December 31, 2021 and 2020, respectively.

Note 16—Income Taxes

The following table presents the Company's statutory and effective tax rates as of December 31, 2021 and 2020.

	Years Ended December 31,	
	2021	2020
Federal income tax rate	21 %	21 %
Effective tax rate	(15)%	16 %

The differences between the statutory and effective tax rates in 2021 and 2020 were primarily due to state income taxes, production tax credits, return to provision adjustments and goodwill impairments.

The components of income tax expense were as follows:

	Years Ended December 31,	
(Dollars in millions)	2021	2020
Total current expense	$ (28)	$ 137
Total deferred expense	(29)	(38)
Total income tax expense (benefit)	$ (57)	$ 99

Note 16—Income Taxes (Continued)

The components of the Company's net deferred tax balances as of December 31, 2021 and 2020 were as follows:

(Dollars in millions)	December 31, 2021	December 31, 2020
Total deferred tax assets	$ 1,735	$ 1,793
Total deferred tax liabilities	(1,038)	(1,280)
Net deferred tax asset (liability)	$ 697	$ 513

Deferred taxes at December 31, 2021 and December 31, 2020 consisted principally of income tax credits, uniform capitalization and allowance for credit losses, offset by leasing, renewable energy and pension liabilities. Deferred taxes associated with discontinued operations was $853 million and $647 million at December 31, 2021 and December 31, 2020 respectively.

At December 31, 2021, U.S. federal tax credit carryforwards were $187 million, and if not utilized, would begin to expire in 2035. The Company has $88 million of federal net operating loss carryforwards of which $71 million are subject to separate return loss limitation rules and if not utilized begin to expire in tax year 2032. The Company also has $17 million of acquired net operating losses subject to IRC Section 382 limitation rules for which $13 million were generated post-tax reform and can be carried forward indefinitely and $4 million, if not utilized, will begin to expire in 2036. The company has state tax credit carryforwards (net of federal benefit) of $52 million which can be carried forward indefinitely.

The Company's AMT Credit carryforward was $16 million which can be carried forward indefinitely and is also subject to rules under separate return limitation years. Additionally, as a result of the Tax Cuts and Jobs Act, the AMT credit carryforward remaining amount should be fully refundable in fiscal year 2022.

Deferred tax assets are evaluated for realization based on the existence of sufficient taxable income of the appropriate character. The Company expects to realize a capital loss of $400 million on the sale to US Bank; with no expected future and minimal prior year capital gains to absorb this loss, MUFG has recorded a full valuation allowance against the deferred tax asset of $105 million related to the expected capital loss.

The Company recognizes interest and penalties as a component of income tax expense. As of December 31, 2021, we accrued $3 million in interest and $3 million in penalties. There are no tax positions the Company reasonably believes will be resolved within the next 12 months.

The Company is subject to U.S. federal income tax as well as various state and foreign income taxes. With limited exception, the Company is not open to examination for periods before 2016 by U.S. federal taxing authorities and 2015 by state taxing authorities.

Note 17—Regulatory Capital Requirements

The Company and the Bank are subject to various regulatory capital requirements administered by the U.S. federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a material effect on the Company's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of the Company's and Bank's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and the Bank's prompt corrective action classification are also subject to qualitative judgments by the regulators about components, risk-weightings and other factors. Prompt corrective action provisions are not applicable to BHCs such as the Company. The Bank is subject to laws and regulations that limit the amount of dividends it can pay to the Company.

Quantitative measures established by regulation to help ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the tables below) of Total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier 1 capital (as defined) to quarterly average assets (as defined). As of December 31, 2021, management believes the capital

Note 17—Regulatory Capital Requirements (Continued)

ratios of the Bank met all regulatory requirements of "well-capitalized" institutions, which are 10% for the Total risk-based capital ratio and 8.0% for the Tier 1 risk-based capital ratio. Furthermore, management believes, as of December 31, 2021 and 2020, that the Company and the Bank met all capital adequacy requirements to which they are subject.

The Company's and the Bank's capital amounts and ratios are presented in the following tables.

	U.S. Basel III			Minimum Capital Requirement with Capital Conservation Buffer (1)	
(Dollars in millions)	**Amount**	**Ratio**		**Amount**	**Ratio**
Capital Ratios for the Company:					
As of December 31, 2021:					
Common equity tier 1 capital (to risk-weighted assets)	$ 16,843	16.01 %	≥	$ 8,208	7.80 %
Tier 1 capital (to risk-weighted assets)	16,843	16.01	≥	9,786	9.30
Total capital (to risk-weighted assets)	17,177	16.32	≥	11,890	11.30
Tier 1 leverage(2)	16,843	10.44	≥	6,453	4.00
As of December 31, 2020:					
Common equity tier 1 capital (to risk-weighted assets)	$ 15,823	15.28 %	≥	$ 9,218	8.90 %
Tier 1 capital (to risk-weighted assets)	15,823	15.28	≥	10,772	10.40
Total capital (to risk-weighted assets)	16,871	16.29	≥	15,843	12.40
Tier 1 leverage(2)	15,823	9.56	≥	6,623	4.00

(1) The minimum capital requirement includes MUAH's standardized capital conservation buffer of 3.3% at December 31, 2021 and 4.4% at December 31, 2020.
(2) Tier 1 capital divided by quarterly average assets (excluding certain disallowed assets, primarily goodwill and other intangibles).

	U.S. Basel III			Minimum Capital Requirement with Capital Conservation Buffer (1)			To Be Well-Capitalized Under Prompt Corrective Action Provisions	
(Dollars in millions)	**Amount**	**Ratio**		**Amount**	**Ratio**		**Amount**	**Ratio**
Capital Ratios for the Bank:								
As of December 31, 2021 (U.S. Basel III):								
Common equity tier 1 capital (to risk-weighted assets)	$ 15,629	16.68 %	≥	$ 6,560	7.00 %	≥	$ 6,091	6.5 %
Tier 1 capital (to risk-weighted assets)	15,629	16.68	≥	7,966	8.50	≥	7,497	8.0
Total capital (to risk-weighted assets)	16,265	17.36	≥	9,840	10.50	≥	9,371	10.0
Tier 1 leverage(2)	15,629	12.14	≥	5,149	4.00	≥	6,436	5.0
As of December 31, 2020 (U.S. Basel III):								
Common equity tier 1 capital (to risk-weighted assets)	$ 14,634	15.62 %	≥	$ 6,557	7.00 %	≥	$ 6,089	6.5 %
Tier 1 capital (to risk-weighted assets)	14,634	15.62	≥	7,963	8.50	≥	7,494	8.0
Total capital (to risk-weighted assets)	15,629	16.68	≥	9,836	10.50	≥	9,368	10.0
Tier 1 leverage(2)	14,634	11.12	≥	5,262	4.00	≥	6,577	5.0

(1) Beginning January 1, 2019, the minimum capital requirement includes a capital conservation buffer of 2.5%.
(2) Tier 1 capital divided by quarterly average assets (excluding certain disallowed assets, primarily goodwill and other intangibles).

Note 18—Restrictions on Cash and Due from Banks, Securities, Loans and Dividends

Federal Reserve regulations require the Bank to maintain reserve balances based on the types and amounts of deposits received. Due to the impact of the COVID-19 pandemic and the corresponding economic environment, the Federal Reserve eliminated this reserve requirement at December 31, 2021 and 2020, attempting to ease financial conditions.

See Note 3 to these consolidated financial statements for the carrying amounts of securities that were pledged as collateral as required by contract or law.

Note 18—Restrictions on Cash and Due from Banks, Securities, Loans and Dividends (Continued)

The Federal Reserve Act restricts the amount of credit transactions and the terms of both credit and non-credit transactions between a bank and its non-bank affiliates. Such transactions may not exceed 10% of the bank's capital and surplus (which for this purpose represents Tier 1 and Tier 2 capital, as calculated under the risk-based capital guidelines, plus the balance of the allowance for loan losses excluded from Tier 2 capital) with any single non-bank affiliate and 20% of the bank's capital and surplus with all its non-bank affiliates. Transactions that are extensions of credit may require collateral to be held to provide added security to the bank. See Note 17 to these consolidated financial statements for further discussion of risk-based capital.

The declaration of a dividend by the Bank to the Company is subject to the approval of the OCC if the total of all dividends declared in the current calendar year plus the preceding two years exceeds the Bank's total net income in the current calendar year plus the preceding two years. The payment of dividends is also limited by minimum capital requirements imposed on national banks by the OCC.

At December 31, 2021, MUSA had $15 million of cash segregated in a special reserve account for the exclusive benefit of customers pursuant to Customer Protection Rule 15c3-3 of the Securities and Exchange Act of 1934.

Note 19—Commitments, Contingencies and Guarantees

The following table summarizes the Company's commitments:

(Dollars in millions)	December 31, 2021
Commitments to extend credit	$ 21,327
Issued standby and commercial letters of credit	3,213
Commitments to enter into forward-starting resale agreements	821
Other commitments	849

Commitments to extend credit are legally binding agreements to lend to a customer provided there are no violations of any condition established in the contract. Commitments have fixed expiration dates or other termination clauses and may require maintenance of compensatory balances. Since many of the commitments to extend credit may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash flow requirements.

Standby and commercial letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party. Standby letters of credit are generally contingent upon the failure of the customer to perform according to the terms of the underlying contract with the third party, while commercial letters of credit are issued specifically to facilitate foreign or domestic trade transactions. The majority of these types of commitments have remaining terms of 1 year or less. At December 31, 2021, the carrying amount of the Company's standby and commercial letters of credit totaled $1 million. Estimated exposure to loss related to these commitments is covered by the allowance for losses on unfunded commitments. The carrying amounts of the standby and commercial letters of credit and the allowance for losses on unfunded credit commitments are included in other liabilities on the consolidated balance sheet.

The credit risk involved in issuing loan commitments and standby and commercial letters of credit is essentially the same as that involved in extending loans to customers and is represented by the contractual amount of these instruments. Collateral may be obtained based on management's credit assessment of the customer.

Other commitments include collateralized financing activities and residual value guarantees.

The Company is subject to various pending and threatened legal actions that arise in the normal course of business. The Company maintains liabilities for losses from legal actions that are recorded when they are determined to be both probable in their occurrence and can be reasonably estimated. Management believes the disposition of all claims currently pending, including potential losses from claims that may exceed the liabilities recorded, and claims for loss contingencies that are considered reasonably possible to occur, will not have a material effect, either individually or in the aggregate, on the Company's consolidated financial condition, results of operations or liquidity.

Note 20—Related Party Transactions

MUAH is a financial holding company, bank holding company and intermediate holding company whose principal subsidiaries are MUFG Union Bank, N.A. and MUFG Securities Americas Inc. It is owned by MUFG Bank, Ltd. and MUFG. MUFG Bank, Ltd. is a wholly-owned subsidiary of MUFG.

The Company provides various business, banking, financial, administrative and support services, and facilities for MUFG Bank, Ltd. in connection with the operation and administration of MUFG Bank, Ltd.'s business in the U.S. (including MUFG Bank, Ltd.'s U.S. branches). The Bank and MUFG Bank, Ltd. participate in a master services agreement whereby the Bank earns fee income in exchange for services and facilities provided.

In addition to the above, the Company conducts transactions with affiliates, which include MUFG Bank, Ltd., MUFG and other entities which are directly or indirectly owned by MUFG. The transactions include capital market transactions, facilitating securities transactions, secured financing transactions, advisory services, clearing and operational support. Under services level agreements the Company provides services to and receives services from various affiliates. The Company also has referral agreements with its affiliates and pays referral fees from investment banking revenue earned.

Related party transactions reflect market-based pricing. These transactions are subject to federal and state statutory and regulatory restrictions and limitations.

The tables and discussion below represent the more significant related party balances and income (expenses) generated by related party transactions.

As of December 31, 2021 and December 31, 2020, assets and liabilities with affiliates consisted of the following:

(Dollars in millions)	December 31, 2021	December 31, 2020
Assets:		
Cash and cash equivalents	$ 356	$ 231
Securities borrowed or purchased under resale agreements	3,893	4,070
Trading account assets	—	50
Other assets	178	152
Liabilities:		
Deposits	$ 952	$ 726
Securities loaned or sold under repurchase agreements	1,161	551
Commercial paper and other short-term borrowings	69	87
Long-term debt	7,097	6,887
Trading account liabilities	129	17
Other liabilities	59	102

Note 20—Related Party Transactions (Continued)

Revenues and expenses with affiliates for the years ended 2021 and 2020 were as follows:

(Dollars in millions)	Years Ended December 31, 2021	2020
Interest Income		
Securities borrowed or purchased under resale agreements	$ 4	$ 19
Other	—	1
Interest Expense		
Deposits	1	3
Commercial paper and other short-term borrowings	4	5
Long-term debt	72	118
Securities loaned or sold under repurchase agreements	2	4
Noninterest Income		
Trading account activities	125	(56)
Fees from affiliates	1,536	1,489
Other, net	4	32
Noninterest Expense		
Other	106	97

During 2021 and 2020, the Company sold loans to affiliates for gross proceeds of $2.3 billion and $1.5 billion, respectively, resulting in gains on sale of $4 million and $3 million, respectively. During 2020, the Company purchased loans from affiliates for $56 million.

For additional information regarding the debt due to affiliates, see Note 9 and Note 10 to our consolidated financial statements.

At December 31, 2021, the Company had $1.4 billion in uncommitted, unsecured borrowing facilities with affiliates.

At December 31, 2021 and December 31, 2020, the Company had derivative contracts with affiliates totaling $4.7 billion and $4.6 billion, respectively, in notional balances, with $129 million in net unrealized gains and $14 million in net unrealized losses at December 31, 2021 and December 31, 2020, respectively.

An affiliate extends guarantees on liabilities arising out of or in connection with agreements with certain counterparties. There was no amount guaranteed at December 31, 2021 and December 31, 2020.

Note 21—Subsequent Events

The Company has evaluated these December 31, 2021 consolidated financial statements for subsequent events through March 30, 2022, the date the consolidated financial statements were available to be issued, and determined that no events have occurred that require disclosure.

Deloitte.

Deloitte & Touche LLP
30 Rockefeller Plaza
New York, NY 10112
USA

Tel: +1 212 492 4000
Fax: +1 212 489 1687
www.deloitte.com

INDEPENDENT AUDITOR'S REPORT

To the stockholders and the Board of Directors of MUFG Americas Holdings Corporation

Opinion

We have audited the consolidated financial statements of MUFG Americas Holdings Corporation and subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2021 and 2020, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Deloitte & Touche LLP

March 30, 2022