MITSUBISHI UFJ FINANCIAL GROUP INC
Form 20-F
July 12, 2018
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As filed with the Securities and Exchange Commission on July 12, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 20-F

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF

THE SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended March 31, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

OR

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

Date of event requiring this shell company report

Commission file number 000-54189

KABUSHIKI KAISHA MITSUBISHI UFJ FINANCIAL GROUP

(Exact name of Registrant as specified in its charter)

MITSUBISHI UFJ FINANCIAL GROUP, INC.

(Translation of Registrant s name into English)

Japan

(Jurisdiction of incorporation or organization)

7-1, Marunouchi 2-chome

Chiyoda-ku, Tokyo 100-8330

Japan

(Address of principal executive offices)

Kazutaka Yoneda, +81-3-3240-8111, +81-3-3240-7073, same address as above

(Name, Telephone, Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common stock, without par value	New York Stock Exchange[1]
American depositary shares, each of which represents one share of common stock	New York Stock Exchange

(1) The listing of the registrant s common stock on the New York Stock Exchange is for technical purposes only and without trading privileges.

Securities registered or to be registered pursuant to Section 12(g) of the Act: None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock as of the close of the period covered by the annual report:

As of March 31, 2018, 13,900,028,020 shares of common stock (including 737,772,882 shares of common stock held by the registrant and its consolidated subsidiaries as treasury stock)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes No

Note Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or an emerging growth company. See definition of large accelerated filer, accelerated filer, and emerging growth company in Rule 12b-2 of the Exchange Act.

Large accelerated filer	Accelerated filer	Non-accelerated filer	Emerging growth company

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

The term new or revised financial accounting standard refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP	International Financial Reporting Standards as issued by the International Accounting Standards Board	Other

If Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

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

In this Annual Report, unless otherwise indicated or the context otherwise requires, all figures are rounded to the figures shown except for the capital ratios, capital components, risk-weighted assets, leverage ratios and liquidity coverage ratios of MUFG and its domestic subsidiaries, which are rounded down and truncated to the figures shown. In some cases, figures presented in tables are adjusted to match the sum of the figures with the total amount, and such figures are also referred to in the related text.

When we refer in this Annual Report to MUFG, we, us, our and the Group, we generally mean Mitsubishi UFJ Financial Group, Inc. and its consolidated subsidiaries, but from time to time as the context requires, we mean Mitsubishi UFJ Financial Group, Inc. as an individual legal entity. In addition, our commercial banking subsidiaries refers to MUFG Bank, Ltd. (formerly, The Bank of Tokyo-Mitsubishi UFJ, Ltd.), or BK, and, as the context requires, its consolidated subsidiaries engaged in the commercial banking business. Our trust banking subsidiaries refers to Mitsubishi UFJ Trust and Banking Corporation, or TB, and, as the context requires, its consolidated subsidiaries engaged in the trust banking business. Our banking subsidiaries refers to MUFG Bank and Mitsubishi UFJ Trust and Banking and, as the context requires, their respective consolidated subsidiaries engaged in the banking business. Our securities subsidiaries refers to Mitsubishi UFJ Securities Holdings Co., Ltd., or SCHD, and as the context requires, its consolidated subsidiaries engaged in the securities business.

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References to MUAH and BK(US) are to MUFG Americas Holdings Corporation and MUFG Union Bank, N.A., as single entities, respectively, as well as to MUFG Americas Holdings and MUFG Union Bank and their respective consolidated subsidiaries, as the context requires.

References to Krungsri are to Bank of Ayudhya Public Company Limited, as a single entity, as well as to Krungsri and its respective consolidated subsidiaries, as the context requires.

References to the FSA are to the Financial Services Agency, an agency of the Cabinet Office of Japan.

References in this Annual Report to yen or ¥ are to Japanese yen, references to U.S. dollars, U.S. dollar, dollars, or $ are to United States dollars, references to euro or are to the currency of the member states of the European Monetary Union, references to THB are to Thai baht, references to AU$ are to Australian dollars, references to HK$ are to Hong Kong dollars, and references to IDR are to Indonesian Rupiah.

Our fiscal year ends on March 31 of each year. References to years not specified as being fiscal years are to calendar years.

We usually hold the annual ordinary general meeting of shareholders of Mitsubishi UFJ Financial Group, Inc. in June of each year in Tokyo.

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Forward-Looking Statements

We may from time to time make written or oral forward-looking statements. Written forward-looking statements may appear in documents filed with, or submitted to, the U.S. Securities and Exchange Commission, or SEC, including this Annual Report, and other reports to shareholders and other communications.

The U.S. Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking information to encourage companies to provide prospective information about themselves. We rely on this safe harbor in making these forward-looking statements.

Forward-looking statements appear in a number of places in this Annual Report and include statements regarding our current intent, business plan, targets, belief or expectations or the current belief or current expectations of our management with respect to our results of operations and financial condition, including, among other matters, our problem loans and loan losses. In many, but not all cases, we use words such as anticipate, aim, believe, estimate, expect, intend, plan, probability, risk, will, may and similar expressions, as they relate to us or our manage identify forward-looking statements. These statements reflect our current views with respect to future events and are subject to risks, uncertainties and assumptions. Should one or more of these risks or uncertainties materialize or should underlying assumptions prove incorrect, actual results may vary materially from those which are aimed, anticipated, believed, estimated, expected, intended or planned, or otherwise stated.

Our forward-looking statements are not guarantees of future performance and involve risks and uncertainties. Actual results may differ from those in the forward-looking statements as a result of various factors. We identify in this Annual Report in Item 3.D. Key Information Risk Factors, Item 4.B. Information on the Company Business Overview, Item 5. Operating and Financial Review and Prospects and elsewhere, some, but not necessarily all, of the important factors that could cause these differences.

We are under no obligation, and disclaim any obligation, to update or alter our forward-looking statements, whether as a result of new information, future events or otherwise unless required by law.

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PART I

Item 1. Identity of Directors, Senior Management and Advisers.

Not applicable.

Item 2. Offer Statistics and Expected Timetable.

Not applicable.

Item 3. Key Information.

A. Selected Financial Data

The selected statement of income data and selected balance sheet data set forth below has been derived from our audited consolidated financial statements.

Except for risk-adjusted capital ratios, which are calculated in accordance with Japanese banking regulations based on information derived from our consolidated financial statements prepared in accordance with accounting principles generally accepted in Japan, or Japanese GAAP, the selected financial data set forth below are derived from our consolidated financial statements prepared in accordance with U.S. GAAP.

You should read the selected financial data set forth below in conjunction with Item 5. Operating and Financial Review and Prospects, Selected Statistical Data and our consolidated financial statements and other financial data included elsewhere in this Annual Report. These data are qualified in their entirety by reference to all of that information.

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	Fiscal years ended March 31,				
	2014	2015	2016	2017	2018
	(in millions, except per share data and number of shares)				
Statement of income data:					
Interest income	¥ 2,522,283	¥ 2,894,645	¥ 3,005,738	¥ 2,990,767	¥ 3,259,016
Interest expense	560,972	663,184	744,364	769,639	1,028,755
Net interest income	1,961,311	2,231,461	2,261,374	2,221,128	2,230,261
Provision for (reversal of) credit losses	(106,371)	86,998	231,862	253,688	(240,847)
Net interest income after provision for (reversal of) credit losses	2,067,682	2,144,463	2,029,512	1,967,440	2,471,108
Non-interest income	1,821,081	2,845,078	2,407,690	1,196,706	1,935,091
Non-interest expense	2,468,320	2,726,885	3,274,532	2,891,603	2,744,380
Income before income tax expense	1,420,443	2,262,656	1,162,670	272,543	1,661,819
Income tax expense	337,917	666,020	369,432	94,453	407,823
Net income before attribution of noncontrolling interests	1,082,526	1,596,636	793,238	178,090	1,253,996
Net income (loss) attributable to noncontrolling interests	67,133	65,509	(9,094)	(24,590)	25,836
Net income attributable to Mitsubishi UFJ Financial Group	¥ 1,015,393	¥ 1,531,127	¥ 802,332	¥ 202,680	¥ 1,228,160
Earnings applicable to common shareholders of Mitsubishi UFJ Financial Group	¥ 994,152	¥ 1,522,157	¥ 802,332	¥ 202,680	¥ 1,228,160
Amounts per share:					
Basic earnings per common share Earnings applicable to common shareholders of Mitsubishi UFJ Financial Group	¥ 70.21	¥ 107.81	¥ 57.78	¥ 14.93	¥ 92.40
Diluted earnings per common share Earnings applicable to common shareholders of Mitsubishi UFJ Financial Group	69.98	107.50	57.51	14.68	92.10
Number of shares used to calculate basic earnings per common share (in thousands)	14,158,698	14,118,469	13,885,842	13,574,314	13,291,842

Number of shares used to calculate diluted earnings per common share (in thousands)[1]		14,180,080		14,137,645		13,903,316		13,584,885		13,293,492
Cash dividends per share paid during the fiscal year:										
Common stock	¥	14.00	¥	18.00	¥	18.00	¥	18.00	¥	18.00
	$	0.14	$	0.16	$	0.15	$	0.17	$	0.16
Preferred stock (Class 5)[3]	¥	115.00	¥	57.50						
	$	1.14	$	0.57						
Preferred stock (Class 11)[3]	¥	5.30	¥	2.65						
	$	0.05	$	0.03						

	As of March 31,				
	2014	**2015**	**2016**	**2017**	**2018**
			(in millions)		
Balance sheet data:					
Total assets	¥253,651,989	¥280,875,706	¥292,557,355	¥297,185,019	¥300,570,312
Loans, net of allowance for credit losses	109,181,991	117,209,723	121,679,828	117,032,784	116,271,771
Total liabilities	240,900,545	265,594,365	277,709,088	282,420,311	284,924,497
Deposits	162,517,786	171,991,267	181,438,087	190,401,623	195,674,593
Long-term debt[4]	14,129,370	18,782,257	20,524,615	26,131,527	27,069,556
Total equity	12,751,444	15,281,341	14,848,267	14,764,708	15,645,815
Capital stock	2,089,245	2,090,270	2,090,270	2,090,270	2,090,270

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	Fiscal years ended March 31, 2014	2015	2016	2017	2018
	(in millions, except percentages)				
Other financial data:					
Average balances:					
Interest-earning assets	¥212,176,348	¥237,247,664	¥252,715,743	¥239,192,449	¥239,048,981
Interest-bearing liabilities	189,404,896	210,091,493	221,135,208	223,522,296	233,857,052
Total assets	247,721,331	277,547,638	299,270,873	307,938,699	320,589,932
Total equity	10,683,098	13,002,955	15,285,766	15,010,829	15,423,078
Return on equity and assets:					
Earnings applicable to common shareholders as a percentage of average total assets	0.40%	0.55%	0.27%	0.07%	0.38%
Earnings applicable to common shareholders as a percentage of average total equity	9.31%	11.71%	5.25%	1.35%	7.96%
Dividends per common share as a percentage of basic earnings per common share	19.94%	16.70%	31.15%	120.56%	19.48%
Average total equity as a percentage of average total assets	4.31%	4.68%	5.11%	4.87%	4.81%
Net interest income as a percentage of average total interest-earning assets	0.92%	0.94%	0.89%	0.93%	0.93%
Credit quality data:					
Allowance for credit losses	¥ 1,094,420	¥ 1,055,479	¥ 1,111,130	¥ 1,182,188	¥ 764,124
Allowance for credit losses as a percentage of loans	0.99%	0.89%	0.90%	1.00%	0.65%
Impaired loans	¥ 1,861,027	¥ 1,686,806	¥ 1,725,150	¥ 1,715,850	¥ 1,331,123
Impaired loans as a percentage of loans	1.69%	1.43%	1.40%	1.45%	1.14%
Allowance for credit losses related to impaired loans as a percentage of impaired loans	40.32%	36.00%	42.60%	51.42%	37.14%
Net loan charge-offs	¥ 153,748	¥ 150,666	¥ 156,959	¥ 169,809	¥ 180,999
Net loan charge-offs as a percentage of average	0.15%	0.13%	0.13%	0.14%	0.15%

loans					
Average interest rate spread	0.89%	0.90%	0.85%	0.91%	0.92%
Risk-adjusted capital ratio calculated under Japanese GAAP(5)	15.43%	15.62%	16.01%	15.85%	16.56%

Notes:

(1) Includes the common shares that were potentially issuable upon conversion of the Class 11 Preferred Stock and stock acquisition rights.

(2) Preferred dividends were ¥57.5 per share and paid semi-annually. In April 2014, we acquired and cancelled all of the issued shares of First Series of Class 5 Preferred Stock. As a result, there is currently no issued Class 5 Preferred Stock. See Note 17 to our audited consolidated financial statements included elsewhere in this Annual Report.

(3) Preferred dividends were ¥2.65 per share and paid semi-annually. In August 2014, we acquired all of the issued shares of Class 11 Preferred Stock in exchange for 1,245 shares of our common stock held in treasury, and cancelled the acquired shares. As a result, there is currently no issued Class 11 Preferred Stock. See Note 17 to our audited consolidated financial statements included elsewhere in this Annual Report.

(4) Reflects the changes in presentation adopted in the fiscal year ended March 31, 2018, where long-term payables under repurchase agreements are no longer included in long-term debt but are aggregated with short-term payables under repurchase agreements in payables under repurchase agreements, and applied to the fiscal years ended March 31, 2014, 2015, 2016 and 2017. For further information, see Note 1 to our consolidated financial statements included elsewhere in this Annual Report.

(5) Risk-adjusted capital ratios have been calculated in accordance with Japanese banking regulations as applicable on the relevant calculation date, based on information derived from our consolidated financial statements prepared in accordance with Japanese GAAP. For a description of the applicable capital ratio calculation and other requirements applicable, see Item 4.B. Information on the Company Business Overview Supervision and Regulation Japan Capital adequacy and Item 5.B. Operating and Financial Review and Prospects Liquidity and Capital Resources Capital Adequacy.

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Exchange Rate Information

The tables below set forth, for each period indicated, certain information concerning the rate of exchange of Japanese yen per U.S. $1.00 based on exchange rate information found on Bloomberg. On June 29, 2018, the closing exchange rate was ¥110.76 to U.S.$1.00 and the inverse rate was U.S.$0.90 to ¥100.00.

	Year 2018				
	February	**March**	**April**	**May**	**June**
High	110.17	106.85	109.43	111.05	110.76
Low	106.13	104.74	105.89	108.77	109.54

	Fiscal years ended March 31,				
	2014	**2015**	**2016**	**2017**	**2018**
Average (of month-end rates)	¥ 100.38	¥ 110.82	¥ 120.10	¥ 108.33	¥ 110.70

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

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D. Risk Factors

Investing in our securities involves a high degree of risk. You should carefully consider the risks described in this section, which is intended to disclose all of the risks that we consider material based on the information currently available to us, as well as all the other information in this Annual Report, including our consolidated financial statements and related notes, Item 5. Operating and Financial Review and Prospects, Item 11. Quantitative and Qualitative Disclosures about Credit, Market and Other Risk and Selected Statistical Data.

Our business, operating results and financial condition could be materially and adversely affected by any of the factors discussed below. The trading price of our securities could decline due to any of these factors. This Annual Report also contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those described in this section and elsewhere in this Annual Report. See Forward-Looking Statements.

Risks Related to Our Business

Because a large portion of our assets as well as our business operations are in Japan, we may incur losses if economic conditions in Japan worsen.

Our performance is particularly affected by the general economic conditions of Japan where we are headquartered and conduct a significant amount of our business. As of March 31, 2018, 65.2% of our total assets were related to Japanese domestic assets, including Japanese national government and Japanese government agency bonds, which accounted for 58.8% of our total investment securities portfolio and 8.5% of our total assets, respectively. Interest and non-interest income in Japan represented 41.0% of our total interest and non-interest income for the fiscal year ended March 31, 2018. Furthermore, as of March 31, 2018, our loans in Japan accounted for 56.1% of our total loans outstanding.

There is significant uncertainty surrounding Japan s economy. For example, Japan s fiscal health and sovereign creditworthiness may deteriorate if the Japanese government s economic measures and the Bank of Japan s monetary policies prove ineffective or result in negative consequences. If the prices of Japanese government bonds decline rapidly, resulting in an unexpectedly sudden increase in interest rates, our investment securities portfolio as well as our lending, borrowing, trading and other operations may be negatively impacted. In recent periods, major credit rating agencies have downgraded the credit ratings of Japan s sovereign debt, including a downgrade by Moody s Investor Service, Inc. in December 2014, a downgrade by Fitch Ratings, Ltd. in April 2015 and downgrade by Standard and Poor s in September 2015. In addition, interest rates may suddenly increase as a result of a decision made by the Bank of Japan to end its current interest rate policy, including the negative interest rate of minus 0.1% applied to certain current account amounts that financial institutions hold at the Bank of Japan and the Japanese government bond purchase program with an aim to keep the yield of 10-year Japanese government bonds around zero percent, or market expectations relating to any such decision. See Risks Related to Our Business Fluctuations in interest rates could adversely affect the value or the yield of our bond portfolio.

Instability in the Japanese stock market and foreign currency exchange rates may also have a significant adverse impact on our asset and liability management as well as our results of operations. Various other factors, including the decreasing and aging demographics in Japan, stagnation or deterioration of economic and market conditions in other countries, and growing global competition, may also have a material negative impact on the Japanese economy. For a detailed discussion on the business environment in Japan and abroad, see Item 5. Operating and Financial Review and Prospects Business Environment.

Since our domestic loans in Japan accounted for a significant portion of our loan portfolio, deteriorating or stagnant economic conditions in Japan may cause adverse effects on our financial results, such as increases in credit costs, as the credit quality of some borrowers could deteriorate. For example, due to the intensifying global competition and weakening consumer spending in recent periods, some Japanese companies, including electronics manufacturers, have experienced significant financial difficulties. For a further discussion, see Risks Related to Our Business We may suffer additional credit-related losses in the future if our borrowers are unable to repay their loans as expected or if the measures we take in reaction to, or in anticipation of, our borrowers deteriorating repayment abilities prove inappropriate or insufficient.

Our domestic loan portfolio may also be adversely affected by interest rate fluctuations in Japan. For example, as a result of the Bank of Japan s interest rate policy and measures to purchase Japanese government bonds in the market, the yield on many financial instruments and other market interest rates in Japan have declined to low or negative levels. If the Bank of Japan s policy and measures are maintained for an extended period, or if the Bank of Japan s negative interest rate is lowered from the current level, market interest rates may decline further, and our interest rate spread on our domestic loan portfolio may narrow further, reducing our net interest income.

If the global economy deteriorates, our credit-related losses may increase, and the value of the financial instruments we hold may decrease, resulting in losses.

Global economic conditions remain volatile, and it is uncertain how the global economy will evolve over time. Factors that could negatively impact the global market, both developed and emerging, include concerns over the possible negative impact on global economic activity resulting from changes in the trade policies of various countries, the potentially serious ramifications of the process of the United Kingdom s withdrawal from the European Union, the potential negative effect from the monetary policy changes expected in the United States, slowing economic growth in China in the midst of a shift in the government s economic policy, weakening economic conditions in commodity-exporting countries that have been affected by a decline in oil and other commodity prices, and the political turmoil in various regions around world. As of March 31, 2018, based principally on the domicile of the obligors, assets related to the United States accounted for approximately 14.9% of our total assets, assets related to Asia and Oceania excluding Japan accounted for approximately 9.0% of our total assets, and assets related to Europe accounted for approximately 7.4% of our total assets. If the global economy deteriorates or the global economic recovery significantly slows down again, the availability of credit may become limited, and some of our borrowers may default on their loan obligations to us, increasing our credit losses. Some of our credit derivative transactions may also be negatively affected, including the protection we sold through single name credit default swaps, and index and basket credit default swaps. The notional amounts of these protections sold as of March 31, 2018 were ¥2.20 trillion and ¥0.72 trillion, respectively. In addition, if credit market conditions worsen, our capital funding structure may need to be adjusted or our funding costs may increase, which could have a material adverse impact on our financial condition and results of operations.

Furthermore, we have incurred losses, and may incur further losses, as a result of changes in the fair value of our financial instruments resulting from weakening market conditions. For example, declines in the fair value of our investment securities, particularly equity investment securities, resulted in our recording impairment losses of ¥37.2 billion, ¥33.8 billion and ¥8.2 billion for the fiscal years ended March 31, 2016, 2017 and 2018, respectively. As of March 31, 2018, approximately 25.2% of our total assets were financial instruments for which we measure fair value on a recurring basis, and less than 0.5% of our total assets were financial instruments for which we measure fair value on a non-recurring basis. Generally, in order to establish the fair value of these instruments, we rely on quoted prices. If the value of these financial instruments declines, a corresponding write-down may be recognized in our consolidated statements of income. In addition, because we hold a large amount of investment securities, short-term fluctuations in the value of our securities may trigger losses or exit costs for us to manage our risk. For more information on our valuation method for financial instruments, see Item 5. Operating and Financial Review and Prospects Critical Accounting Estimates.

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We may suffer additional credit-related losses in the future if our borrowers are unable to repay their loans as expected or if the measures we take in reaction to, or in anticipation of, our borrowers deteriorating repayment abilities prove inappropriate or insufficient.

When we lend money or commit to lend money, we incur credit risk, which is the risk of losses if our borrowers do not repay their loans. We may incur significant credit losses or have to provide for a significant amount of additional allowance for credit losses if:

- large borrowers become insolvent or must be restructured;
- domestic or global economic conditions, either generally or in particular industries in which large borrowers operate, deteriorate;
- the value of the collateral we hold, such as real estate or securities, declines; or
- we are adversely affected by corporate credibility issues among our borrowers, to an extent that is worse than anticipated.

As a percentage of total loans, impaired loans, which primarily include nonaccrual loans and troubled debt restructurings, or TDRs, ranged from 1.14% to 1.69% as of the five most recent fiscal year-ends. As of March 31, 2018, impaired loans were ¥1.33 trillion, representing 1.14% of our total outstanding loans. If the economic conditions in Japan or other parts of the world, or in particular industries, including the energy and real estate industries, to which we have significant credit risk exposure, worsen, our problem loans and credit-related expenses may increase. An increase in problem loans and credit-related expenses would adversely affect our results of operations, weaken our financial condition and erode our capital base.

We may provide additional loans, equity capital or other forms of support to troubled borrowers in order to facilitate their restructuring and revitalization efforts. We may also forbear from exercising some or all of our rights as a creditor against them, and we may forgive loans to them in conjunction with their debt restructurings. We may take these steps even when such steps might not be warranted from the perspective of our short-term or narrow economic interests or a technical analysis of our legal rights against those borrowers, in light of other factors such as our longer-term economic interests, and our commitment to support the Japanese economy. These

practices may substantially increase our exposure to troubled borrowers and increase our losses. Credit losses may also increase if we elect, or are forced by economic or other considerations, to sell or write off our problem loans at a larger discount, in a larger amount or in a different time or manner, than we may otherwise want.

Although we, from time to time, enter into credit derivative transactions, including credit default swap contracts, to manage our credit risk exposure, such transactions may not provide the protection against credit defaults that we intended due to counterparty defaults or similar issues. The credit default swap contracts could also result in significant losses. As of March 31, 2018, the total notional amount of the protection we sold through single name credit default swaps and index and basket credit default swaps was ¥2.93 trillion. In addition, negative changes in financial market conditions may restrict the availability and liquidity of credit default swaps. For more information on our credit derivative transactions, see Note 24 to our consolidated financial statements included elsewhere in this

Annual Report.

Our loan losses could prove to be materially different from our estimates and could materially exceed our current allowance for credit losses, in which case we may need to provide for additional allowance for credit losses and may also record credit losses beyond our allowance. Our allowance for credit losses in our loan portfolio is based on evaluations of customers creditworthiness and the value of collateral we hold. Although we recorded ¥240.8 billion of reversal of credit losses for the fiscal year ended March 31, 2018, negative changes in economic conditions, government policies or our borrowers repayment abilities may require us to provide for allowance in future periods. While we closely observe conditions of our individual borrowers and industry trends, our borrowers may incur financial and non-financial losses that exceed our estimations depending on, for example, domestic and international economic conditions or commodity price fluctuations. In such case, we may need to provide for additional allowance for credit losses. Also, the regulatory standards or guidance on establishing allowances may also change, causing us to change some of the evaluations used in determining the allowances. As a result, we may need to provide for additional allowance for credit losses.

Our efforts to diversify our portfolio to avoid any concentration of credit risk exposures to particular industries or counterparties may prove insufficient. For example, our credit exposures to the energy and real estate industries are relatively high in comparison to other industries. The credit quality of borrowers in this sector do not necessarily correspond to general economic conditions in Japan or other parts of the world, and adverse fluctuations in oil and other commodity prices or adverse developments in the real estate market may disproportionately increase our credit costs.

When we believe there is an improvement in asset quality, we may reverse the allowance for credit losses to a level management deems appropriate and record the amount of reversal in our consolidated statements of income. For example, for the fiscal year ended March 31, 2018, we recorded ¥297.4 billion, ¥22.3 billion and ¥9.3 billion of reversal of credit losses for the Commercial, Residential and MUFG Americas Holdings segments, respectively, of our loan portfolio. However, we have historically recorded provision for credit losses rather than recording reversal of credit losses in most periods, and in future periods we may need to recognize a provision for credit losses.

For more information on our loan portfolio, see Item 5.B. Operating and Financial Review and Prospects Liquidity and Capital Resources Financial Condition Loan Portfolio.

Fluctuations in interest rates could adversely affect the value or the yield of our bond portfolio.

The aggregate carrying amount of the Japanese government and corporate bonds and foreign bonds, including U.S. Treasury bonds, that we held as of March 31, 2018 was 9.6% of our total assets. In particular, the Japanese national government and Japanese government agency bonds accounted for 8.5% of our total assets as of March 31, 2018. For a detailed discussion of our bond portfolio, see Selected Statistical Data Investment Portfolio.

The Bank of Japan has maintained a quantitative and qualitative monetary easing with negative interest rates policy and applied a negative interest rate of minus 0.1% to the Policy-Rate Balances, which are a part of current account amounts held by financial institutions at the Bank of Japan, while purchasing Japanese government bonds to increases its aggregate holding of such bonds by approximately ¥80 trillion each year. In September 2016, the Bank of Japan introduced a quantitative and qualitative monetary easing with yield curve control policy, adding to its monetary policy a Japanese government bond purchase program with an aim to keep the yield of 10-year Japanese government bonds around zero percent. If the policy is maintained in Japan for an extended period, or if the Bank of Japan s negative interest rate or target long-term interest rate is lowered from the current level, market interest rates may decline further, and the yield on the Japanese government bonds and other financial instruments that we hold may also decline. On the other hand, the value of our investment portfolio may decrease if interest rates increase rapidly or significantly because of heightened market expectations for tapering or cessation of the current policy in Japan. Separate from the Bank of Japan s monetary policies, interest rates could also significantly increase in the event that Japanese government bonds decline in value due to such factors as a decline in confidence in the Japanese government s fiscal administration or further issuances of Japanese government bonds in connection with emergency economic measures or in the event that interest rates on U.S. Treasury securities rise due to such factors as increases in the U.S. policy interest rate, additional issuances of U.S. government bonds, or acceleration of reduction in the balance sheet of the Federal Reserve Board, or FRB. Although we are managing our interest rate risk in light of the expected increases in policy rates in the United States, our investment portfolio could be affected by the shifts in U.S. monetary policy by the FRB. If relevant interest rates increase for these or other reasons, particularly if such increase is unexpected or sudden, we may incur significant losses on sales of, and valuation losses on, our bond portfolio. See

Item 5. Operating and Financial Review and Prospects Business Environment.

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Fluctuations in foreign currency exchange rates may result in transaction losses on translation of monetary assets and liabilities denominated in foreign currencies as well as foreign currency translation losses with respect to our foreign subsidiaries and equity method investees.

Fluctuations in foreign currency exchange rates against the Japanese yen create transaction gains or losses on the translation into Japanese yen of monetary assets and liabilities denominated in foreign currencies. To the extent that our foreign currency-denominated assets and liabilities are not matched in the same currency or appropriately hedged, we could incur losses due to future foreign exchange rate fluctuations. During the fiscal year ended March 31, 2018, the average balance of our foreign interest-earning assets was ¥ 94,447.0 billion and the average balance of our foreign interest-bearing liabilities was ¥ 60,691.1 billion, representing 39.5% of our average total interest-earning assets and 26.0% of our average total interest-bearing liabilities during the same period. Due to foreign currency exchange rate fluctuations, we may incur losses attributable to net transaction losses on the translation into Japanese yen of monetary assets and liabilities denominated in foreign currencies, net losses on currency derivative instruments entered into for trading purposes, and net losses on translation into Japanese yen of securities accounted for under the fair value option. In addition, we may incur foreign currency translation losses with respect to our foreign subsidiaries and equity method investees due to fluctuations in foreign currency exchange rates. The average exchange rate for the fiscal year ended March 31, 2018 was ¥110.85 per U.S.$1.00, compared to ¥108.38 per U.S.$1.00 for the previous fiscal year. The change in the average exchange rate of the Japanese yen against the U.S. dollar and other foreign currencies had the effect of increasing total revenue by ¥99.3 billion, net interest income by ¥56.2 billion and income before income tax expense by ¥29.2 billion, respectively, for the fiscal year ended March 31, 2018. However, since the exchange rate between the Japanese yen and the U.S. dollar was ¥106.24 as of March 31, 2018, compared to ¥112.19 to the U.S. dollar as of March 31, 2017, we recorded ¥267.5 billion of net foreign exchange losses related to the fair value option for the fiscal year ended March 31, 2018. The Japanese yen was ¥110.76 to the U.S. dollar on June 29, 2018. For more information on foreign exchange gains and losses and foreign currency translation gains and losses, see Item 5. Operating and Financial Review and Prospects Business Environment and Item 5.A. Operating and Financial Review and Prospects Operating Results.

If the Japanese stock market or other global markets decline in the future, we may incur losses on our securities portfolio and our capital ratios will be adversely affected.

A decline in Japanese stock prices could reduce the value of the Japanese domestic marketable equity securities that we hold, which accounted for 15.0% of our total investment securities portfolio, and 2.2% of our total assets, as of March 31, 2018. The Nikkei Stock Average, which is the average of 225 blue chip stocks listed on the Tokyo Stock Exchange, fluctuated throughout the fiscal year ended March 31, 2018, declining to an intra-day low of ¥18,335.63 on April 14, 2017, rising to an intra-day high of ¥24,124.15 on January 23, 2018, and declining again to ¥21,454.30 at the end of trading on March 30, 2018. As of June 29, 2018, the closing price of the Nikkei Stock Average was ¥22,304.51. The Nikkei Stock Average has increased in recent periods, and may fluctuate significantly and negatively in future periods, as the global economy remains volatile and investors continue to observe the changes in economic and monetary policies mainly in Japan, the United States, the Eurozone and Asian countries. In addition, weakening or stagnant economic conditions in these and other regions may have a significant negative impact on Japanese companies, which in turn will cause their stock prices to decline. Concerns over the impact of geopolitical tensions and conflicts in various parts of the world on Japanese companies may also adversely affect stock prices in Japan. In addition, the global trend towards further reduction in risk assets could result in lower stock prices, and the recent trend in Japan towards strengthening corporate governance may subject public companies to stricter scrutiny. See Item 5. Operating and Financial Review and Prospects Business Environment and Item 5.B. Operating and Financial Review and Prospects Liquidity and Capital Resources Investment Portfolio.

We may become subject to regulatory actions or other legal proceedings relating to our transactions or other aspects of our operations, which could result in significant financial losses, restrictions on our operations and damage to our reputation.

We conduct our business subject to ongoing regulation and associated regulatory and legal risks. Global financial institutions, including us, currently face heightened regulatory scrutiny as a result of the concerns developing in the global financial sector, and growing public pressure to demand even greater regulatory surveillance following several high-profile scandals and risk management failures in the financial industry. In the current regulatory environment, we are subject to various regulatory inquiries or investigations from time to time in connection with various aspects of our business and operations. In addition, multiple government authorities with overlapping jurisdiction more frequently conduct investigations and take other regulatory actions in coordination with one another or separately on the same or related matters.

In November 2014, MUFG Bank entered into a consent agreement with the New York State Department of Financial Services, or DFS, to resolve issues relating to instructions given to PricewaterhouseCoopers LLP, or PwC, and the disclosures made to DFS in connection with MUFG Bank s 2007 and 2008 voluntary investigation of MUFG Bank s U.S. dollar clearing activity toward countries under U.S. economic sanctions. MUFG Bank had hired PwC to conduct a historical transaction review report in connection with that investigation, and voluntarily submitted the report to DFS s predecessor entity in 2008. Under the terms of the agreement with DFS, MUFG Bank made a payment of $315 million to DFS, and agreed to take actions on persons involved in the matter at that time, relocate its U.S. Bank Secrecy Act/Anti-Money Laundering, or BSA/AML, and Office of Foreign Assets Control, or OFAC, sanctions compliance programs to New York, and extend, if regarded as necessary by DFS, the period during which an independent consultant is responsible for assessing MUFG Bank s internal controls regarding compliance with applicable laws and regulations related to U.S. economic sanctions. In June 2013, MUFG Bank reached an agreement with DFS regarding inappropriate operational processing of U.S. dollar clearing transactions with countries subject to OFAC sanctions during the period of 2002 to 2007. Under the terms of the June 2013 agreement, MUFG Bank made a payment of $250 million to DFS and retained an independent consultant to conduct a compliance review of the relevant controls and related matters in MUFG Bank s current operations. In December 2012, MUFG Bank agreed to make a payment of approximately $8.6 million to OFAC to settle potential civil liability for apparent violations of certain U.S. sanctions regulations from 2006 to 2007.

On November 9, 2017, MUFG Bank entered into a Stipulation and Consent to the Issuance of a Consent Order with the U.S. Office of the Comptroller of the Currency, or OCC, under which MUFG Bank agreed to the entry by the OCC of a Consent Order that includes remedial terms and conditions that are substantively the same as those included in the consent agreements that MUFG Bank had reached with DFS in June 2013 and November 2014. This Consent Order, which the OCC executed, enables the OCC to supervise MUFG Bank s plans to enhance its internal controls and compliance program relating to OFAC sanctions requirements. The Stipulation and Consent with the OCC followed MUFG s conversion of the U.S. Branches and Agencies of MUFG Bank and Mitsubishi UFJ Trust and Banking, including MUFG Bank s New York Branch, from state-licensed branches and agencies under the supervision of state regulatory agencies, including DFS, to federally licensed branches and agencies under the supervision of the OCC. MUFG Bank is undertaking necessary actions relating to these matters. In addition, MUFG Bank is currently engaged in litigation with DFS with regard to the conversion of its New York Branch license as well as purported violations of law alleged to have occurred prior to the federal license conversion.

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

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These developments or other similar matters may result in additional regulatory actions against us or agreements to make significant additional settlement payments. These developments or other matters to which we are subject from time to time may also expose us to substantial monetary damages, legal defense costs, criminal and civil liability, and restrictions on our business operations as well as damage to our reputation. The outcome of such matters, including the extent of the potential impact of any unfavorable outcome on our financial results, however, is inherently uncertain and difficult to predict. The extent of financial, human and other resources required to conduct any investigations or to implement any corrective or preventive measures is similarly uncertain and could be significant. Such resources may also be difficult for us to secure in a timely manner.

Legal and regulatory changes could have a negative impact on our business, financial condition and results of operations.

As a global financial services provider, our business is subject to ongoing changes in laws, regulations, policies, voluntary codes of practice and interpretations in Japan and other markets where we operate. Major global financial institutions currently face an increasingly stricter set of laws, regulations and standards as a result of the concerns enveloping the global financial sector. There is also growing political pressure to demand even greater internal compliance and risk management systems following several high-profile scandals and risk management failures in the financial industry. We may not be able to enhance our compliance risk management systems and programs, which, in some cases, are supported by third-party service providers, in a timely manner or as planned. Our risk management systems and programs may not be fully effective in preventing all violations of laws, regulations and rules applicable locally or on a global basis to our subsidiaries, offices and branches.

Our failure or inability to comply fully with applicable laws and regulations could lead to fines, public reprimands, damage to reputation, civil liability, enforced suspension of operations or, in extreme cases, withdrawal of authorization to operate, adversely affecting our business and results of operations. Legal or regulatory compliance failure may also adversely affect our ability to obtain regulatory approvals for future strategic initiatives. Furthermore, failure to take necessary corrective action, or the discovery of violations of laws in the process of further review of any of the matters mentioned above or in the process of implementing any corrective measures, could result in further regulatory action.

We could also be required to incur significant expenses to comply with new or revised regulations. For example, if we adopt a new information system infrastructure in the future, we may be required to incur significant additional costs for establishing and implementing effective internal controls, which may materially and adversely affect our financial condition and results of operations.

Future developments or changes in laws, regulations, policies, voluntary codes of practice and their effects are expected to require greater capital, human and technological resources as well as significant management attention, and may require us to modify our business strategies and plans. For example, since March 31, 2013, Japanese banking institutions with international operations have become subject to stricter capital adequacy requirements adopted by the FSA based in part on the international regulatory framework generally known as Basel III. Furthermore, on March 31, 2016, the capital conservation buffer, countercyclical buffer and surcharge for global systematically important banks, or G-SIBs, became applicable to Japanese banking institutions with international operations, including us, and these additional capital adequacy requirements are expected to become stricter in phases over the next few years. For more information, see Risks Related to Our Business We may not be able to maintain our capital ratios above minimum required levels, which could result in the suspension of some or all of our operations. and Item 4.B. Information on the Company Business Overview Supervision and Regulation Japan.

Furthermore, regulatory reforms recently implemented, proposed and currently being debated in the United States may also significantly affect our business operations. For example, in July 2016, we established MUFG Americas Holdings as a U.S. intermediate holding company, or IHC, and reorganized our U.S. bank and non-bank subsidiaries under MUFG Americas Holdings pursuant to rules adopted by the Federal Reserve Board, or FRB, in February 2014. Under the FRB rules, MUFG Americas Holdings is also subject to U.S. capital requirements, capital stress testing, liquidity buffer requirements, and other enhanced prudential standards comparable to those applicable to top-tier U.S. bank holding companies of the same size. We are continuing to devote resources and management attention on establishing an appropriate governance structure with effective internal control systems for MUFG Americas Holdings designed to ensure compliance with the rules on an on-going basis. See Item 4.B. Information on the Company Business Overview Supervision and Regulation United States.

The Trump Administration has appointed new leadership in key positions at federal bank regulatory agencies such as the FRB, the OCC, the Federal Deposit Insurance Corporation and the Consumer Financial Protection Bureau. It is uncertain whether and to what extent these leadership changes will result in new regulatory initiatives and policies, or modifications of existing regulations and policies, which may impact our business in the United States.

Any adverse changes in the business of MUFG Americas Holdings Corporation, a wholly owned subsidiary in the United States, could significantly affect our results of operations.

MUFG Americas Holdings, which is a wholly owned subsidiary in the United States formerly called UnionBanCal Corporation, or UNBC, and which is our IHC in the United States, has historically contributed to a significant portion of net income attributable to the Mitsubishi UFJ Financial Group. MUFG Americas Holdings reported net income of $644 million, $990 million and $1,077 million for the fiscal years ended December 31, 2015, 2016 and 2017 respectively. Any adverse developments which could arise at MUFG Americas Holdings may have a significant negative impact on our results of operations and financial condition. For more information, see Item 4.B. Information on the Company Business Overview Global Commercial Banking Business Group MUFG Union Bank, N.A.

Factors that have negatively affected, and could continue to negatively affect, MUFG Americas Holdings results of operations include difficult economic conditions, such as a downturn in the real estate and housing industries in California and other states within the United States, the fiscal challenges being experienced by the U.S. federal and California state governments, substantial competition in the banking markets in the United States and uncertainty over the U.S. economy, as well as negative trends in debt ratings and interest rate uncertainties. In recent periods, declining oil and gas prices have adversely affected the credit conditions of borrowers in the energy sector and related industries, resulting in an increase in credit costs. In addition, since the financial crisis in 2008 and 2009, the U.S. banking industry has operated in an extremely low interest rate environment as a result of the highly accommodative monetary policy of the FRB, which has placed downward pressure on the net interest margins of U.S. banks, including MUFG Americas Holdings. Although the FRB began raising its policy interest rate in December 2015, interest rates have remained at low levels in the United States. Sudden fluctuations in interest rates may negatively affect MUFG Americas Holdings results of operations.

Significant costs may arise from enterprise-wide compliance and risk management requirements under, or failure to comply with, applicable laws and regulations, such as the U.S. Bank Secrecy Act and related amendments under the USA PATRIOT Act, and any adverse impact of the implementation of the Dodd-Frank Act. In addition, the FRB and other U.S. bank regulators have adopted rules to implement the Basel III global regulatory framework for U.S. banks and bank holding companies which require higher quality of capital, as well as significantly revise the calculations for risk-weighted assets. The FRB has also adopted rules to implement various enhanced prudential standards required by the Dodd-Frank Act for larger U.S. bank holding companies, such as MUFG Americas Holdings. These standards require the larger bank holding companies to meet enhanced capital, liquidity and leverage standards. Further, the FRB has adopted regulations applicable to foreign banking organizations operating in the United States, which require MUFG s and MUFG Bank s U.S. operations to be restructured and, subject to certain exceptions, conducted under a single U.S. IHC, with its own capital and

liquidity requirements. Actions management may take in response to these regulatory changes may involve the issuance of additional capital or other measures. For more information, see Item 4.B. Information on the Company Business Overview Supervision and Regulation United States.

MUFG Union Bank, which is the principal subsidiary of MUFG Americas Holdings, and reportedly other financial institutions have been the targets of various denial-of-service or other cyber-attacks as part of what appears to be a coordinated effort to disrupt the operations of financial institutions and potentially test their cybersecurity in advance of future and more advanced cyber-attacks. These denial-of-service attacks may require substantial resources to defend against and affect customer satisfaction and behavior. Moreover, MUFG Union Bank s information security measures may not be sufficient to defend against cyber-attacks and other information security breaches, in which case the consequences could be significant in terms of financial, reputational and other losses. In addition, there have been increasing efforts to breach data security at financial institutions as well as other types of companies, such as large retailers, or with respect to financial transactions, including through the use of social engineering schemes such as phishing. Even if cyber-attacks and similar tactics are not directed specifically at MUFG Union Bank, such attacks on other large institutions could disrupt the overall functioning of the U.S. or global financial system and undermine consumer confidence in banks generally to the detriment of other financial institutions, including MUFG Union Bank.

Any adverse changes in the business of Bank of Ayudhya, an indirect subsidiary in Thailand, could significantly affect our results of operations.

Any adverse changes in the business or management of Bank of Ayudhya Public Company Limited, or Krungsri, a strategic subsidiary in Thailand in which we hold a 76.88% ownership interest as of March 31, 2018, may negatively affect our financial condition and results of operations. Factors that may negatively affect Krungsri s financial condition and results of operations include:

- adverse economic conditions, substantial competition in the banking industry, volatile political and social conditions, natural disasters including floods, terrorism and armed conflicts, restrictions under applicable financial systems and regulations, or significant fluctuations in interest rates, foreign currency exchange rates, stock prices or commodity prices, in Southeast Asia, particularly in Thailand;

- the business performance of companies making investments in and entering into markets in the Southeast Asian region, as well as the condition of economies, financial systems, laws and financial markets in the countries where such companies primarily operate;

- losses from legal proceedings involving Krungsri;

- credit rating downgrades and declines in stock prices of Krungsri s borrowers, and bankruptcies of Krungsri s borrowers resulting from such factors;

- defaults on Krungsri s loans to individuals;

adverse changes in the cooperative relationship between us and the other major shareholder of Krungsri; and

costs incurred due to weaknesses in the internal controls and regulatory compliance systems of Krungsri or any of its subsidiaries.

As of March 31, 2018, the balance of goodwill associated with the acquisition of Krungsri, including Krungsri s acquisition of Hattha Kaksekar Limited, a microfinance institution in Cambodia, in September 2016, was ¥59.8billion. If the business of Krungsri deteriorates, we may be required to record impairment losses, which could have a material adverse effect on our results of operations and financial condition. See Risks Related to Our Business If the goodwill recorded in connection with our acquisitions becomes impaired, we may be required to record impairment losses, which may adversely affect our financial results.

Our strategy to expand the range of our financial products and services and the geographic scope of our business globally may fail if we are unable to anticipate or manage new or expanded risks that entail such expansion.

We continue to seek opportunities to expand the range of our products and services beyond our traditional banking, trust, and securities businesses, through development and introduction of new products and services or through acquisitions of or investments in financial institutions with products and services that complement our business. For example, we are currently seeking to expand our corporate lending business outside of Japan. In addition, the sophistication of financial products and services and management systems has been growing significantly in recent years. As a result, we are exposed to new and increasingly complex risks, while market and regulatory expectations that we manage these risks properly continue to rise. Some of the activities that our subsidiaries are expected to engage in, such as derivatives and foreign currency trading, present substantial risks. In some cases, we have only limited experience with the risks related to the expanded range of these products and services. In addition, we may not be able to successfully develop or operate the necessary information technology systems. As a result, we may not be able to foresee the risks relating to new products and services.

As we expand the geographic scope of our business, we will also be exposed to risks that are unique to particular jurisdictions or markets. For example, in an effort to further develop our operations in Asia, MUFG Bank purchased 72.01% of the outstanding shares of Krungsri in December 2013 and acquired additional shares in January 2015, increasing MUFG Bank s ownership interest to 76.88%.MUFG Bank has also held an approximately 20% equity interest in Vietnam Joint Stock Commercial Bank of Industry and Trade since December 2012 and a 20.0% equity interest in Security Bank Corporation in the Philippines since April 2016. In addition, MUFG Bank acquired 19.9% of the outstanding shares of PT Bank Danamon Indonesia, Tbk as part of our plan to acquire an aggregate equity interest in Bank Danamon exceeding 73.8%, subject to regulatory approval and other conditions. As we seek to enter new markets or jurisdictions, we often seek to collaborate with a local business partner by becoming a shareholder as well as providing management expertise for the local market. In such circumstances, the local business partner may have business interests that are inconsistent with our interests and, as a result, we may be unable to achieve the goals initially set out in our strategy for that market. In addition, we may be unable to staff our newly expanded operations with qualified individuals familiar with local legal and regulatory requirements and business practices, exposing us to legal, regulatory, operational and other risks.

Our risk management systems may prove to be inadequate and may not work in all cases or to the degree required locally and globally for all of our subsidiaries, offices and branches. The increasing market, credit, compliance and regulatory risks in relation to the expanding scope of our products, services and trading activities or expanding our business beyond our traditional markets, could result in us incurring substantial losses. In addition, our efforts to offer new products and services or penetrate new markets may not succeed if product or market opportunities develop more slowly than expected, if our new products and services are not well accepted among customers, if the profitability of opportunities is undermined by competitive pressures or regulatory limitations, or if our planned acquisitions, investments or capital alliances are not approved by regulators. For more information on our recent acquisition and investment transactions, see Item 5. Operating and Financial Review and Prospects Recent Developments.

Unanticipated economic changes in, and measures taken in response to such changes by, emerging market countries could result in additional losses.

We are increasingly active, through a network of branches and subsidiaries, in emerging market countries, particularly countries in Asia, Latin America, Central and Eastern Europe, and the Middle East. For example, based primarily on the domicile of the obligors, our assets in Europe, Asia and Oceania excluding Japan, and other areas excluding Japan and the United States, were ¥22,342.6 billion, ¥27,163.1 billion and ¥10,111.4 billion, representing 7.4%, 9.0% and 3.4% of our total assets as of March 31, 2018, respectively. The economies of emerging market countries can be volatile and susceptible to adverse changes and trends in the global financial markets. For example, a decline in the value of local currencies of these countries could negatively affect the creditworthiness of some of our borrowers in these countries. The loans we have made to borrowers and banks in these countries are often denominated in U.S. dollars, euro or other foreign currencies. These borrowers often do not hedge the loans to protect against fluctuations in the values of local currencies. A devaluation of the local currency would make it more difficult for a borrower earning income in that currency to pay its debts to us and other foreign lenders. In addition, some countries in which we operate may attempt to support the value of their currencies by raising domestic interest rates. If this happens, the borrowers in these countries would have to devote more of their resources to repaying their domestic obligations, which may adversely affect their ability to repay their debts to us and other foreign lenders. The limited credit availability resulting from these conditions may adversely affect economic conditions in some countries. This could cause a further deterioration of the credit quality of borrowers and banks in those countries and cause us to incur further losses. In addition, should there be excessively rapid economic growth and increasing inflationary pressure in some of the emerging market countries, such developments could adversely affect the wider regional and global economies. Some emerging market countries may also change their monetary or other economic policies in response to economic and political instabilities or pressures, which are difficult to predict. See Item 5.B. Operating and Financial Review and Prospects Liquidity and Capital Resources Financial Condition.

If our strategic alliance with Morgan Stanley fails, we could suffer financial or reputational loss.

We have a global strategic alliance with Morgan Stanley, under which we operate two joint venture securities companies in Japan, engage in joint corporate finance operations in the United States and pursue other cooperative opportunities. We hold approximately 24.4% of the voting rights in Morgan Stanley as of March 31, 2018 and continue to hold approximately $521.4 million of perpetual non-cumulative non-convertible preferred stock with a 10% dividend. In addition, we currently have two representatives on Morgan Stanley s board of directors.

We initially entered into this strategic alliance in October 2008 with a view towards long-term cooperation with Morgan Stanley, and currently plan to deepen the strategic alliance. However, due to any unexpected changes in social, economic or financial conditions, changes in the regulatory environment, or any failure to integrate or share staff, products or services, or to operate, manage or implement the business strategy of the securities joint venture companies or other cooperative opportunities as planned, we may be unable to achieve the expected synergies from this alliance.

If our strategic alliance with Morgan Stanley is terminated, it could have a material negative impact on our business strategy, financial condition, and results of operations. For example, because we conduct our securities operations in Japan through the joint venture companies we have with Morgan Stanley, such termination may result in our inability to attain the planned growth in this line of business.

In addition, with our current investment in Morgan Stanley, we have neither a controlling interest in, nor control over the business operations of Morgan Stanley. If Morgan Stanley makes any business decisions that are inconsistent with our interests, we may be unable to achieve the goals initially set out for the strategic alliance. Furthermore, although we do not control Morgan Stanley, given the magnitude of our investment, if Morgan Stanley encounters financial or other business difficulties due to adverse changes in the economy, regulatory environment or other factors, we may suffer a financial loss on our investment or damage to our reputation. For example, we recorded an impairment loss of ¥579.5 billion on our investment in Morgan Stanley s common stock for the fiscal year ended March 31, 2012.

We apply equity method accounting to our investment in Morgan Stanley in our consolidated financial statements. As a result, Morgan Stanley s performance affects our results of operations. In addition fluctuations in Morgan Stanley s stock price or in our equity ownership interest in Morgan Stanley may cause us to recognize additional losses on our investment in Morgan Stanley.

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We may incur further losses as a result of financial difficulties relating to other financial institutions, both directly and through the effect they may have on the overall banking environment and on their borrowers.

Declining asset quality, capital adequacy and other financial problems of domestic and foreign financial institutions, including banks, non-bank lending and credit institutions, securities companies and insurance companies, may lead to severe liquidity and solvency problems, which have in the past resulted in the liquidation, government control or restructuring of affected institutions. In addition, allegations or governmental prosecution of improper trading activities or inappropriate business conduct of a specific financial institution could also negatively affect the public perception of other global financial institutions individually and the global financial industry as a whole. These developments may adversely affect our financial results.

Financial difficulties relating to financial institutions could adversely affect us because we have extended loans, some of which may need to be classified as impaired loans, to banks, securities companies, insurance companies and other financial institutions that are not our consolidated subsidiaries. Our loans to banks and other financial institutions have been more than 5% of our total loans as of each year-end in the three fiscal years ended March 31, 2018, with the percentage being 15.1% as of March 31, 2018. We may also be adversely affected because we are a shareholder of some other banks and financial institutions that are not our consolidated subsidiaries, including our shareholdings in Japanese regional banks and our 24.4% voting interest in Morgan Stanley as of March 31, 2018. If some of the financial institutions to which we have exposure experience financial difficulties, we may need to provide financial support to them even when such support might not be warranted from the perspective of our narrow economic interests because such institutions may be systemically important to the Japanese or global financial system.

We may also be adversely affected because we enter into transactions, such as derivative transactions, in the ordinary course of business, with other banks and financial institutions as counterparties. For example, we enter into credit derivatives with banks, broker-dealers, insurance companies and other financial institutions for managing credit risk exposures, for facilitating client transactions, and for proprietary trading purposes. The notional amount of the protection we sold through these instruments was ¥3.00 trillion as of March 31, 2018.

In addition, financial difficulties relating to financial institutions could indirectly have an adverse effect on us because:

- we may be requested to participate in providing assistance to support distressed financial institutions that are not our consolidated subsidiaries;

- the government may elect to provide regulatory, tax, funding or other benefits to those financial institutions to strengthen their capital, facilitate their sale or otherwise, which in turn may increase their competitiveness against us;

- deposit insurance premiums could rise if deposit insurance funds prove to be inadequate;

- bankruptcies or government support or control of financial institutions could generally undermine confidence in financial institutions or adversely affect the overall banking environment;

failures or financial difficulties experienced by other financial institutions could result in additional regulations or requirements that increase the cost of business for us; and

negative media coverage of the financial industry, regardless of its accuracy and applicability to us, could affect customer or investor sentiment, harm our reputation and have a materially adverse effect on our business or the price of our securities.

Because of our loans to consumers and our shareholdings in companies engaged in consumer lending, changes in the business or regulatory environment for consumer finance companies in Japan may further adversely affect our financial results.

We have a large loan portfolio in the consumer lending industry as well as large shareholdings in subsidiaries and equity method investees in the consumer finance industry. Our domestic loans to consumers amount to approximately one-seventh of our total outstanding loans. Of this amount, the consumer loans provided by Mitsubishi UFJ NICOS, Co., Ltd., which is our primary consumer financing subsidiary, were ¥ 589.8 billion as of March 31, 2018, compared to ¥593.2 billion as of March 31, 2017.

Mitsubishi UFJ NICOS s consumer loan portfolio has been adversely affected by a series of regulatory reforms that were introduced in Japan between 2006 and 2010, which have negatively affected the domestic consumer lending industry. In December 2006, the Japanese Diet passed legislation to reform the regulations relating to the consumer lending business, including amendments to the Act Regulating the Receipt of Contributions, the Receipt of Deposits, and Interest Rates, which, effective June 18, 2010, reduced the maximum permissible interest rate from 29.2% per annum to 20% per annum. The regulatory reforms also included amendments to the Money Lending Business Act, which, effective June 18, 2010, abolished the so-called gray-zone interest. Gray-zone interest refers to interest rates exceeding the limits stipulated by the Interest Rate Restriction Act (between 15% per annum to 20% per annum depending on the amount of principal). Prior to June 18, 2010, gray-zone interest was permitted under certain conditions set forth in the Money Lending Business Act. As a result of the regulatory reforms, all interest rates are now subject to the lower limits imposed by the Interest Rate Restriction Act, compelling lending institutions, including our consumer finance subsidiaries and equity method investees, to lower the interest rates they charge borrowers. The regulations that became effective on June 18, 2010 also have had a further negative impact on the business of consumer finance companies as one of the new regulations requires, among other things, consumer finance companies to limit their lending to a single customer to a maximum of one third of the customer s annual income regardless of the customer s repayment capability, significantly affecting consumer financing companies.

The regulations and regulatory reforms affecting the consumer finance business were one of the main factors that contributed to the decrease in interest income attributable to our consumer finance business. Our interest income attributable to the consumer finance business was approximately ¥190 billion and ¥160 billion for the fiscal years ended March 31, 2009 and 2010, respectively. However, following the regulatory changes in June 2010, our interest income attributable to the consumer finance business substantially decreased. For the fiscal year ended March 31, 2018, our interest income attributable to the consumer finance business was approximately ¥90 billion.

In addition, as a result of decisions by the Supreme Court of Japan prior to June 18, 2010 imposing stringent requirements under the Money Lending Business Act for charging gray-zone interest rates, consumer finance companies have experienced a significant increase in borrowers claims for reimbursement of previously collected interest payments in excess of the limits stipulated by the Interest Rate Restriction Act.

Following the various legal developments in June 2010 and other industry developments, Mitsubishi UFJ NICOS revised its estimate of allowance for repayment of excess interest by updating management s future forecast to reflect new reimbursement claims information and other data. As of March 31, 2016, 2017 and 2018, we had ¥47.2 billion, ¥39.4 billion and ¥23.7 billion of allowance for repayment of excess interest, respectively. In recent periods, one of our equity method investees engaged in consumer lending, ACOM CO., LTD., had a negative impact on net equity in losses of equity method investees in our consolidated statements of income. Although there was no such impact for the fiscal year ended March 31, 2018, ACOM had a negative impact of ¥22.4 billion and ¥56.9 billion for the fiscal years ended March 31, 2016 and 2017. We intend to carefully monitor future developments and trends.

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These developments have adversely affected, and these and any future developments may further adversely affect, the operations and financial condition of our subsidiaries, equity method investees and borrowers which are engaged in consumer lending, which in turn may affect the value of our related shareholdings and loan portfolio.

Our business may be adversely affected by competitive pressures, which have partly increased due to regulatory changes and recent market changes in the financial industry domestically and globally.

In recent years, the Japanese financial system has been undergoing significant changes and regulatory barriers to competition have been reduced. Development of new technologies such as artificial intelligence, or AI, and blockchain has also allowed non-financial institutions to enter the financial services industry with alternative services, and such new entrants could become substantial competition to us. In addition, mergers and restructuring in the financial sector in Japan may adversely affect our competitive position. Partly to deal with these developments, as part of our strategy to realign the functions of our subsidiaries, we transferred Mitsubishi UFJ Trust and Banking s corporate and other loan-related business to MUFG Bank in April 2018. Our competitive position in the corporate loan-related market may weaken if Mitsubishi UFJ Trust and Banking s corporate customers move their accounts to a competitor or otherwise reduce their loan balances with Mitsubishi UFJ Trust and Banking or MUFG Bank to keep their funding sources diversified as a result of the transaction between Mitsubishi UFJ Trust and Banking and MUFG Bank in April 2018. Our competitive position in the corporate loan-related market may also weaken if we are unable to realize the expected benefits of the transaction.

In the overseas markets, development of new technologies such as AI and blockchain has also allowed non-financial institutions to enter the financial services industry, and such new entrants could become substantial competition to us. Competition may further increase as U.S. and European financial institutions have recently been regaining and enhancing their competitive strength. We also face intensifying competition in areas of our strategic expansion. For example, the Japanese mega banks, including us, and other major international banks have been expanding their operations in the Asian market, where leading local banks have recently been growing and increasing their presence. In addition, there has been significant consolidation and convergence among financial institutions domestically and globally, and this trend may continue in the future and further increase competition in the market. A number of large commercial banks and other broad-based financial services firms have merged or formed strategic alliances with, or have acquired, other financial institutions both in Japan and overseas. As a result of the strategic alliance and the joint venture companies that we formed with Morgan Stanley, we may be perceived as a competitor by some of the financial institutions with which we had a more cooperative relationship in the past. If we are unable to compete effectively in this more competitive and deregulated business environment, our business, results of operations and financial condition will be adversely affected. For a more detailed discussion of our competition in Japan, see Item 4.B. Information on the Company Business Overview Competition.

Future changes in accounting standards or methods could have a negative impact on our business and results of operations.

Future developments or changes in accounting standards are unpredictable and beyond our control. For example, in response to the recent instabilities in global financial markets, several international organizations which set accounting standards have released proposals to revise standards on accounting for financial instruments. Accounting standards applicable to financial instruments remain subject to debate and revision by international organizations which set accounting standards. If the current accounting standards change in the future, the reported values of some of our financial instruments may need to be modified, and such modification could have a significant impact on our financial results or financial condition. In addition, the bodies that interpret the accounting standards may change their interpretations, or we may elect to modify our accounting methods to improve our financial reporting, and such change or modification may also have a significant impact

on our financial results or financial condition. For more information, see Item 5. Operating and Financial Review and Prospects Critical Accounting Estimates.

We could also be required to incur significant expenses to comply with new accounting standards and regulations. For example, if we adopt a new accounting system in the future, we may be required to incur significant additional costs for establishing and implementing effective internal controls, which may materially and adversely affect our financial condition and results of operations.

Transactions with counterparties in countries designated by the U.S. Department of State as state sponsors of terrorism may lead some potential customers and investors in the United States and other countries to avoid doing business with us or investing in our shares.

We, through our subsidiaries, engage in business activities with entities in or affiliated with Iran, including transactions with counterparties owned or controlled by the Iranian government, and our commercial banking subsidiary has a representative office in Iran. The U.S. Department of State has designated Iran and other countries as state sponsors of terrorism, and U.S. law generally prohibits U.S. persons from doing business with such countries. We currently have business activities conducted with entities in or affiliated with such countries in accordance with our policies and procedures designed to ensure compliance with regulations applicable in the jurisdictions in which we operate.

We have loan transactions with counterparties in or affiliated with Iran, the outstanding balance of which was less than ¥50 million representing less than 0.0001% of our total assets, as of March 31, 2018. We do not have any loans outstanding to the financial institutions specifically listed by the U.S. government. In addition to such loan transactions, our other transactions with counterparties in or affiliated with countries designated as state sponsors of terrorism consist of receiving deposits or holding assets on behalf of individuals residing in Japan who are citizens of countries designated as state sponsors of terrorism, processing payments to or from entities in or affiliated with these countries on behalf of our customers, and issuing letters of credit and guarantees in connection with transactions with entities in or affiliated with such countries by our customers. These transactions do not have a material impact on our business or financial condition. For a further discussion of transactions required to be disclosed under the U.S. Iran Threat Reduction and Syria Human Rights Act of 2012, see Item 4.B. Information on the Company Business Overview Supervision and Regulation United States Disclosure pursuant to Section 13(r) of the Securities Exchange Act of 1934.

We are aware of initiatives by U.S. governmental entities and non-government entities, including institutional investors such as pension funds, to adopt or consider adopting laws, regulations or policies prohibiting transactions with or investment in, or requiring divestment from, entities doing business with Iran and other countries identified as state sponsors of terrorism. It is possible that such initiatives may result in our being unable to gain or retain entities subject to such prohibitions as customers, counter-parties or investors in our shares. In addition, depending on socio-political developments, our reputation may suffer due to our transactions with counterparties in or affiliated with these countries. The above circumstances could have an adverse effect on our business and financial condition.

Global financial institutions, including us, have become subject to an increasingly complex set of sanctions laws and regulations in recent years, and this regulatory environment is expected to continue. Moreover, the measures proposed or adopted vary across the major jurisdictions, increasing the cost and resources necessary to design and implement an appropriate global compliance program. The U.S. federal government and some state governments in the United States have enacted legislation designed to limit economic and financial transactions with Iran by limiting the ability of financial institutions that may have engaged in any one of a broad range of activities related to Iran to conduct various transactions in the relevant jurisdictions. In addition, in May 2018, the United States withdrew from participation in the Joint Comprehensive Plan of Action. As a result of this withdrawal, the United States is again threatening to impose potentially severe secondary sanctions against non-U.S. persons who engage in or facilitate a broad range of transactions and activities involving Iran. The Japanese government has also implemented a series of measures under the Foreign Exchange and Foreign Trade Act, such

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as freezing the assets of persons involved in Iran s sensitive nuclear activities and development of nuclear weapon delivery systems, and our most recently modified policies and procedures take into account the current Japanese regulatory requirements. We continue to work to improve our policies and procedures to comply with such legislative and regulatory requirements. There remains a risk of potential regulatory action against us, however, if regulators perceive the modified policies and procedures not to be in compliance with applicable legislation and regulations.

We may not be able to maintain our capital ratios above minimum required levels, which could result in the suspension of some or all of our operations.

We, as a holding company, and our Japanese banking subsidiaries are required to maintain risk-weighted capital ratios above the levels specified in the capital adequacy guidelines adopted by the FSA based in part on the Basel III framework. As of March 31, 2018, our total risk-adjusted capital ratio was 16.56% compared to the minimum risk-adjusted capital ratio required of 11.01%, our Tier 1 capital ratio was 14.32% compared to the minimum Tier 1 capital ratio required of 9.01%, and our Common Equity Tier 1 capital ratio was 12.58% compared to the minimum Common Equity Tier 1 capital ratio required of 7.51%, each including a capital conservation buffer of 1.875%, a G-SIB surcharge of 1.125% and a countercyclical buffer of 0.01%. Our capital ratios are calculated in accordance with Japanese banking regulations based on information derived from our financial statements prepared in accordance with Japanese GAAP. In addition, we and some of our subsidiaries are also subject to the capital adequacy rules of various foreign countries, including the United States. We or our banking subsidiaries may be unable to continue to satisfy the capital adequacy requirements because of:

- increases in our and our banking subsidiaries credit risk assets and expected losses because of fluctuations in our or our banking subsidiaries portfolios due to deterioration in the creditworthiness of borrowers and the issuers of equity and debt securities;
- difficulty in refinancing or issuing instruments upon redemption or at maturity of such instruments to raise capital under terms and conditions similar to prior financings or issuances;
- declines in the value of our or our banking subsidiaries securities portfolios;
- adverse changes in foreign currency exchange rates;
- adverse revisions to the capital ratio requirements;
- reductions in the value of our or our banking subsidiaries deferred tax assets; and
- other adverse developments.

The Basel Committee on Banking Supervision imposes additional loss absorbency requirements to supplement the Common Equity Tier 1 capital requirement ranging from 1% to 3.5% for G-SIBs, depending on the bank s systemic importance. The Financial Stability Board identified us as a G-SIB in its most recent annual report published in

November 2017, and indicated that, as a G-SIB, we would be required to hold an additional 1.5% of Common Equity Tier 1 capital. The group of banks identified as G-SIBs is expected to be updated annually. The stricter capital requirements are being implemented in phases between January 1, 2016 and December 31, 2018 and will become fully effective on January 1, 2019. The Japanese capital ratio framework has been revised in line with the stricter capital requirements for G-SIBs.

Under the capital adequacy guidelines of the FSA, which have been revised in connection with the adoption of Basel III, there is a transitional measure relating to the inclusion as a capital item of capital raising instruments issued in or prior to March 2013, and such instruments can be included as a capital item when calculating capital ratios to the extent permitted by the transitional measure. Such capital raising instruments may require refinancing upon the expiration of the transition period during which such instruments can be included as a capital item in the calculation of capital ratios. However, in order for newly issued capital raising instruments, other than common stock, to be included as a capital item in the calculation of capital ratios under the capital adequacy guidelines, such instruments must have a clause in their terms and conditions that requires them to be written off or converted into common stock upon the occurrence of certain events, including when the issuing financial institution is deemed non-viable or when the issuing financial institution s capital ratios decline below prescribed levels. As a result, under certain market conditions, we may be unable to refinance or issue capital raising instruments under terms and conditions similar to those of capital raising instruments issued in or prior to March 2013. If such circumstances arise, our and our banking subsidiaries capital could be reduced, and our and our bank subsidiaries capital ratios could decrease.

In addition, under the FSA s capital adequacy guidelines, deferred tax assets can be included as a capital item when calculating capital ratios up to a prescribed amount. If, and to the extent, the amount of deferred tax assets exceeds this limit and cannot be included in Common Equity Tier 1 capital, our and our banking subsidiaries capital ratios could decrease.

If our capital ratios fall below required levels, the FSA could require us to take a variety of corrective actions, including abstention from making capital distributions, withdrawal from all international operations or suspension of all or part of our business operations. In addition, if the capital ratios of our subsidiaries subject to capital adequacy rules of foreign jurisdictions fall below the required levels, the local regulators could also take action against them that may result in reputational damage or financial losses to us. Since maintaining our capital ratios at acceptable levels is crucial to our business, our management devotes a significant amount of attention and resources to capital ratio related issues and may also significantly alter our business strategy or operations if our capital ratios decline to unacceptable levels.

In November 2015, the Financial Stability Board issued the final Total Loss-Absorbing Capacity, or TLAC, standard for G-SIBs, including us. The TLAC standard defines a minimum requirement for the instruments and liabilities that should be readily available to absorb losses in resolution. Under the standard, each G-SIB is required to hold TLAC debt in an amount not less than 16% of its risk-weighted assets and 6% of the applicable Basel III leverage ratio denominator by January 1, 2019, and not less than 18% of its risk-weighted assets and 6.75% of the applicable Basel III leverage ratio denominator by January 1, 2022. The Financial Stability Board s standard is subject to regulatory implementation in each jurisdiction, including Japan, and specific requirements as implemented in Japan may not be the same as the Financial Stability Board s TLAC standard. Although the FSA has not yet finalized TLAC requirements for Japanese G-SIBs, we have commenced issuing senior debt securities that are intended to qualify as TLAC debt. However, there is no assurance that our senior debt securities will qualify as such, and we may have difficulty meeting the TLAC requirements.

For a discussion of the applicable regulatory guidelines and our capital ratios, see Item 4.B. Information on the Company Business Overview Supervision and Regulation and Item 5.B. Operating and Financial Review and Prospects Liquidity and Capital Resources Capital Adequacy.

If the goodwill recorded in connection with our acquisitions becomes impaired, we may be required to record impairment losses, which may adversely affect our financial results.

In accordance with U.S. GAAP, we account for our business combinations using the acquisition method of accounting. We recorded the excess of the purchase price over the fair value of the assets and liabilities of the acquired companies as goodwill. U.S. GAAP requires us to test goodwill for impairment at least annually, or more frequently if events or changes in circumstances indicate that goodwill may be impaired. As of March 31, 2018, the total balance of goodwill was ¥441.3 billion.

For the fiscal years ended March 31, 2016 and 2017, we recognized ¥4.3 billion and ¥6.6 billion, respectively, in impairment of goodwill relating to a reporting unit within the Trust Assets Business Group segment as we readjusted our future cash flow projection of the reporting unit in this segment, considering the relevant subsidiaries recent business performance. For the fiscal year ended March 31, 2016, we also recognized ¥151.7 billion in impairment of goodwill relating to the reporting unit other than MUFG Americas Holdings and Krungsri within the Global Business Group segment as our stock price decreased from ¥743.7 on March 31, 2015 to ¥521.5 on March 31, 2016. Our stock price was adversely impacted by the Bank of Japan s announcement of implementation in January 2016 of the negative interest rate on certain current account amounts that financial institutions hold at the Bank of Japan, and the appreciation of the Japanese yen against other major currencies. In addition, we recognized ¥177.8 billion in impairment of goodwill relating to the Krungsri reporting unit within the Global Business Group segment as Krungsri s stock price declined from THB44.75 on December 31, 2014 to THB29.75 on December 31, 2015. Krungsri s stock price was adversely impacted by the slowing economic growth in Thailand. Accordingly, the fair values of these reporting units were considered to have fallen below their carrying amounts. As a result, the carrying amounts of the reporting units goodwill exceeded the implied fair values of the reporting units goodwill, and the impairment losses were recognized on the related goodwill. See Item 5.B. Operating and Financial Review and Prospects Operating Results Impairment of goodwill.

We may be required to record additional impairment losses relating to goodwill in future periods if the fair value of any of our reporting units declines below the fair value of related assets net of liabilities. Any additional impairment losses will negatively affect our financial results, and the price of our securities could be adversely affected. For a detailed discussion of our periodic testing of goodwill for impairment and the goodwill recorded, see Item 5. Operating and Financial Review and Prospects Critical Accounting Estimates Accounting for Goodwill and Intangible Assets.

A downgrade of our credit ratings could adversely affect our ability to access and maintain liquidity.

Any downgrade of the credit ratings assigned to us or our debt securities by Moody s, Fitch, Standard & Poor s or any other credit rating agency could increase the cost, or decrease the availability, of our funding, particularly in U.S. dollars and other foreign currencies, adversely affect our liquidity position or net interest margin, trigger additional collateral or funding obligations, and result in losses of depositors, investors and counterparties willing or permitted to transact with us, thereby reducing our ability to generate income and weakening our financial position.

Rating agencies regularly evaluate us and our major subsidiaries as well as our and their respective debt securities. Their ratings are based on a number of factors, including their assessment of the relative financial strength of MUFG or of the relevant subsidiary, as well as conditions generally affecting the financial services industry in Japan or on a global basis, some of which are not entirely within our control. As a result of changes in their evaluation of these factors or in their rating methodologies, rating agencies may downgrade our ratings or our subsidiaries ratings.

In November 2017, Standard and Poor s downgraded the long-term credit ratings of MUFG and Mitsubishi UFJ Securities Holdings by one-notch from A to A-, the long-term credit ratings of MUFG Bank and Mitsubishi UFJ Trust and Banking by one-notch from A+ to A and the short-term credit rating of Mitsubishi UFJ Securities Holdings by one-notch from A-1 to A-2. In June 2016, Fitch changed the credit rating outlook of MUFG, MUFG Bank and Mitsubishi UFJ Trust and Banking from stable to negative, following Fitch s change in the credit rating outlook for the Government of Japan from stable to negative.

Assuming all of the relevant credit rating agencies downgraded the credit ratings of MUFG, MUFG Bank, Mitsubishi UFJ Trust and Banking and Mitsubishi UFJ Securities Holdings by one-notch on March 31, 2018, we estimate that MUFG and its three main subsidiaries would have been required to provide additional collateral under their derivative contracts as of the same date of approximately ¥6.1 billion. Assuming a two-notch downgrade by all of the relevant credit rating agencies occurred on the same date, we estimate that the additional collateral requirements for MUFG, MUFG Bank, Mitsubishi UFJ Trust and Banking and Mitsubishi UFJ Securities Holdings under their derivative contracts as of the same date would have been approximately ¥19.9 billion. For additional information on the impact of recent downgrades, see Item 5.B. Operating and Financial Review and Prospects Liquidity and Capital Resources Financial Condition Sources of Funding and Liquidity.

Our business operations are exposed to risks of natural disasters, terrorism and other disruptions caused by external events.

As a major financial institution incorporated in Japan and operating in major international financial markets, our business operations, automatic teller machines, or ATMs, and other information technology systems, personnel, and facilities and other physical assets are subject to the risks of earthquakes, typhoons, floods and other natural disasters, terrorism, and other political and social conflicts, abduction, health epidemics, and other disruptions caused by external events, which are beyond our control. As a consequence of such external events, we may be required to incur significant costs and expenses for remedial measures or compensation to customers or transaction counterparties for resulting losses. We may suffer loss of facility, human and other resources. We may also suffer loss of business. In addition, such external events may have various other significant adverse effects, including deterioration in economic conditions, declines in the business performance of our borrowers and decreases in stock prices, which may result in higher credit costs or impairment or valuation losses on the financial instruments we hold. These effects could materially and adversely affect our business, operating results and financial condition.

As with other Japanese companies, we are exposed to heightened risks of large-scale natural disasters, particularly earthquakes. In particular, a large-scale earthquake occurring in the Tokyo metropolitan area could result in market disruptions or significant damage to, or losses of, tangible or human assets relating to our business and counterparties because many of our important business functions and many of the major Japanese companies and financial markets are located in the area. In addition, such an earthquake could cause a longer-term economic slowdown and a downgrade of Japan s sovereign credit rating due to increases in government spending for disaster recovery measures.

Our risk management policies and procedures may be insufficient to address the consequences of these external events, resulting in our inability to continue to operate a part or the whole of our business. In addition, our redundancy and backup measures may not be sufficient to avoid a material disruption in our operations, and our contingency and business continuity plans may not address all eventualities that may occur in the event of a material disruption caused by a large-scale natural disaster such as the March 2011 Great East Japan Earthquake, which led to tsunamis, soil liquefaction and fires, as well as electricity power supply shortages and electricity power conservation measures resulting from the suspension of the operations of the nuclear power plants.

Failure to safeguard personal and other confidential information may result in liability, reputational damage or financial losses.

As our operations expand in volume, complexity and geographic scope, we are exposed to increased risk of confidential information in our possession being lost, leaked, altered or falsified as a result of human or system error, misconduct, unlawful behavior or scheme, unauthorized access or natural or human-caused disasters. Our information systems and information management policies and procedures may not be sufficient to safeguard confidential information against such risks.

As a financial institution in possession of customer information, we are obligated to treat personal and other confidential information as required by the Act on the Protection of Personal Information, the Act on the Use of Personal Identification Numbers in the Administration of Government Affairs, the Banking Law and the Financial Instruments and Exchange Act of Japan, as well as other similar laws. In the event that personal information in our possession about our customers or employees is leaked or improperly accessed and subsequently misused, we may be subject to liability and regulatory action. We may have to provide compensation for economic loss and emotional distress arising out of a failure to protect such information. In addition, such incidents could create a negative public perception of our operations, systems or brand, which may in turn decrease customer and market confidence and materially and adversely affect our business, operating results and financial condition.

Moreover, any loss, leakage, alteration or falsification of confidential information, or any malfunction or failure of our information systems, may result in significant disruptions to our business operations or plans or may require us to incur significant financial, human and other resources to implement corrective measures or enhance our information systems and information management policies and procedures.

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Our operations are highly dependent on our information, communications and transaction management systems and are subject to an increasing risk of cyber-attacks and other information security threats and to changes in the business and regulatory environment.

Our information, communications and transaction management systems, including, our own proprietary systems as well as those third-party systems which are provided for our use or to which our systems are connected, constitute a core infrastructure for our operations. Given our global operations with an extensive network of branches and offices, the proper functioning of our information, communications and transaction management systems is critical to our ability to efficiently and accurately process a large volume of transactions, ensure adequate internal controls, appropriately manage various risks, and otherwise service our clients and customers.

Cyber-attacks, unauthorized access and computer viruses are becoming increasingly more sophisticated and more difficult to predict, detect and prevent. For instance, bank internal financial transaction systems or automatic teller machines may become the target of cyber-attacks for monetary gain, and bank internal information systems may become the target of confidential information theft. In addition, banks websites or customer internet banking systems may become the target of cyber-attacks for political and other purposes. These cyber threats, as well as our failure to appropriately and timely anticipate and deal with changes associated with technological advances and new systems and tools introduced in response to industry, regulatory and other developments, could cause disruptions to, and malfunctions of, such systems and result in unintended releases of confidential and proprietary information stored in or transmitted through the systems, interruptions in the operations of our clients, customers and counterparties, and deterioration in our ability to service our clients and customers. In addition, our banking and other transaction management systems may not meet all applicable business and regulatory requirements in an environment where such requirements are becoming increasingly sophisticated and complicated. These consequences could result in financial losses, including costs and expenses incurred in connection with countermeasures and improvements as well as compensation to affected parties, lead to regulatory actions, diminish our clients and customers satisfaction with and confidence in us, and harm our reputation in the market, which could in turn adversely affect our business, financial condition and results of operations. Moreover, significant financial, human and other resources may be required to design, implement and enhance measures to manage cyber and information security risks and comply with regulatory requirements.

Risks Related to Owning Our Shares

It may not be possible for investors to effect service of process within the United States upon us or our directors or management members, or to enforce against us or those persons judgments obtained in U.S. courts predicated upon the civil liability provisions of the U.S. federal or state securities laws.

We are a joint stock company incorporated under the laws of Japan. Almost all of our directors or management members reside outside the United States. Many of our assets and the assets of these persons are located in Japan and elsewhere outside the United States. It may not be possible, therefore, for U.S. investors to effect service of process within the United States upon us or these persons or to enforce, against us or these persons, judgments obtained in the U.S. courts predicated upon the civil liability provisions of the U.S. federal or state securities laws.

We believe there is doubt as to the enforceability in Japan, in original actions or in actions brought in Japanese courts to enforce judgments of U.S. courts, of claims predicated solely upon the U.S. federal or state securities laws mainly because the Civil Execution Act of Japan requires Japanese courts to deny requests for the enforcement of judgments of foreign courts if foreign judgments fail to satisfy the requirements prescribed by the Civil Execution Act, including:

the jurisdiction of the foreign court be recognized under laws, regulations, treaties or conventions;

proper service of process be made on relevant defendants, or relevant defendants be given appropriate protection if such service is not received;

the judgment and proceedings of the foreign court not be repugnant to public policy as applied in Japan; and

there exist reciprocity as to the recognition by a court of the relevant foreign jurisdiction of a final judgment of a Japanese court.

Judgments obtained in the U.S. courts predicated upon the civil liability provisions of the U.S. federal or state securities laws may not satisfy these requirements.

Risks Related to Owning Our American Depositary Shares

As a holder of American Depositary Shares, you have fewer rights than a shareholder of record in our shareholder register since you must act through the depositary to exercise these rights.

The rights of our shareholders under Japanese law to take actions such as voting, receiving dividends and distributions, bringing derivative actions, examining our accounting books and records and exercising appraisal rights are available only to shareholders of record. Because the depositary, through its custodian, is the record holder of the shares underlying the American Depositary Shares, or ADSs, only the depositary can exercise shareholder rights relating to the deposited shares. ADS holders, in their capacity, will not be able to directly bring a derivative action, examine our accounting books and records and exercise appraisal rights. We have appointed The Bank of New York Mellon as depositary, and we have the authority to replace the depositary.

Pursuant to the deposit agreement among us, the depositary and a holder of ADSs, the depositary will make efforts to exercise voting or any other rights associated with shares underlying ADSs in accordance with the instructions given by ADS holders, and to pay to ADS holders dividends and distributions collected from us. However, the depositary can exercise reasonable discretion in carrying out the instructions or making distributions, and is not liable for failure to do so as long as it has acted in good faith. Therefore, ADS holders may not be able to exercise voting or any other rights in the manner that they had intended, or may lose some or all of the value of the dividends or the distributions. Moreover, the depositary agreement that governs the obligations of the depositary may be amended or terminated by us and the depositary without ADS holders consent, notice, or any reason. As a result, ADS holders may be prevented from having the rights in connection with the deposited shares exercised in the way ADS holders had wished or at all.

ADS holders are dependent on the depositary to receive our communications. We send to the depositary all of our communications to ADS holders, including annual reports, notices and voting materials, in Japanese. ADS holders may not receive all of our communications with shareholders of record in our shareholder register in the same manner or on an equal basis. In addition, ADS holders may not be able to exercise their rights as ADS holders due to delays in the depositary transmitting our shareholder communications to ADS holders. For a detailed discussion of the rights of ADS holders and the terms of the deposit agreement, see Item 10.B. Additional Information Memorandum and Articles of Association American Depositary Shares.

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Item 4. Information on the Company.

A. History and Development of the Company

Mitsubishi UFJ Financial Group, Inc.

MUFG is a bank holding company incorporated as a joint stock company (*kabushiki kaisha*) under the Companies Act of Japan. We are the holding company for MUFG Bank, Ltd. (formerly, The Bank of Tokyo-Mitsubishi UFJ, Ltd.), Mitsubishi UFJ Trust and Banking Corporation, Mitsubishi UFJ Securities Holdings Co., Ltd., Mitsubishi UFJ Morgan Stanley Securities Co., Ltd., or MUMSS, Mitsubishi UFJ NICOS Co., Ltd., and other companies engaged in a wide range of financial businesses.

On April 2, 2001, The Bank of Tokyo-Mitsubishi, Ltd., Mitsubishi Trust and Banking Corporation, or Mitsubishi Trust Bank, and Nippon Trust and Banking Co., Ltd. established Mitsubishi Tokyo Financial Group, Inc., or MTFG, to be a holding company for the three entities. Before that, each of the banks had been a publicly traded company. On April 2, 2001, through a stock-for-stock exchange, they became wholly-owned subsidiaries of MTFG, and the former shareholders of the three banks became shareholders of MTFG. Nippon Trust and Banking was later merged into Mitsubishi Trust Bank.

On June 29, 2005, the merger agreement between MTFG and UFJ Holdings, Inc. was approved at the general shareholders meetings of MTFG and UFJ Holdings. As the surviving entity, MTFG was renamed Mitsubishi UFJ Financial Group, Inc. The merger of the two bank holding companies was completed on October 1, 2005.

On September 30, 2007, Mitsubishi UFJ Securities Holdings, which was then called Mitsubishi UFJ Securities Co., Ltd., or MUS, became our wholly-owned subsidiary through a share exchange transaction.

On October 13, 2008, we formed a global strategic alliance with Morgan Stanley and, as part of the alliance, made an equity investment in Morgan Stanley in the form of convertible and non-convertible preferred stock, and subsequently appointed a representative to Morgan Stanley s board of directors.

On October 21, 2008, we completed a tender offer for outstanding shares of ACOM CO., LTD. common stock, raising our ownership in ACOM to approximately 40%.

On November 4, 2008, Bank of Tokyo-Mitsubishi UFJ completed the acquisition of all of the shares of common stock of UnionBanCal Corporation, or UNBC, not previously owned by Bank of Tokyo-Mitsubishi UFJ and, as a result, UNBC became a wholly-owned indirect subsidiary of MUFG.

On May 1, 2010, we and Morgan Stanley integrated our securities and investment banking businesses in Japan into two joint venture securities companies, one of which is MUMSS. MUMSS was created by spinning off the wholesale and retail securities businesses conducted in Japan from Mitsubishi UFJ Securities Holdings and subsequently assuming certain operations in Japan from a subsidiary of Morgan Stanley.

On June 30, 2011, we converted all of our Morgan Stanley s convertible preferred stock into Morgan Stanley s common stock, resulting in our holding approximately 22.4% of the voting rights in Morgan Stanley. Further, we appointed a second representative to Morgan Stanley s board of directors on July 20, 2011. Following the conversion on June 30, 2011, Morgan Stanley became our equity-method affiliate. As of March 31, 2018, we held approximately 24.4% of the voting rights in Morgan Stanley and had two representatives appointed to Morgan Stanley s board of directors. We and Morgan Stanley continue to pursue a variety of business opportunities in Japan and abroad in accordance with the global strategic alliance.

On December 18, 2013, we acquired approximately 72.0% of the total outstanding shares of Krungsri through Bank of Tokyo-Mitsubishi UFJ. As a result of the transaction, Krungsri has become a consolidated subsidiary of Bank of Tokyo-Mitsubishi UFJ.

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On July 1, 2014, we integrated Bank of Tokyo-Mitsubishi UFJ s operations in the Americas region with UNBC s operations, and changed UNBC s corporate name to MUFG Americas Holdings Corporation, or MUFG Americas Holdings. On the same day, Union Bank, N.A., which is MUFG Americas Holdings principal subsidiary and our primary operating subsidiary in the United States, was also renamed MUFG Union Bank, N.A., or MUFG Union Bank. MUFG Americas Holdings currently oversees MUFG Bank s operations in the Americas region as well as the operations of MUFG Union Bank.

On January 5, 2015, Bank of Tokyo-Mitsubishi UFJ integrated its Bangkok branch with Krungsri through a contribution in kind of the Bank of Tokyo-Mitsubishi UFJ Bangkok branch business to Krungsri, and Bank of Tokyo-Mitsubishi UFJ received newly issued shares of Krungsri common stock. As a result of this transaction, Bank of Tokyo-Mitsubishi UFJ s ownership interest in Krungsri increased to 76.9%.

On October 1, 2017, we acquired all of the shares of common stock of Mitsubishi UFJ NICOS which we did not previously own and, as a result, Mitsubishi UFJ NICOS became a wholly-owned subsidiary of MUFG.

On December 29, 2017, Bank of Tokyo-Mitsubishi UFJ acquired 19.9% of the shares of common stock of PT Bank Danamon Indonesia, Tbk as part of our plan to acquire an aggregate equity interest in Bank Danamon exceeding 73.8%.

On April 1, 2018, we changed Bank of Tokyo-Mitsubishi UFJ s corporate name to MUFG Bank, Ltd.

On April 16, 2018, we transferred Mitsubishi UFJ Trust and Banking s corporate loan-related businesses to MUFG Bank. The corporate loan-related businesses include the corporate loan, project finance and real estate finance businesses, and any related foreign exchange and remittance services, but do not include pension-related services, the corporate agency business, or the real estate-related businesses.

Our registered address is 7-1, Marunouchi 2-chome, Chiyoda-ku, Tokyo 100-8330, Japan, and our telephone number is 81-3-3240-8111.

For a discussion of recent developments, see Item 5. Operating and Financial Review and Prospects Recent Developments.

MUFG Bank, Ltd.

MUFG Bank is a major commercial banking organization in Japan that provides a broad range of domestic and international banking services from its offices in Japan and around the world. MUFG Bank s registered head office is located at 7-1, Marunouchi 2-chome, Chiyoda-ku, Tokyo 100-8388, Japan, and its telephone number is 81-3-3240-1111. MUFG Bank is a joint stock company (*kabushiki kaisha*) incorporated in Japan under the Companies Act. The bank changed its name to MUFG Bank, Ltd. from The Bank of Tokyo-Mitsubishi UFJ, Ltd. as of April, 1, 2018.

MUFG Bank was formed through the merger, on January 1, 2006, of Bank of Tokyo-Mitsubishi and UFJ Bank Limited after their respective parent companies, MTFG and UFJ Holdings, merged to form MUFG on October 1, 2005.

Bank of Tokyo-Mitsubishi was formed through the merger, on April 1, 1996, of The Mitsubishi Bank, Limited and The Bank of Tokyo, Ltd.

The origins of Mitsubishi Bank can be traced to the Mitsubishi Exchange Office, a money exchange house established in 1880 by Yataro Iwasaki, the founder of the Mitsubishi industrial, commercial and financial group. In 1895, the Mitsubishi Exchange Office was succeeded by the Banking Division of the Mitsubishi Goshi Kaisha, the holding company of the Mitsubishi group of companies. Mitsubishi Bank had been a principal bank to many of the Mitsubishi group companies but broadened its relationships to cover a wide range of Japanese industries, small and medium-sized companies and individuals.

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Bank of Tokyo was established in 1946 as a successor to The Yokohama Specie Bank, Ltd., a special foreign exchange bank established in 1880. When the government of Japan promulgated the Foreign Exchange Bank Law in 1954, Bank of Tokyo became the only bank licensed under that law. Because of its license, Bank of Tokyo received special consideration from the Ministry of Finance in establishing its offices abroad and in many other aspects relating to foreign exchange and international finance.

UFJ Bank was formed through the merger, on January 15, 2002, of The Sanwa Bank, Limited and The Tokai Bank, Limited.

Sanwa Bank was established in 1933 when the three Osaka-based banks, the Konoike Bank, the Yamaguchi Bank, and the Sanjyushi Bank merged. Sanwa Bank was known as a city bank having the longest history in Japan, since the foundation of Konoike Bank can be traced back to the Konoike Exchange Office established in 1656. The origin of Yamaguchi Bank was also a money exchange house, established in 1863. Sanjyushi Bank was founded by influential fiber wholesalers in 1878. The corporate philosophy of Sanwa Bank had been the creation of premier banking services especially for small and medium-sized companies and individuals.

Tokai Bank was established in 1941 when the three Nagoya-based banks, the Aichi Bank, the Ito Bank, and the Nagoya Bank merged. In 1896, Aichi Bank took over businesses of the Jyuichi Bank established by wholesalers in 1877 and the Hyakusanjyushi Bank established in 1878. Ito Bank and Nagoya Bank were established in 1881 and 1882, respectively. Tokai Bank had expanded the commercial banking business to contribute to economic growth mainly of the Chubu area in Japan, which is known for its manufacturing industries, especially automobiles.

Mitsubishi UFJ Trust and Banking Corporation

Mitsubishi UFJ Trust and Banking is a major trust bank in Japan, providing trust and banking services to meet the financing and investment needs of clients in Japan and the rest of Asia, as well as in the United States and Europe. Mitsubishi UFJ Trust and Banking s registered head office is located at 4-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-8212, Japan, and its telephone number is 81-3-3212-1211. Mitsubishi UFJ Trust and Banking is a joint stock company *(kabushiki kaisha)* incorporated in Japan under the Companies Act.

Mitsubishi UFJ Trust and Banking was formed on October 1, 2005 through the merger of Mitsubishi Trust Bank and UFJ Trust Bank Limited. As the surviving entity, Mitsubishi Trust Bank was renamed Mitsubishi UFJ Trust and Banking Corporation.

Mitsubishi Trust Bank traces its history to The Mitsubishi Trust Company, Limited, which was founded by the leading members of the Mitsubishi group companies in 1927. The Japanese banking and financial industry was reconstructed after World War II and, in 1948, Mitsubishi Trust Bank was authorized to engage in the commercial banking business, in addition to its trust business, under the new name Asahi Trust & Banking Corporation. In 1952, the bank changed its name again to The Mitsubishi Trust and Banking Corporation.

Nippon Trust and Banking and The Tokyo Trust Bank, Ltd., which were previously subsidiaries of Bank of Tokyo-Mitsubishi, was merged into Mitsubishi Trust Bank on October 1, 2001.

UFJ Trust Bank was founded in 1959 as The Toyo Trust & Banking Company, Limited, or Toyo Trust Bank. The Sanwa Trust & Banking Company, Limited, which was a subsidiary of Sanwa Bank, was merged into Toyo Trust Bank on October 1, 1999. The Tokai Trust & Banking Company, Limited, which was a subsidiary of Tokai Bank, was merged into Toyo Trust Bank on July 1, 2001. Toyo Trust Bank was renamed UFJ Trust Bank Limited on January 15, 2002.

Mitsubishi UFJ Securities Holdings Co., Ltd.

Mitsubishi UFJ Securities Holdings is a wholly-owned subsidiary of MUFG. Mitsubishi UFJ Securities Holdings functions as an intermediate holding company of MUFG s global securities and investment banking

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businesses. Mitsubishi UFJ Securities Holdings s registered head office is located at 5-2, Marunouchi 2-chome, Chiyoda-ku, Tokyo 100-0005, Japan, and its telephone number is 81-3-6213-2550. Mitsubishi UFJ Securities Holdings is a joint stock company (*kabushiki kaisha*) incorporated in Japan under the Companies Act. Mitsubishi UFJ Securities Holdings has major overseas subsidiaries in London, New York, Hong Kong, Singapore and Geneva.

In April 2010, Mitsubishi UFJ Securities Holdings, which was previously called Mitsubishi UFJ Securities Co., Ltd., or MUS, became an intermediate holding company by spinning off its securities and investment banking business operations to a wholly-owned operating subsidiary established in December 2009, currently Mitsubishi UFJ Morgan Stanley Securities Co., Ltd. Upon the consummation of the corporate spin-off transaction, the intermediate holding company was renamed Mitsubishi UFJ Securities Holdings Co., Ltd. and the operating subsidiary was renamed Mitsubishi UFJ Securities Co., Ltd. The operating subsidiary was subsequently renamed Mitsubishi UFJ Morgan Stanley Securities in May 2010 upon integration of our securities operations in Japan with those of Morgan Stanley.

MUS was formed through the merger between Mitsubishi Securities Co., Ltd. and UFJ Tsubasa Securities Co., Ltd. on October 1, 2005, with Mitsubishi Securities being the surviving entity. The surviving entity was renamed Mitsubishi UFJ Securities Co., Ltd. and, in September 2007, became our wholly-owned subsidiary through a share exchange transaction.

Mitsubishi Securities was formed in September 2002 through a merger of Bank of Tokyo-Mitsubishi s securities subsidiaries and affiliate, KOKUSAI Securities Co., Ltd., Tokyo-Mitsubishi Securities Co., Ltd. and Tokyo-Mitsubishi Personal Securities Co., Ltd., and Mitsubishi Trust Bank s securities affiliate, Issei Securities Co., Ltd. In July 2005, MTFG made Mitsubishi Securities a directly-held subsidiary by acquiring all of the shares of Mitsubishi Securities common stock held by Bank of Tokyo-Mitsubishi and Mitsubishi Trust Bank.

Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.

Mitsubishi UFJ Morgan Stanley Securities is our core securities and investment banking subsidiary. Mitsubishi UFJ Morgan Stanley Securities was created in May 2010 as one of the two Japanese joint venture securities companies between Morgan Stanley and us as part of our global strategic alliance. Mitsubishi UFJ Morgan Stanley Securities succeeded to the investment banking operations conducted in Japan by a subsidiary of Morgan Stanley and the wholesale and retail securities businesses conducted in Japan by MUS. MUFG, through Mitsubishi UFJ Securities Holdings, holds 60% voting and economic interests in Mitsubishi UFJ Morgan Stanley Securities. Mitsubishi UFJ Morgan Stanley Securities registered head office is located at 5-2 Marunouchi 2-chome, Chiyoda-ku, Tokyo, 100-0005 Japan, and its telephone number is 81-3-6213-8500. Mitsubishi UFJ Morgan Stanley Securities is a joint stock company (*kabushiki kaisha*) incorporated in Japan under the Companies Act. For more information on our joint venture securities companies, see B. Business Overview Global Strategic Alliance with Morgan Stanley.

Mitsubishi UFJ NICOS Co., Ltd.

Mitsubishi UFJ NICOS is a major credit card company in Japan that issues credit cards, including those issued under the MUFG, NICOS and DC brands, and provides a broad range of credit card and other related services for its card members in Japan. Mitsubishi UFJ NICOS is a consolidated subsidiary of MUFG. Mitsubishi UFJ NICOS s registered head office is located at 33-5, Hongo 3-chome, Bunkyo-ku, Tokyo 113-8411, Japan, and its telephone number is 81-3-3811-3111. Mitsubishi UFJ NICOS is a joint stock company (*kabushiki kaisha*) incorporated in Japan under the Companies Act.

On August 1, 2008, Mitsubishi UFJ NICOS became a wholly-owned subsidiary of MUFG through a share exchange transaction. On the same day, we entered into a share transfer agreement with Norinchukin Bank under which we sold some of our shares of Mitsubishi UFJ NICOS common stock to Norinchukin Bank. In March

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2011, we and Norinchukin Bank made additional equity investments in Mitsubishi UFJ NICOS in proportion to our and Norinchukin Bank s respective beneficial ownership of approximately 85% and 15%, respectively. On October 1, 2017, MUFG acquired all of Norinchukin Bank s ownership interest in Mitsubishi UFJ NICOS and, as a result, Mitsubishi UFJ NICOS is currently a wholly-owned subsidiary of MUFG.

Mitsubishi UFJ NICOS was formed through the merger, on April 1, 2007, of UFJ NICOS Co., Ltd. and DC Card Co., Ltd. As the surviving entity, UFJ NICOS Co., Ltd. was renamed Mitsubishi UFJ NICOS Co., Ltd.

UFJ NICOS was formed through the merger, on October 1, 2005, of Nippon Shinpan Co., Ltd. and UFJ Card Co., Ltd. Originally founded in 1951 and listed on the Tokyo Stock Exchange in 1961, Nippon Shinpan was a leading company in the consumer credit business in Japan. Nippon Shinpan became a subsidiary of MUFG at the time of the merger with UFJ Card.

Prior to the merger between MTFG and UFJ Holdings in October 2005, DC Card was a subsidiary of MTFG while UFJ Card was a subsidiary of UFJ Holdings.

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B. Business Overview

We are one of the world s largest and most diversified financial groups with total assets of ¥300.57 trillion as of March 31, 2018. The Group is comprised of MUFG Bank, Mitsubishi UFJ Trust and Banking, Mitsubishi UFJ Morgan Stanley Securities (through Mitsubishi UFJ Securities Holdings), Mitsubishi UFJ NICOS and other subsidiaries and affiliates, for which we are the holding company. As a bank holding company, we are regulated under the Banking Law of Japan. Our services include commercial banking, trust banking, securities, credit cards, consumer finance, asset management, leasing and many more fields of financial services. In Japan, we had approximately 1,100 branches and offices as of March 31, 2018. In addition, as of the same date, the Group has the largest overseas network among the Japanese banks, consisting of approximately 1,200 branches and other offices, including MUFG Union Bank and Krungsri, in about 50 countries.

In May 2017, we announced MUFG Re-Imaging Initiative which was designed to achieve sustainable growth and enhance our corporate value through various measures, including an integrated group-based management approach and digitization and other technological enhancements. The measures also included realignment of the functions of our subsidiaries in an effort to increase effectiveness in accumulating and applying the expertise within the Group and to enhance efficiency in offering and providing a diverse array of sophisticated financial products and services to customers through collaboration among our subsidiaries. In May 2017, Mitsubishi UFJ Trust and Banking acquired MUFG Bank s equity interest in Mitsubishi UFJ Investor Services & Banking (Luxembourg) S.A to make the Luxembourg company its wholly owned subsidiary. In April 2018, Mitsubishi UFJ Trust and Banking acquired MUFG Bank s equity interest and Mitsubishi UFJ Securities Holdings equity interest in Mitsubishi UFJ Kokusai Asset Management Co., Ltd. to make the asset management company its wholly owned subsidiary. As a result, Mitsubishi UFJ Trust and Banking operates as the Group s primary asset management and administration subsidiary. In addition, in April 2018, Mitsubishi UFJ Trust and Banking transferred its corporate loan-related businesses to MUFG Bank as part of an initiative to focus the corporate loan-related businesses within the Group at MUFG Bank.

In May 2018, we announced our new medium-term business plan for the three-year period ending March 31, 2021, which is discussed below in this Item 4.B. As part of our new medium-term business plan, we have reorganized our business groups in an effort to further integrate the expertise and capabilities of our subsidiaries to respond to the needs of our customers more effectively and efficiently. We describe below in this Item 4.B our post-reorganization business groups, which differ from our business segments prior to the reorganization. For a description of our business segments as of and for the fiscal year ended March 31, 2018, see Item 5.A. Operating and Financial Review and Prospects Operating Results Business Segment Analysis.

MUFG s role as the holding company is to strategically manage and coordinate the activities of our business groups. Group-wide strategies are determined by the holding company and executed by our subsidiaries.

Medium-Term Business Plan

Basic Company Policy

Under the current medium-term business plan for the three-year period ending March 31, 2021, we aim to deliver optimal value to all of our stakeholders through simple, speedy and transparent group-integrated operations.

We are seeking to improve our group management approach by shifting from our previous group collaboration and group-driven management approach to a new integrated group-based management approach. Specifically, in an effort to respond to constantly changing customer needs in an appropriate manner, we have reorganized our business groups into new customer-based business groups as discussed below. At the same time, we are seeking to clarify the roles of group companies through functional realignment, product and service quality enhancement as well as solutions capability improvement.

We intend to deploy management resources necessary for achieving these goals with an enhanced focus during the three-year period, particularly during the first half of the period. During this three-year period, we will seek to lay a solid foundation for a new future-oriented business platform. We aim to establish a new business growth model which meets our stakeholders expectations by the end of the fiscal year ending March 31, 2024 .

Group Business Strategy

Under our new medium-term business plan, we are implementing Eleven Transformation Initiatives specific strategic initiatives designed to enable us to cope with adverse changes in the domestic or overseas business environment and to achieve sustainable growth. Each initiative constitutes a pillar for our strategy involving business operations that (1) have large growth potential, (2) allow us to expand on our group capabilities to the fullest extent, and, (3) are expected to grow as a core business of the group or a foundation for such a business. Our group operating companies, business groups and corporate center functions will collaborate on the implementation of these initiatives with an aim to improve our profitability.

Additionally, we have established a new business group focused on retail and small and medium-sized enterprise banking businesses outside of Japan with the goal to effectively capture the market growth in the United States and Southeast Asia. Under our previous medium-term business plan, we took strategic steps towards building a business platform in South East Asia through the expansion of Krungsri s business in Thailand and our strategic investments in Security Bank in the Philippines and Bank Danamon in Indonesia. We seek to enhance the enterprise value of each of MUFG Union Bank in the United States and our strategic partner banks, including VietinBank in Vietnam and other banks in South East Asia, as well as our Japanese banking subsidiaries through synergies expected to be achieved by sharing and deploying across these banks their respective strengths and expertise.

Eleven Transformation Initiatives

(1) Digitalization Strategy

Enhanced use of digital technologies is a critical part of our overall transformation strategy, and we intend to develop and implement a wide range of measures to enhance our digital technology use to improve top-line performance and operational efficiency. We seek to improve our marketing and consulting capabilities through the use of big data, to increase the efficiency of the front-office operations at branches through an overhaul of our online banking system for corporate customers, and to enhance our productivity through migration to digital channels for the housing loan business and expanded use of robotics and artificial intelligence.

(2) Channel Strategy and Business Process Re-engineering (BPR)

We strive to enhance customer user interface, or the usability of our systems for customers, and user experience, or the experience of service recipients, while improving our productivity. We aim to achieve both of these goals through full utilization of digital technologies and business process re-engineering, or an overhaul of business operations through review and analysis of all existing business activities and work processes. We seek to advance our overall user channels combining Internet-based and physical branch channels by improving the usability of our Internet-based channels for transactions so as to increase customer use while establishing specialty bank branches called MUFG NEXT, streamlining our branch network and converting branches into integrated branches that offer services of MUFG Bank, Mitsubishi UFJ Trust and Banking, and Mitsubishi UFJ Morgan Stanley Securities at a single location.

(3) Wealth Management Strategy

We are pursuing a business structure focused on fee-based businesses to achieve stable profits by servicing the rising customer needs for asset management and administration services and inheritance services in Japan s aging society with a declining birthrate through a collaboration between the corporate and retail units and through a group-based integrated approach. We seek to establish a business model where teams of professionals from MUFG Bank, Mitsubishi UFJ Trust and Banking, and Mitsubishi UFJ Morgan Stanley Securities will take the lead in providing various solutions at a one-stop location.

(4) Enhancement of Relationship Manager & Product Office (RM-PO) Model for Corporate Marketing

We seek to provide solutions optimized to meet customer needs by integrating the corporate lending operations of MUFG Bank and Mitsubishi UFJ Trust and Banking through functional realignment where relationship managers are expected to work on understanding the business management issues faced by customers as RMs from MUFG and the product office, a unit that is responsible for planning, developing and providing products and services, is expected to deepen its expertise.

(5) Real Estate Value Chain Strategy

We aim to provide solutions to meet various customer needs arising in the real estate value chain, or the business cycle for real estate assets including sale, purchase, development, tenant leasing and asset management, on a continuous basis through a group-based integrated approach. We endeavor to provide additional value through efforts made at our branches to gain knowledge on real estate needs and to use it to obtain brokerage and asset management businesses. In the asset management business, we seek to strengthen our real asset management capabilities.

(6) Asset Management Business

We seek to provide group-wide integrated asset management services to our customers. We aim to develop competitive products, expand our product line-up, and enhance our human resource portfolio necessary for such development and expansion. In addition, in an effort to become a globally recognized asset management institution, we endeavor to strengthen our asset management business by enhancing our human resources, products and solutions.

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(7) Institutional Investors Business

We aim to provide a wide range of services to satisfy diverse professional needs for asset management and administration services through a group-based integrated approach, while seeking to expand across the group the customer relationships maintained with institutional investors by each of MUFG Bank, Mitsubishi UFJ Trust and Banking, Mitsubishi UFJ Morgan Stanley Securities, and our business groups.

(8) Global Corporate & Investment Banking (GCIB) Business Model Reform

We seek to achieve sustainable growth for our global corporate and investment banking business, where we provide sophisticated financial services combining corporate banking services, including deposits and loans, and investment banking services, including capital markets financing and mergers and acquisitions. We aim to meet the needs of non-Japanese corporate customers conducting business globally and to improve the overall return on our portfolio by constantly adjusting loan and other assets. In addition, we intend to shift the focus of our management approach from quantity to quality through origination and distribution business operations under the integrated platform between MUFG Bank and Mitsubishi UFJ Morgan Stanley Securities.

(9) Enhancement of Overseas Operations

We plan to shift our management approach from the previous approach based on geographical regions and operating entities to a new approach based on customers and businesses and seek to strengthen our business-driven management approach across the group. In addition, in an effort to establish a business structure that enables us to flexibly adapt to changes in the business environment, we seek to reduce expenses, enhance our overseas branch and office network, and centralize and standardize our procedures and systems.

(10) Human Resources Strategy

We seek to manage our human resources globally in a group-based integrated manner through acceleration of personnel allocation and transfers across the group in line with our business strategy and establishment of a human resources division responsible for overseeing our domestic and overseas human resource management.

(11) Enhancement of Corporate Center Operations

We plan to shift our management of the corporate center operations from the previous approach of integrated management by MUFG and MUFG Bank to a new approach of integrated management by MUFG, MUFG Bank, Mitsubishi UFJ Trust and Banking, and Mitsubishi UFJ Morgan Stanley Securities in an effort to optimize the use of our management resources on a group-based integrated basis and achieve low cost operations.

Business Groups

Under the new medium-term business plan, starting this current fiscal year ending March 31, 2019, our business groups are reorganized as follows in an effort to further integrate the expertise and capabilities of our subsidiaries to respond to the needs of our customers more effectively and efficiently.

Retail & Commercial Banking Business Group

The Retail & Commercial Banking Business Group integrates the domestic retail and commercial banking businesses of MUFG Bank, Mitsubishi UFJ Trust and Banking, Mitsubishi UFJ Securities Holdings, Mitsubishi UFJ NICOS and other group companies of MUFG. This business group offers retail and small and medium sized enterprise customers in Japan an extensive array of commercial banking, trust banking and securities products and services.

Business Environment and Strategy

In the domestic market in which we operate, unfavorable conditions remain such as the negative impact of the Bank of Japan s negative interest rate policy on the financial market and intensified competition. In addition, demographic changes, including Japan s aging population with a declining birthrate, and technological developments, including artificial intelligence and digitalization, can change the way banking and other financial services are used in Japan. With a goal of becoming the top financial group in the retail and commercial banking business segment in Japan, achieving sustainable growth along with customers and society, we seek to enhance and integrate the capabilities of our group companies to deliver value that exceeds customer expectations and improve customer satisfaction.

Responding to the Needs of Retail Customers

For retail customers, we provide a wide range of products and services, such as bank deposits, loans, asset management and administration services, investment products and settlement services. We describe some of our products and services below.

Housing Loans. MUFG Bank offers housing loans with various loan terms and interest rates. MUFG Bank also offers Loans with Supplemental Health Insurance for Seven Major Illnesses through a third party insurance company to help with loan payments in case of unexpected major illnesses such as cancer or heart attacks. As part of our group-wide collaboration initiative, Mitsubishi UFJ Trust and Banking began to offer Mitsubishi UFJ Net Home Loan (a housing loan product of MUFG Bank available only online and exclusively to customers of Mitsubishi UFJ Trust and Banking) as an agent of MUFG Bank in April 2018.

Consumer Loans. MUFG Bank offers Card Loans (consumer loans the proceeds of which are disbursed to approved borrowers with a bank-issued card through an automated machine) and Purpose-Specific Term Loans, depending on customers needs.

Investment Products. In order to promote a shift in customer preference from savings to asset building, we seek to offer products that effectively serve the asset building and asset management needs of customers at various stages of their life. As part of this effort, MUFG Bank started to offer fund wrap products as an agent of Mitsubishi UFJ Trust and Banking in November 2017. In addition, in January 2018, MUFG Bank started to offer investment products that qualify for Tsumitate NISA tax exemption on capital gains and dividend income for the investment up to 0.4 million yen per year for up to 20 years under Japanese tax law. The original NISA, or Nippon Individual Savings Account, program was introduced in 2014, providing for tax exemption on capital gains and dividend income for the investment up to 1.2 million yen per year for up to 5 years. We offer investment products that qualify for tax exemption under the original NISA program as well.

Products and Services for Payments. Mitsubishi UFJ NICOS offers a variety of credit cards. In addition, debit cards are available to MUFG Bank account holders.

Insurance Products. MUFG Bank acts as a sales channel for a variety of insurance products, including annuity insurance, single premium whole life insurance, flat-rate premium whole life insurance, medical insurance, cancer insurance and nursing-care insurance, of insurance companies in Japan.

Services Relating to Inheritance, Gift and Real Estate. Mitsubishi UFJ Trust and Banking offers testamentary trust, inheritance planning, inheritance procedure support, and other related services. MUFG Bank and Mitsubishi UFJ Morgan Stanley Securities also offer inheritance-related products and services, serving as sales agents of Mitsubishi UFJ Trust and Banking. Mitsubishi UFJ Trust and Banking and Mitsubishi UFJ Real Estate Services offer real estate brokerage services for both investment and business properties and residential properties.

We provide those services through an extensive network of branches in Japan, mostly in the greater Tokyo, Nagoya and Osaka areas. MUFG Bank and Mitsubishi UFJ Trust and Banking had a total of 736 branches in

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Japan as of March 31, 2018. MUFG Bank and Mitsubishi UFJ Trust and Banking also have a nationwide ATM network consisting of MUFG Bank s and Mitsubishi UFJ Trust and Banking s own ATMs located at their branches and third-party ATMs located at convenience stores and other locations.

We also offer direct banking channels. MUFG Bank and Mitsubishi UFJ Trust and Banking provide internet banking services which enable customers to perform a range of banking activities, such as checking account balances, making time deposits, transferring money and purchasing invest products, through the banks respective websites using personal computers and mobile devices. In addition, Jibun Bank, a direct bank which was founded by MUFG Bank in collaboration with KDDI Corporation in June 2008, offers bank deposits, housing loans, settlement services and other products and services through the internet and phone.

Responding to the Needs of Small and Medium-Sized Enterprises

For small and medium-sized enterprises, we provide various financial solutions, such as bank deposits, loans, and fund management, remittance and foreign exchange services. We also help our customers develop business strategies, such as overseas expansions, inheritance-related business transfers and stock listings.

In addition, we provide asset and business succession solutions to small and medium-sized enterprise owners. Based on our view that smooth succession of the businesses of small and medium-sized enterprises owned by aging owners is critical to the sustainability and development of Japanese industry, we offer solutions for successions of businesses to unrelated persons, including through mergers and acquisitions and initial public offerings, and for successions of businesses to related persons. We also offer solutions designed to assist business owners with successions of assets using testamentary trusts, real estate transactions and other means. Through further integration of the retail and commercial banking capabilities of MUFG Bank, Mitsubishi UFJ Trust and Banking, MUFG Securities Holdings and other group companies, we strive to provide seamless solutions on a group-wide basis.

Japanese Corporate & Investment Banking Business Group

The Corporate Banking Business Group covers the large Japanese corporate businesses of MUFG Bank, Mitsubishi UFJ Trust and Banking and Mitsubishi UFJ Securities Holdings, including the transaction banking, investment banking, trust banking and securities businesses. We offer large Japanese corporations advanced financial solutions designed to respond to their diversified and globalized needs and to contribute to their business and financial strategies. We provide those solutions through our global network of MUFG Group companies.

With our goal to Be the First Call Business Partner for Large Japanese Corporate Clients, we strive to strengthen our solutions capabilities through an approach designed to provide effective solutions using our specialized industry-specific expertise and knowledge and through further integration and more effective collaboration among the MUFG Group companies on a global basis.

Transaction Banking

We provide cash management, payment, trade finance and other commercial banking products and services for corporate business transactions. Through these products and services, we seek to provide sophisticated financial solutions that enable efficient execution of transactions to meet the strategic needs of our customers.

Investment Banking

We provide mergers and acquisitions advisory, equity and bond underwriting, and other investment banking services to our Japanese corporate customers. A large part of our investment banking business in Japan is conducted by Mitsubishi UFG Morgan Stanley Securities, which was formed in May 2010 through the integration of the domestic wholesale and retail securities businesses previously conducted by Mitsubishi UFJ Securities and the investment banking business previously conducted by Morgan Stanley Japan. See Global Strategic Alliance with Morgan Stanley below.

Trust Banking

We provide real estate brokerage, registrar and transfer agency, and other trust banking services to our Japanese corporate customers. Our solutions also include securitization of real estate, receivables and other assets. Mitsubishi UFJ Trust and Banking s experience and know-how in real estate brokerage and appraisal services, corporate real estate strategy consulting, shareholder registry management services, shareholder and investor relations consulting, and consulting services relating to executive stock compensation programs using trust schemes enable us to offer solutions tailored to the financial strategies of each customer.

Focusing on Infrastructure Development

We have been focusing on financing transactions in the area of infrastructure development, such as electric power and renewable energy, by leveraging our experience, know-how and global network.

In October 2016, MUFG, MUFG Bank, Mitsubishi UFJ Lease & Finance Company Limited, Hitachi, Ltd. and Hitachi Capital Corporation formed a capital and business alliance with an aim to assist Japanese companies with their overseas business development. In connection with this alliance, MUFG Bank, Mitsubishi UFJ Lease & Finance, Hitachi Capital established a joint venture called Japan Infrastructure Initiative Company Limited, or JII, in January 2017. Since JII commenced operations on April 1, 2017, JII have made an investment in each of the transportation industry and the telecommunication industry. Through the joint venture, we aim to offer a wide variety of financial solutions to our customers by effectively leveraging the business expertise and know-how of each of Mitsubishi UFJ Lease & Finance, Hitachi Capital and JII and collaborating effectively with professionals from these entities.

Asset Management & Investor Services Business Group

The Asset Management & Investor Services Business Group covers the asset management and asset administration businesses of Mitsubishi UFJ Trust and Banking and MUFG Bank. By integrating the trust banking expertise of Mitsubishi UFJ Trust and Banking and the global strengths of MUFG Bank. the business group offers a full range of asset management and administration services for corporations and pension funds, including pension fund management and administration, advice on pension structures, and payments to beneficiaries, and also offer investment trusts for retail customers.

We aim to expand our asset management and asset administration services business by enhancing the quality of our products and services, effectively utilizing the broad customer base of the MUFG Group, and improving our operational efficiency through IT technology.

Asset Management

Mitsubishi UFJ Trust and Banking, Mitsubishi UFJ Kokusai Asset Management, and MU Investments Co., Ltd provide institutional investors with a wide range of investment options such as equities, bonds and alternative products. In addition, Mitsubishi UFJ Trust and Banking and Mitsubishi UFJ Kokusai Asset Management provide retail investors with investment trust products through our group companies and business partners outside of the MUFG Group, such as securities companies and regional banks.

With an aim to enhance its business, Mitsubishi UFJ Trust and Banking maintains strategic alliances with overseas asset management companies, including AMP Capital Holdings Limited, an Australian asset manager, and Standard Life Aberdeen plc, a U.K. asset manager.

Asset Administration

Under the brand of MUFG Investor Services, Mitsubishi UFJ Trust and Banking, MUFG Bank, Mitsubishi UFJ Investor Services & Banking (Luxembourg), MUFG Investor Services Holdings Limited, MUFG Capital Analytics and MUFG Investor Services(US),LLC offer a full suite of global asset administration services, including fund administration, custody, securities lending, financing and foreign exchange services as a one-stop shop.

Global Corporate & Investment Banking Business Group

The Global Corporate & Investment Banking Business Group covers the corporate, investment and transaction banking businesses of MUFG Bank and Mitsubishi UFJ Securities Holdings. Through a global network of offices and branches, we provide non-Japanese large corporate and financial institution customers with a comprehensive set of solutions that meet their increasingly diverse and sophisticated financing needs.

Through the new integrated operations management structure between the Global Corporate & Investment Banking Business Group and the Global Markets Business Group, we aim to offer financing and investment opportunities based on our understanding of institutional investor needs.

The expansion of the global corporate and investment banking business has been an important pillar of the MUFG Group s growth strategy. Aiming to further enhance our presence in the global financial market, we have shifted our strategic approach from one where each of our group companies individually promoted its global business to one where our group companies collaborate through integration of their capabilities. The new approach is designed to enable us to exercise our comprehensive expertise to provide our customers with value-added solutions and services more effectively.

Corporate Banking

Through our global network of offices and branches, we provide a full range of corporate banking solutions, such as project finance, export credit agency finance, and financing through asset-backed commercial paper. Our primary customers include large corporations, financial institutions, sovereign and multinational organizations, and institutional investors that are headquartered outside of Japan.

Investment Banking

We provide investment banking services such as debt and equity issuance and M&A-related services, to help our customers develop their financial strategies and realize their business goals. In order to meet customers various financing needs, we have established a customer-oriented coverage model through which our product experts coordinate with one another to offer innovative financing services globally. We have further integrated the management of the operations of our commercial banking and securities subsidiaries to enhance collaboration. We are one of the world s top providers of project finance, one of the core businesses of the Global Corporate & Investment Banking Business Group. We provide sophisticated professional services in arranging limited-recourse finance and offering financial advice in various sectors, including natural resources, power, and infrastructure, backed by our experience, expertise, knowledge, and global network.

Transaction Banking

We provide commercial banking products and services for large corporations and financial institutions in managing and processing domestic and cross-border payments, mitigating risks in international trade, and providing working capital optimization. We have established a Transaction Banking Unit, which oversees the entire transaction banking operations globally, in order to enhance governance, management and quality of services in these operations. The Transaction Banking Unit provides customers with support for their domestic, regional and global trade finance and cash management programs through our extensive global network.

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Global Commercial Banking Business Group

The Global Commercial Banking Business Group provides a comprehensive array of financial products and services such as loans, deposits, fund transfers, investments and asset management services for local retail, small and medium-sized enterprise, and corporate customers across the Asia-Pacific region through our major local commercial banking subsidiaries and affiliates outside of Japan referred to as Partner Banks. Our Partner Banks include MUFG Union Bank in the United States, Krungsri in Thailand, VietinBank in Vietnam, Security Bank in the Philippines and Bank Danamon in Indonesia. Through the 19.9% equity investment in Bank Danamon in December 2017, we have built a foundation of our Pan-Pacific network covering the major ASEAN countries, the United States and Japan.

The network covers a vast market, consisting of five countries with population totaling approximately 840 million. The market is expected to expand further as the GDP growth rates are relatively high in these countries and financial needs are expected to increase as average income rise in the ASEAN countries.

We believe that the network, which combines the global reach of the MUFG Group companies with strong regional presence of the Partner Banks each carrying an established brand, provides us with unique competitive advantages. Through sharing and integration of the expertise and capabilities of the Partner Banks, we seek to achieve synergy effects and capture the business opportunities arising from the economic growth of the region.

MUFG Union Bank, N.A.

MUFG Union Bank is the primary subsidiary of MUFG Americas Holdings, which is our wholly owned subsidiary and which is a bank holding company in the United States. MUFG Union Bank is the primary operating entity of MUFG Bank in the United States. MUFG Union Bank provides a comprehensive range of banking, consumer finance, investment, asset management, and other financial products and services to individual consumers, small and medium-sized enterprises, and large corporations primarily in California, Oregon, Washington, and Texas as well as nationally and internationally through 373 branches (consisting of 346 retail branches, five commercial branches and one international office, as well as 21 financial centers of PurePoint, an online banking division of MUFG Union Bank).

In July 2014, MUFG Bank s operations in the Americas region were integrated with MUFG Americas Holdings operations. As a result, MUFG Americas Holdings oversees MUFG Bank s operations in the Americas region.

In July 2016, MUFG Americas Holdings was designated as MUFG s U.S. intermediate holding company, or IHC, to comply with the FRB s enhanced prudential standards. As of that date, MUFG Bank, Mitsubishi UFJ Trust and Banking and Mitsubishi UFJ Securities Holdings transferred to MUFG Americas Holdings their ownership interests in their U.S. subsidiaries and affiliates, namely, BTMU Capital Corporation, BTMU Securities, Inc., MUFG Americas Capital Company, Morgan Stanley MUFG Loan Partners, LLC, MUFG Fund Services (USA) LLC, and MUFG Securities Americas Inc.

In July 2017, MUFG Bank and Mitsubishi UFJ Trust and Banking transferred to MUFG Americas Holdings their ownership interests in other U.S. subsidiaries and affiliates, namely, BTMU Leasing & Finance, Inc., BTMU LF Capital LLC, MUFG Capital Analytics, LLC, and MUFG Investors Services(US), LLC.

See Item 3.D. Key Information Risk Factors Risks Related to Our Business Any adverse changes in the business of MUFG Americas Holdings Corporation, an indirect wholly-owned subsidiary in the United States, could significantly affect our results of operations.

Bank of Ayudhya Public Company Limited (Krungsri)

Krungsri is a strategic subsidiary of MUFG Bank in Thailand. Krungsri provides a comprehensive range of banking, consumer finance, investment, asset management, and other financial products and services to retail consumers, small and medium-sized enterprises, and large corporations mainly in Thailand through 700 branches (consisting 663 banking branches and 37 automobile finance business branches) and over 35,000 other service outlets nationwide. In addition, Krungsri s consolidated subsidiaries include the largest credit card issuer in Thailand with a total of 8.6 million credit card, sales finance and personal loan accounts in its portfolio, a major auto finance provider, a fast growing asset management company, and a leading microfinance service provider in Thailand.

MUFG owns a 76.88% ownership interest in Krungsri through MUFG Bank as of March 31, 2018. By combining Krungsri s local franchise with competitive presence in the retail and small and medium-sized enterprise banking markets in Thailand with MUFG Bank s global financial expertise, we seek to offer a wider range of high-value financial products and services to a more diverse and larger customer base.

In March 2017, Krungsri established a subsidiary, Krungsri Finnovate Company Limited, with a key mission to support and promote FinTech startups in Thailand and Southeast Asian countries in the forms of accelerator and academic collaboration, startup project management and corporate venture capital.

In September 2017, Krungsri was designated as a Domestic Systemically Important Bank by the Bank of Thailand based on the central bank s assessment of Krungsri based on its asset size and its contribution to the country s economy and financial system.

See Item 3.D. Key Information Risk Factors Risks Related to Our Business Any adverse changes in the business of Bank of Ayudhya, an indirect subsidiary in Thailand, could significantly affect our results of operations.

Other Activities in Southeast Asia

We have been expanding our operations in Southeast Asia with an effort to further develop our businesses abroad. In addition to MUFG Union Bank and Krungsri, as Partner Banks, we have strategic business and capital relationships with other banks in Southeast Asia, including VietinBank in Vietnam, Security Bank in the Philippines and Bank Danamon in Indonesia.

VietinBank provides a wide range of financial services to consumers, small businesses, middle-market and large companies through its branch network predominantly in Vietnam. We own a 20% equity interest in VietinBank.

Security Bank provides a wide range of financial services to consumers, small businesses, middle-market and large companies through its branch network in the Philippines. We own a 19.7% equity interest in Security Bank.

In December 2017, we acquired 19.9% of the outstanding shares of Bank Danamon, the fifth largest bank in Indonesia in terms of net profits. The acquisition was the initial investment as part of our plan to acquire an aggregate equity interest in the bank exceeding 73.8%, subject to regulatory approval and other conditions. Our investment in Bank Danamon represents another milestone for our growth strategy in Southeast Asia with the goal of realizing our unique and unparalleled business model based on the established local networks of our Partner Banks, and MUFG s global network to provide holistic financial services to a wider range of customers. Through this investment, we aim to diversify and expand our local retail and small and medium-sized enterprise business portfolio by seizing opportunities expected to arise from Indonesia s current economic growth and long-term economic growth prospects.

See Item 5. Operating and Financial Review and Prospects Recent Developments and Item 3.D. Key Information Risk Factors Risks Related to Our Business Our strategy to expand the range of our financial products and services and the geographic scope of our business globally may fail if we are unable to anticipate or manage new or expanded risks that entail such expansion.

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Global Markets Business Group

The Global Markets Business Group covers the customer business and the treasury operations of MUFG Bank, Mitsubishi UFJ Trust and Banking and Mitsubishi UFJ Securities Holdings. The customer business includes sales and trading in fixed income instruments, currencies and equities as well as other investment products, and origination and distribution of financial products. The treasury operations include asset and liability management as well as global investments for the MUFG Group.

Customer Business

Sales and Trading in Fixed Income Instruments, Currencies and Equities. We provide financing, hedging, and investment solutions to our retail, corporate, institutional, and governmental customers through sales and trading in financial market products such as fixed income instruments, currencies, and equities. Our innovative financial products and services are designed to respond to increasingly sophisticated requirements of our diverse customers and are provided through our global network of offices and branches.

Investment Products *for Non-Institutional Customers in Japan.* We provide investment products such as mutual funds, and structured bonds, notes and deposits to non-institutional customers in Japan. We offer solutions using these investment products to help customers better manage their assets and liabilities. This business is conducted through the new integrated operations management structure among the Global Markets Business Group, the Asset Management & Investor Service Business Group, the Retail & Commercial Banking Business Group, and the Japanese Corporate and Investment Banking Business Group.

Origination and Distribution. We provide financing solutions to institutional customers through origination and distribution of financial products such as syndicated loans and securities issuances. This business is conducted through the new integrated operations management structure between the Global Markets Business Group and the Global Corporate and Investment Banking Business Group.

Treasury Operations

Asset and Liability Management. Through our treasury operations, we seek to manage interest rate and liquidity risks residing in our balance sheets through, among other things, transactions designed to manage the profit and loss impact attributable to market movements based on our balance sheet analyses and forecasts. Such transactions include investments in high quality liquid securities such as Japanese government bonds and U.S. treasury bonds and trading in other financial products such as interest rate swaps and cross currency swaps.

Global Investment. Through our treasury operations, we also seek to enhance our profitability by diversifying our portfolio and strategically investing in financial products including corporate bonds and funds.

Strategy under the Current Medium-Term Business Plan

Under the current medium-term business plan, for the three-year period ending March 31, 2021, the Global Markets Business Group intends to undertake the following four initiatives designed to promote the MUFG Group s structural reforms.

The Global Markets Business Group plans to improve its business portfolio by adjusting its focus to growth areas and new areas, including the sales and trading business targeting institutional customers as well as the origination and distribution business under the new integrated operations management structure with the Global Corporate and Investment Banking Business Group. In addition, the Global Markets Business Group plans to build a sustainable growth model for the investment products business

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targeting non-institutional investors in Japan under the new integrated operations management structure with the Asset Management & Investor Service Business Group , the Retail & Commercial Banking Business Group and the Japanese Corporate and Investment Banking Business Group.

The Global Markets Business Group aims to reform the sales and trading business targeting corporate customers through enhancement of our financial solutions capabilities by more effectively coordinating capital markets transactions and global markets transactions and through reduction in transactions dependent on our balance sheets.

The Global Markets Business Group strives to enhance the framework for collaboration and cooperation between MUFG s treasury operations unit and its counterparts at MUFG s major subsidiaries to support the MUFG Group s sustainable growth by integrating the expertise in market risk management on a group-side basis and applying a unified approach to liquidity risk management.

The Global Markets Business Group strives to establish business frameworks and infrastructure designed to optimize and enhance integration and flexibility of the booking functions for global markets transactions among MUFG s major subsidiaries and to accelerate digitalization.

Global Strategic Alliance with Morgan Stanley

As of March 31, 2018, we held approximately 432 million shares of Morgan Stanley s common stock representing approximately 24.4 % of the voting rights in Morgan Stanley and Series C Preferred Stock with a face value of approximately $521.4 million and 10% dividend. As of the same date, we had two representatives appointed to Morgan Stanley s board of directors. We adopted the equity method of accounting for our investment in Morgan Stanley beginning with the fiscal year ended March 31, 2012.

In conjunction with Morgan Stanley, we formed two securities joint venture companies in May 2010 to integrate our respective Japanese securities companies. We converted the wholesale and retail securities

businesses conducted in Japan by Mitsubishi UFJ Securities into Mitsubishi UFJ Morgan Stanley Securities. Morgan Stanley contributed the investment banking operations conducted in Japan by its former wholly-owned subsidiary, Morgan Stanley Japan, to Mitsubishi UFJ Morgan Stanley Securities, and converted the sales and trading and capital markets businesses conducted in Japan by Morgan Stanley Japan into an entity called Morgan Stanley MUFG Securities, Co., Ltd. We hold a 60% economic interest in Mitsubishi UFJ Morgan Stanley Securities and Morgan Stanley MUFG Securities, and Morgan Stanley holds a 40% economic interest in Mitsubishi UFJ Morgan Stanley Securities and Morgan Stanley MUFG Securities. We hold a 60% voting interest and Morgan Stanley holds a 40% voting interest in Mitsubishi UFJ Morgan Stanley Securities, and we hold a 49% voting interest and Morgan Stanley holds a 51% voting interest in Morgan Stanley MUFG Securities. Morgan Stanley s and our economic and voting interests in the securities joint venture companies are held through intermediate holding companies. We have retained control of Mitsubishi UFJ Morgan Stanley Securities and we account for our interest in Morgan Stanley MUFG Securities under the equity method due to our significant influence over Morgan Stanley MUFG Securities. The board of directors of Mitsubishi UFJ Morgan Stanley Securities has fifteen members, nine of whom are designated by us and six of whom are designated by Morgan Stanley. The board of directors of Morgan Stanley MUFG Securities has ten members, six of whom are designated by Morgan Stanley and four of whom are designated by us. The CEO of Mitsubishi UFJ Morgan Stanley Securities is designated by us and the CEO of Morgan Stanley MUFG Securities is designated by Morgan Stanley.

We have also expanded the scope of our global strategic alliance with Morgan Stanley into other geographies and businesses, including (1) a loan marketing joint venture that provides clients in the United States with access to the world-class lending and capital markets services from both companies, (2) business referral arrangements in Asia, Europe, the Middle East and Africa, covering capital markets, loans, fixed income sales and other businesses, (3) global commodities referral arrangements whereby MUFG Bank and its affiliates refer clients in need of commodities-related hedging solutions to certain affiliates of Morgan Stanley, and (4) an employee secondment program to share best practices and expertise in a wide range of business areas.

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Mitsubishi UFJ Morgan Stanley PB Securities Co., Ltd., in which Mitsubishi UFJ Morgan Stanley Securities holds 75%, and MUFG Bank holds the remaining 25%, of the voting rights, has an agreement with Morgan Stanley. Mitsubishi UFJ Morgan Stanley PB Securities leverages MUFG s broad customer base, utilizes Morgan Stanley s global and high quality insight, and further its collaborations with other group companies by strengthening its coordination with Mitsubishi UFJ Morgan Stanley Securities. It aims for further development of its wealth management business, which is one of the largest in Japan.

See Item 3.D. Key Information Risk Factors Risks Related to Our Business If our strategic alliance with Morgan Stanley fails, we could suffer financial or reputational loss.

Competition

We face strong competition in all of our principal areas of operation. The structural reforms in financial industry regulations and recent developments in financial markets have resulted in some significant changes in the Japanese financial system and prompted banks to merge or reorganize their operations. In addition, development of new technologies such as artificial intelligence and blockchain has also allowed non-financial institutions to enter the financial services industry with alternative services, thus changing the nature of competition from other financial institutions as well as from other types of businesses. See Item 3.D. Key Information Risk Factors Risks Related to Our Business Our business may be adversely affected by competitive pressures, which have partly increased due to regulatory changes and recent market changes in the financial industry domestically and globally.

Japan

Since their formation in 2000 and 2001, the so-called Japanese mega bank groups, including us, the Mizuho Financial Group and the Sumitomo Mitsui Financial Group, have continued to expand their businesses and take measures designed to enhance their financial group capabilities. For example, in July 2013, Mizuho Bank, Ltd. and Mizuho Corporate Bank, Ltd. merged, and the merged entity presently operates under the corporate name of Mizuho Bank, Ltd. In November 2015, SMBC Trust Bank, Ltd., a subsidiary of Sumitomo Mitsui Financial Group, acquired the retail banking business of Citibank Japan, Ltd.

Competition among the mega bank groups are expected to continue in various financial sectors as they have recently announced plans to expand, or have expanded, their respective businesses. For example, in the securities sector, in May 2010, in conjunction with Morgan Stanley, we created two securities joint venture companies in Japan, Mitsubishi UFJ Morgan Stanley Securities and Morgan Stanley MUFG Securities, by integrating the operations of Mitsubishi UFJ Securities and Morgan Stanley Japan. In January 2013, Mizuho Securities and Mizuho Investors Securities Co., Ltd. merged. For a discussion of the two securities joint venture companies created by us and Morgan Stanley, see B. Business Overview Global Strategic Alliance with Morgan Stanley.

In the retail business sector, customers often have needs for a broad range of financial products and services, such as investment trusts and insurance products. Recently, competition has increased due to the development of new products and distribution channels. For example, Japanese banks compete with one another by developing innovative proprietary computer technologies that allow them to deliver basic banking services in a more efficient manner and to create sophisticated new products in response to customer demand. Competition has also increased since the introduction in January 2014 of the Japanese individual savings account system, generally referred to as the NISA program, which currently offers tax exemptions on capital gains and dividend income for investments up to ¥1.2 million a year for a maximum of five years. In addition, in December 2015, Sumitomo Mitsui Trust Bank, Ltd. acquired Citi Cards Japan, Inc., which previously operated the credit card business of Citigroup Inc. in Japan.

In the private banking sector, competition among the mega bank groups has intensified as a result of recent corporate actions designed to strengthen their operations. We made Mitsubishi UFJ Merrill Lynch PB Securities

Co., Ltd. a wholly owned subsidiary in December 2012 to enhance our private banking services for high net-worth customers, and changed its name to Mitsubishi UFJ Morgan Stanley PB Securities, Ltd. in March 2014. In October 2013, Sumitomo Mitsui Banking Corporation acquired the former Société Générale Private Banking Japan, Ltd. from Société Générale S.A. and changed its name to SMBC Trust Bank, Ltd.

In the consumer finance sector, recent regulatory reforms and legal developments have negatively impacted the business environment, resulting in failures of several consumer finance companies and intensified competition among consumer finance companies that have remained in business, particularly among those affiliated with the mega banks. In April 2012, Promise Co., Ltd. became a wholly owned subsidiary of the Sumitomo Mitsui Financial Group, and changed its name as SMBC Consumer Finance Co., Ltd. in July 2012. See Item 3.D. Key Information Risk Factors Risks Related to Our Business Because of our loans to consumers and our shareholdings in companies engaged in consumer lending, changes in the business or regulatory environment for consumer finance companies in Japan may further adversely affect our financial results.

The trust assets business is an area that is becoming increasingly competitive because of regulatory changes in the industry that have expanded the products and services that can be offered since the mid-2000s. In addition, there is growing corporate demand for changes in the trust regulatory environment, such as reforms of the pension system and related accounting regulations under Japanese GAAP. Competition may increase in the future as changes are made to respond to such corporate demand and regulatory barriers to entry are lowered. Competition is also expected to intensify as a result of recent integrations and entrants in the industry. For example, in August 2015, JP Asset Management Co., Ltd. was established as a joint venture with the Japan Post Group, Sumitomo Mitsui Trust Bank and Nomura Holdings, Inc. holding 50%, 30% and 20% equity interests, respectively, in the joint venture. In October 2016, the Mizuho Financial Group integrated Mizuho Asset Management Co., Ltd., Shinko Asset Management Co., Ltd. and the asset management business of Mizuho Trust & Banking Co., Ltd., all of which were asset management subsidiaries of the Mizuho Financial Group in Japan, and DIAM Co., Ltd., which was an asset management joint venture between the Mizuho Financial Group and Dai-ichi Life Insurance Company in Japan. In July 2016, the Sumitomo Mitsui Financial Group made Sumitomo Mitsui Asset Management Co., Ltd. a consolidated subsidiary through the acquisition of additional equity interest in the asset management company. In March 2017, the Mizuho Financial Group announced plans to integrate Trust and Custody Services Bank, Ltd., its trust bank subsidiary specialized in the asset administration business, with Japan Trustee Services Bank, Ltd., which is a trust bank joint venture between Sumitomo Mitsui Trust Holdings and Resona Bank, Ltd. specialized in the asset administration business. In May 2018, the Sumitomo Mitsui Financial Group announced a planned merger between Sumitomo Mitsui Asset Management and Daiwa SB Investments Ltd.

In recent years, the Japanese government has identified several governmental financial institutions as candidates to privatize. In particular, in November 2015, shares of Japan Post Holdings Co., Ltd., Japan Post Bank Co., Ltd. and Japan Post Insurance Co., Ltd. were listed on the Tokyo Stock Exchange. In the initial public offering, approximately 11% of the outstanding shares in each of the Japan Post companies were sold. The Japanese government sold an additional 22% of the outstanding shares of Japan Post Holdings in a subsequent public offering in September 2017. The Japanese government is expected to sell additional shares in Japan Post Holdings and cause Japan Post Holdings to sell additional shares in the Japan Post Bank and Japan Post Insurance in the future. Under the current postal privatization law, Japan Post Bank and Japan Post Insurance may enter into new business areas upon obtaining government approvals, and if Japan Post Holdings equity holdings decrease to 50% or below, the two companies will be allowed to enter into new business areas upon submission of a notice to the government. In such case, the Japan Post Group companies may seek to enter into new financial businesses and increasingly compete with us. In addition, Japan Post Bank is one of the world s largest holders of deposits, which provide a cost-effective source of funding for the bank. There is reportedly a political discussion currently ongoing as to whether to raise the ¥13 million cap on the amount of deposits that Japan Post Bank may accept from each customer. See B. Business Overview The Japanese

Financial System Government Financial Institutions.

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The mega bank groups face significant competition with other financial groups as well as companies that have traditionally not been engaged in banking services. For example, the Nomura Group has been a major player in the securities market in Japan. In addition, various Japanese non-bank financial institutions and non-financial companies have entered into the Japanese banking sector. For example, Orix Corporation, a non-bank financial institution, as well as the Seven & i Holdings Co., Ltd., Sony Corporation and Aeon Co., Ltd., which were non-financial companies, offer various banking services, often through non-traditional distribution channels.

Foreign

In the United States, we face substantial competition in all aspects of our business. We face competition from other large U.S. and non-U.S. money-center banks, as well as from similar institutions that provide financial services. Through MUFG Union Bank, we currently compete principally with U.S. and non-U.S. money-center and regional banks, thrift institutions, asset management companies, investment advisory companies, consumer finance companies, credit unions and other financial institutions.

In other international markets, we face competition from commercial banks and similar financial institutions, particularly major international banks and the leading domestic banks in the local financial markets in which we conduct business. For example, Japanese mega banks, including us, and other major international banks have been expanding their operations in the Asian market, where leading local banks also have been growing and increasing their presence recently. Furthermore, we are aiming to expand our retail and small and medium-sized enterprise businesses along with our corporate banking business in Southeast Asia through our acquisition of Krungsri in Thailand, our strategic investments in VietinBank in Vietnam, Security Bank in the Philippines and Bank Danamon in Indonesia, as well as our plan to increase our equity interest in Bank Danamon to over 73.8%, and compete with leading local banks in such businesses. See Item 3.D. Key Information Risk Factors Risks Related to Our Business Our strategy to expand the range of our financial products and services and the geographic scope of our business globally may fail if we are unable to anticipate or manage new or expanded risks that entail such expansion. For a discussion of recent developments, see Item 5. Operating and Financial Review and Prospects Recent Developments.

In addition, we may face further competition as a result of recent investments, mergers and other business tie-ups among global financial institutions, including, for example, our recent acquisitions of, and business and capital alliances with, asset management, administration and custody services companies.

The Japanese Financial System

Japanese financial institutions may be categorized into three types:

- the central bank, namely the Bank of Japan;
- private banking institutions; and
- government financial institutions.

The Bank of Japan

The Bank of Japan s role is to maintain price stability and the stability of the financial system to ensure a solid foundation for sound economic development.

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Private Banking Institutions

Private banking institutions in Japan are commonly classified into two categories (the following numbers are based on information published by the FSA available as of May 1, 2018):

- ordinary banks (121 ordinary banks and 56 foreign commercial banks with ordinary banking operations); and
- trust banks (15 trust banks, including two Japanese subsidiaries of foreign financial institutions).

Ordinary banks in turn are classified as city banks, of which there are four, including MUFG Bank, and regional banks, of which there are 104 and other banks, of which there are 13. In general, the operations of ordinary banks correspond to commercial banking operations in the United States. City banks and regional banks are distinguished based on head office location as well as the size and scope of their operations.

The city banks are generally considered to constitute the largest and most influential group of banks in Japan. Generally, these banks are based in large cities, such as Tokyo and Osaka, and operate nationally through networks of branch offices. The city banks provide a wide variety of banking and other financial products and services to large corporate customers, including the major industrial companies in Japan, as well as small and medium-sized companies and retail customers.

With some exceptions, the regional banks tend to be much smaller in terms of total assets than the city banks. Each of the regional banks is based in one of the Japanese prefectures and extends its operations into neighboring prefectures. Their customers are mostly regional enterprises and local public utilities. The regional banks also lend to large corporations. In line with the recent trend among financial institutions toward mergers or business tie-ups, various regional banks have announced or are currently negotiating or pursuing integration transactions.

Trust banks, including Mitsubishi UFJ Trust and Banking, provide various trust services relating to money trusts, pension trusts and investment trusts and offer other services relating to real estate, stock transfer agency and testamentary services, as well as banking services.

In recent years, almost all of the city banks have consolidated with other city banks and, in some cases, integrated with trust banks. Consolidation or integration among these banks was achieved, in most cases, through the use of a bank holding company.

In addition to ordinary banks and trust banks, other private financial institutions in Japan, including banks operated by non-financial companies, shinkin banks, or credit associations, and credit cooperatives, are engaged primarily in making loans to small businesses and individuals.

Government Financial Institutions

There are a number of government financial institutions in Japan, which are corporations wholly owned or majority-owned by the government and operate under the government s supervision. Their funds are provided mainly from government sources. Certain types of operations undertaken by these institutions have been or are planned to be assumed by, or integrated with the operations of, private corporations through privatizations and other measures.

Among them are the following:

The Development Bank of Japan, which was established for the purpose of contributing to the economic development of Japan by extending long-term loans, mainly to primary and secondary sector industries, and which was reorganized as a joint stock company in October 2008 as part of its ongoing privatization process, with the government being required by law to continue to hold 50% or more of the shares in the bank until the completion of certain specified investment operations, which the bank is required to endeavor to achieve by March 2026, and more than one-third for an unspecified period thereafter;

Japan Finance Corporation, which was formed in October 2008, through the merger of the international financial operations of the former Japan Bank for International Cooperation, National Life Finance Corporation, Agriculture, Forestry and Fisheries Finance Corporation, and Japan Finance Corporation for Small and Medium Enterprise, for the primary purposes of supplementing and encouraging the private financing of exports, imports, overseas investments and overseas economic cooperation, and supplementing private financing to the general public, small and medium-sized enterprises and those engaged in agriculture, forestry and fishery. In April 2012, Japan Finance Corporation spun off its international operations to create Japan Bank for International Cooperation as a separate government-owned entity;

Japan Housing Finance Agency, which was originally established in June 1950 as the Government Housing Loan Corporation for the purpose of providing housing loans to the general public, and which was reorganized as an incorporated administrative agency and started to specialize in securitization of housing loans in April 2007; and

The Japan Post Group companies, a group of joint stock companies including Japan Post Bank, which were formed in October 2007 as part of the Japanese government s privatization plan for the former Japan Post, a government-run public services corporation, which had been the Postal Service Agency until March 2003. In November 2015, approximately 11% of the outstanding shares of each of Japan Post Bank, Japan Post Insurance and Japan Post Holdings were sold to the public, and these companies are currently listed on the Tokyo Stock Exchange. In September 2017, an additional 22% of the outstanding shares of Japan Post Holdings were sold to the public.

Supervision and Regulation

Japan

Supervision. The FSA is responsible for supervising and overseeing financial institutions, making policy for the overall Japanese financial system and conducting insolvency proceedings with respect to financial institutions. The Bank of Japan, as the central bank for financial institutions, also has supervisory authority over banks in Japan, based primarily on its contractual agreements and transactions with the banks.

The Banking Law. Among the various laws that regulate financial institutions, the Banking Law and its subordinated orders and ordinances are regarded as the fundamental law for ordinary banks and other private financial institutions. The Banking Law addresses capital adequacy, inspections and reporting to banks and bank holding companies, as well as the scope of business activities, disclosure, accounting, limitation on granting credit and standards for arm s length transactions for them. Bank holding companies, banks and other financial institutions are required to establish an appropriate system to better cope with conflicts of interest that may arise from their business operations.

Legislation has recently been passed by, or introduced to, the Diet to amend various financial regulation related laws, including the Banking Law, which includes certain deregulations on restrictions for shareholdings by banks. For example, although a bank is generally prohibited from holding more than 5% of the outstanding shares of another company (other than certain financial institutions) under the Banking Law, the bank may be exempt from such requirement and allowed to hold more than 5% of the outstanding shares of such company under amendments to the Banking Law that became effective in April 2014, if, among other exempted cases, a bank s shareholding contributes to revitalizing a company s business or the local economy related to such company. In May 2016, the Diet passed legislation to amend the Banking Law to allow banks and bank holding companies with the FSA s approval to hold controlling interests in certain financial technology companies. The amendments became effective as of April 1, 2017. As a result of the amendments, banks and bank holding companies may now acquire and hold more than 5% of the voting rights in certain financial technology companies, subject to the approval of the Commissioner of the FSA. In May 2017, a bill to amend the Banking Law was passed by the Diet, with the aim to promote affiliation and cooperation between financial institutions and financial technology companies while securing the protection of customers. The amendment became effective in June 2018.

Bank holding company regulations. A bank holding company is prohibited from carrying out any business other than the management of its subsidiaries and other incidental businesses. A bank holding company may have any of the following as a subsidiary: a bank, a securities company, an insurance company, a foreign subsidiary that is engaged in the banking, securities or insurance business and any company that is engaged in a finance-related business, such as a credit card company, a leasing company, investment advisory company, or financial technology company as permitted by the April 1, 2017 amendments to the Banking Law. Certain companies that are designated by a ministerial ordinance as those that cultivate new business fields may also become the subsidiaries of a bank holding company.

In addition, under the April 1, 2017 amendments to the Banking Law, a bank holding company (i) is required to perform certain specified functions as a bank holding company to ensure effective management of its subsidiaries and (ii) is allowed to engage in certain specified common operations of its subsidiaries so as to improve the efficiency of the operations of its group companies.

Capital adequacy. The capital adequacy guidelines adopted by the FSA that are applicable to Japanese bank holding companies and banks with international operations closely follow the risk-weighted approach introduced by the Basel Committee on Banking Supervision of the Bank for International Settlements.

Basel II, as adopted by the FSA, has been applied to Japanese banks since March 31, 2007. Certain provisions of Basel III have been adopted by the FSA for Japanese banking institutions with international operations conducted through their foreign offices. Basel III is built on three pillars : (1) minimum capital requirements, (2) the self-regulation of financial institutions based on supervisory review process, and (3) market discipline through the disclosure of information.

The Group of Central Bank Governors and Heads of Supervision reached an agreement on the new global regulatory framework, which has been referred to as Basel III, in July and September 2010. In December 2010, the Basel Committee agreed on the details of the Basel III rules. The agreement on Basel III includes the following: (1) raising the quality of capital to ensure banks are able to better absorb losses both on a going concern basis and on a gone concern basis, (2) increasing the risk coverage of the capital framework, in particular for trading activities, securitizations, exposures to off-balance sheet vehicles and counterparty credit exposures arising from derivatives, (3) raising the level of minimum capital requirements, including an increase in the minimum common equity requirement from 2% to 4.5%, which was phased in between January 1, 2013 and the end of the calendar year 2014, and a capital conservation buffer of 2.5%, which is expected to be phased in between January 1, 2016 and the end of the calendar year 2018, bringing the total common equity requirement to 7%, (4) introducing an internationally harmonized leverage ratio to serve as a backstop to the risk-based capital measure and to contain the build-up of excessive leverage in the system, (5) raising standards for the supervisory review process (Pillar 2) and public disclosures (Pillar 3), together with additional guidance in the areas of valuation practices, stress testing, liquidity risk management, corporate governance and compensation, (6) introducing minimum global liquidity standards consisting of both a short term liquidity coverage ratio and a longer term structural net stable funding ratio, and (7) promoting the build-up of capital buffers that can be drawn down in periods of stress, including both a capital conservation buffer and a countercyclical buffer to protect the banking sector from periods of excess credit growth.

Under Basel III, Common Equity Tier 1, Tier 1 and total capital ratios are used to assess capital adequacy, which ratios are determined by dividing applicable capital components by risk-weighted assets. Total capital is defined as the sum of Tier 1 and Tier 2 capital.

Under Basel III, Tier 1 capital is defined to include Common Equity Tier 1 and Additional Tier 1 capital. Common Equity Tier 1 capital is a new category of capital primarily consisting of:

- common stock,

capital surplus,

retained earnings, and

accumulated other comprehensive income.

Regulatory adjustments including certain intangible fixed assets, such as goodwill, and defined benefit pension fund net assets (prepaid pension costs) will be deducted from Common Equity Tier 1 capital.

Additional Tier 1 capital generally consists of Basel III compliant preferred securities and, during the transition period, other capital that meets Tier I requirements under the former Basel II standards, net of regulatory adjustments.

Tier 2 capital generally consists of:

Basel III compliant subordinated obligations,

during the transition period, capital that meets Tier II requirements under the former Basel II standards,

allowances for credit losses, and

non-controlling interests in subsidiaries   Tier 2 capital instruments.

In order to qualify as Tier 1 or Tier 2 capital under Basel III, applicable instruments such as preferred shares and subordinated debt must have a clause in their terms and conditions that requires them to be written-off or forced to be converted into common stock upon the occurrence of certain trigger events.

Risk-weighted assets are the sum of risk-weighted assets compiled for credit risk purposes, quotient of dividing the amount equivalent to market risk by 8%, and quotient of dividing the amount equivalent to operational risk by 8%, and also include any amount to be added due to transitional measures as well as floor adjustments, if necessary. Risk-weighted assets include the capital charge of the credit valuation adjustment, or CVA, the credit risk related to asset value correlation multiplier for large financial institutions, the 250% risk-weighted threshold items not deducted from Common Equity Tier 1 capital, and certain Basel II capital deductions that were converted to risk-weighted assets under Basel III, such as securitizations and significant investments in commercial entities. Certain Basel III provisions were adopted by the FSA with transitional measures and became effective March 31, 2013.

The capital ratio standards applicable to us are as follows:

a minimum total capital ratio of 8.0%,

a minimum Tier 1 capital ratio of 6.0%, and a minimum Common Equity Tier 1 capital ratio of 4.5%.

These minimum capital ratios are applicable to MUFG on a consolidated basis and to MUFG Bank and Mitsubishi UFJ Trust and Banking on a consolidated as well as stand-alone basis.

We have been granted an approval by the FSA to exclude the majority of our investment in Morgan Stanley from being subject to double gearing adjustments. The approval was granted for a 10-year period, but the approval amount will be phased out by 20% each year starting from March 31, 2019. As of March 31, 2018, a full application of double gearing adjustments with respect to our investment in Morgan Stanley would have reduced our Common Equity Tier 1 capital ratio by approximately 0.9%.

The Financial Stability Board identified us as a global systematically important bank, or G-SIB, in its most recent annual report published in November 2017, and is expected to update the list of G-SIB annually. In December 2015, the FSA also designated us as a G-SIB as well as a domestic systemically important bank generally referred to as a D-SIB.

Effective March 31, 2016, the FSA s capital conservation buffer, countercyclical buffer and G-SIB surcharge requirements became applicable to Japanese banking institutions with international operations conducted through foreign offices, including us. The requirements are currently being phased in and, as of March 31, 2018, we are required to maintain a capital conservation buffer of 1.875% , a G-SIB surcharge of 1.125% and a countercyclical buffer of 0.01% in addition to the 4.50% minimum Common Equity Tier 1 capital ratio. When fully implemented on March 31, 2019, we will be required to maintain a capital conservation buffer of 2.5%, a countercyclical buffer of up to 2.5%, and a G-SIB surcharge of 1.5%, assuming we will be in Bucket 2 of the G-SIB list.

In December 2017, the Group of Central Bank Governors and Heads of Supervision released final Basel III reforms. The reforms are designed, among other things, to help reduce excessive variability in risk-weighted assets among banks and improve the comparability and transparency of banks risk-based capital ratios. The reforms endorsed by the Group of Central Bank Governors and Heads of Supervision include the following elements:

- a revised standardized approach for credit risk, which is designed to improve the robustness and risk sensitivity of the existing approach;
- revisions to the internal ratings-based approach for credit risk, where the use of the most advanced internally modelled approaches for low-default portfolios will be limited;
- revisions to CVA framework, including the removal of the internally modelled approach and the introduction of a revised standardized approach;
- a revised standardized approach for operational risk, which will replace the existing standardized approaches and the advanced measurement approaches;
- revisions to the measurement of the leverage ratio and a leverage ratio buffer for G-SIBs, which will take the form of a Tier 1 capital buffer set at 50% of a G-SIB s risk-weighted capital buffer; and
- an aggregate output floor, which is designed to ensure that banks risk-weighted assets generated by internal models are no lower than 72.5% of risk-weighted assets as calculated by the Basel III framework s standardized approaches. Banks will also be required to disclose their risk-weighted assets based on these standardized approaches.

Most of the reforms are expected to become effective on January 1, 2022, subject to implementation through legislation and regulation in each of the relevant jurisdictions, including Japan.

For a discussion on our capital ratios, see Item 5.B. Operating and Financial Review and Prospects Liquidity and Capital Resources Capital Adequacy.

Prompt corrective action system. Under the prompt corrective action system, the FSA may take corrective action, if a bank or a bank holding company fails to meet the minimum capital adequacy ratio. These actions include requiring such bank or bank holding company to formulate and implement capital improvement measures, requiring it to reduce assets or take other specific actions, and issuing an order to suspend all or part of its business operations.

Prompt warning system. Under the prompt warning system, the FSA may take precautionary measures to maintain and promote the sound operations of financial institutions, even before those financial institutions become subject to prompt corrective actions. These measures require a financial institution to enhance profitability, credit risk management, stability and cash flows.

Deposit insurance system and government measures for troubled financial institutions. The Deposit Insurance Act is intended to protect depositors if a financial institution fails to meet its obligations. The Deposit Insurance Corporation was established in accordance with the Deposit Insurance Act.

City banks, including MUFG Bank, regional banks, trust banks, including Mitsubishi UFJ Trust and Banking, and various other credit institutions participate in the deposit insurance system on a compulsory basis.

Under the Deposit Insurance Act, the maximum amount of protection is ¥10 million per customer within one bank. The ¥10 million maximum applies to all deposits except for non-interest bearing deposits, which are non-interest bearing deposits redeemable on demand and maintained by depositors primarily in settlement accounts for payment and settlement purposes. Deposits in settlement accounts are fully protected without a maximum amount limitation. Certain types of deposits are not covered by the deposit insurance system, such as foreign currency deposits and negotiable certificates of deposit. As of April 1, 2018, the Deposit Insurance Corporation charged an insurance premium equal to 0.046% per year on the deposits in the settlement accounts, and a premium equal to 0.033% per year on the deposits in other accounts.

Under the Deposit Insurance Act, a Financial Reorganization Administrator can be appointed by the Prime Minister if a bank s liabilities exceed its obligations or has suspended, or is likely to suspend, repayment of deposits. The Financial Reorganization Administrator will take control of the assets of the troubled bank, dispose of the assets and search for another institution willing to take over the troubled bank s business. The troubled bank s business may also be transferred to a bridge bank established by the Deposit Insurance Corporation to enable the troubled bank s operations to be maintained and continue temporarily, and the bridge bank will seek to transfer the troubled bank s assets to another financial institution or dissolve the troubled bank. The Deposit Insurance Corporation protects deposits, as described above, either by providing financial aid for costs incurred by the financial institution succeeding the insolvent bank or by paying insurance money directly to depositors. The financial aid provided by the Deposit Insurance Corporation may take the form of a monetary grant, loan or deposit of funds, purchase of assets, guarantee or assumption of debt, subscription for preferred stock, or loss sharing.

The Deposit Insurance Act also provides for exceptional measures to cope with systemic risk in the financial industry. Where the Prime Minister recognizes that the failure of a bank which falls into any of (i) through (iii) below may cause an extremely grave problem to the maintenance of the financial order in Japan or the region where such bank is operating, or systemic risk, if none of the measures described in (i) through (iii) below is implemented, the Prime Minister may, following deliberation by the Financial Crisis Response Council, confirm (*nintei*) the need to take any of the following measures: (i) if the bank does not fall into either of the categories described in (ii) or (iii) below, the Deposit Insurance Corporation may subscribe for shares or subordinated bonds of, or extend subordinated loans to the bank, or subscribe for shares of the bank holding company of the bank, in order to enhance the bank s regulatory capital (Item 1 measures (*dai ichigo sochi*)); (ii) if the bank has suspended, or is likely to suspend, repayment of deposits, or its liabilities exceed its assets, financial aid exceeding the pay-off cost may be made available to such bank (Item 2 measures (*dai nigo sochi*)); and (iii) if the bank has suspended, or is likely suspend, repayment of deposits, and its liabilities exceed its assets, and the systemic risk cannot be avoided by the measures mentioned in (ii) above, the Deposit Insurance Corporation may acquire all of the bank s shares (Item 3 measures (*dai sango sochi*)). The expenses for the implementation of the above measures will be borne by the banking industry, with an exception under which the Japanese government may provide partial subsidies for such expenses.

Under the new orderly resolution regime established by amendments to the Deposit Insurance Act that were promulgated in June 2013 and became effective on March 6, 2014, financial institutions, including banks, insurance companies and securities companies and their holding companies, are subject to the regime. Further, where the Prime Minister recognizes that the failure of a financial institution which falls into either of (a) or (b) below may cause a significant disruption to the Japanese financial market or system in Japan if measures

described in (a) or measures described in (b) are not taken, the Prime Minister may, following deliberation by the Financial Response Crisis Council, confirm (*nintei*) that any of the following measures need to be applied to the financial institution:

(a) if the financial institution is not a financial institution whose liabilities exceed its assets, the financial institution shall be placed under the special supervision by the Deposit Insurance Corporation over the

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financial institution s business operations and management and the disposal of the financial institution s assets, and the Deposit Insurance Corporation may provide the financial institution with loans or guarantees necessary to avoid the risk of significant disruption to the financial system in Japan, or subscribe for shares or subordinated bonds of, or extend subordinated loans to, the financial institution, taking into consideration the financial condition of the financial institution (Specified Item 1 measures (*tokutei dai ichigo sochi*) under Article 126-2, Paragraph 1, Item 1 of the Deposit Insurance Act); or

(b) if the financial institution is a financial institution whose liabilities exceed, or are likely to exceed, its assets or which has suspended, or is likely to suspend, payments on its obligations, the financial institution shall be placed under the special supervision by the Deposit Insurance Corporation over the financial institution s business operations and management and the disposal of the financial institution s assets, and the Deposit Insurance Corporation may provide financial aid necessary to assist a merger, business transfer, corporate split or other reorganization in respect of such failed financial institution (Specified Item 2 measures (*tokutei dai nigo sochi*) under Article 126-2, Paragraph 1, Item 2 of the Deposit Insurance Act).

If the Prime Minister confirms that any of the measures set out in (b) above needs to be applied to a failed financial institution, the Prime Minister may order that the failed financial institution s business operations and management and the disposal of the failed financial institution s assets be placed under the special control of the Deposit Insurance Corporation under Article 126-5 of the Deposit Insurance Act. The business or liabilities of the financial institution subject to the special supervision or the special control of the Deposit Insurance Corporation as set forth above may also be transferred to a bridge financial institution established by the Deposit Insurance Corporation to enable the financial institution s operations to be maintained and continue temporarily, or the financial institution s liabilities to be repaid, and the bridge financial institution will seek to transfer the financial institution s business or liabilities to another financial institution or dissolve the financial institution. The financial aid provided by the Deposit Insurance Corporation to assist a merger, business transfer, corporate split or other reorganization in respect of the failed financial institution set out in (b) above may take the form of a monetary grant, loan or deposit of funds, purchase of assets, guarantee or assumption of debts, subscription for preferred stock or subordinated bonds, subordinated loan, or loss sharing. If the Deposit Insurance Corporation has provided such financial assistance, the Prime Minister may designate the movable assets and claims of the failed financial institution as not subject to attachment under Article 126-16 of the Deposit Insurance Act, and such merger, business transfer, corporate split or other reorganization may be conducted outside of the court-administrated insolvency proceedings. If the financial institution subject to the special supervision or the special control by the Deposit Insurance Corporation as set forth above has liabilities that exceed, or are likely to exceed, its assets, or has suspended, or is likely to suspend, payments on its obligations, the financial institution may transfer all or a material portion of its business or all or a material portion of shares of its subsidiaries or implement corporate split or certain other corporate actions with court permission in lieu of any shareholder resolutions under Article 126-13 of the Deposit Insurance Act. In addition, the Deposit Insurance Corporation must request other financial institution creditors of the failed financial institution to refrain from exercising their rights against the failed financial institution until measures necessary to avoid the risk of significant disruption to the financial system in Japan have been taken, if it is recognized that such exercise of their rights is likely to make the orderly resolution of the failed financial institution difficult.

The expenses for implementation of the measures under this regime will be borne by the financial industry, with an exception under which the Japanese government may provide partial subsidies for such expenses within

the limit to be specified in the government budget in cases where it is likely to cause extremely serious hindrance to the maintenance of the credit system in Japan or significant turmoil in the Japanese financial market or system if such expenses are to be borne only by the financial industry.

According to the announcement made by the FSA in March 2014, (i) Additional Tier 1 instruments and Tier 2 instruments under Basel III issued by a bank must be written down or converted into common shares when the Prime Minister confirms (*nintei*) that Item 2 measures (*dai nigo sochi*), Item 3 measures (*dai sango sochi*), or Specified Item 2 measures (*tokutei dai nigo sochi*) need to be applied to the bank and (ii) Additional Tier 1 instruments and Tier 2 instruments under Basel III issued by a bank holding company must be written down or converted into common shares when the Prime Minister confirms (*nintei*) that Specified Item 2 measures (*tokutei dai nigo sochi*) need to be applied to the bank holding company.

Recovery and resolution plan. In November 2017, the Financial Stability Board published the latest list of G-SIBs, which includes us. The list is annually updated by the Financial Stability Board. A recovery and resolution plan must be put in place for each G-SIB, and the plans must be regularly reviewed and updated. In Japan, under the Banking Law and the Comprehensive Guidelines for Supervision of Major Banks, etc., financial institutions identified as G-SIBs must, as part of their crisis management, prepare and submit a recovery plan, including triggers for the recovery plan and an analysis of recovery options, to the FSA. The Comprehensive Guidelines also provide that resolution plans for such financial institutions are prepared by the FSA. We submitted our recovery plan to the FSA in December 2017.

Total loss-absorbing capacity. In November 2015, the Financial Stability Board issued the final Total Loss-Absorbing Capacity, or TLAC, standard for G-SIBs, including us. The Financial Stability Board s TLAC standard is designed to ensure that if a G-SIB fails, it has sufficient loss-absorbing and recapitalization capacity available in resolution to implement an orderly resolution that minimizes impacts on financial stability, ensures the continuity of critical functions, and avoids exposing public funds to loss. The Financial Stability Board s TLAC standard defines a minimum requirement for the instruments and liabilities that should be readily available to absorb losses in resolution but allows each resolution authority s power under the applicable resolution law to expose other liabilities to loss through bail-in or the application of other resolution tools. The Financial Stability Board s TLAC standard requires a G-SIB to hold TLAC in an amount not less than 16% of its risk-weighted assets and 6% of the applicable Basel III leverage ratio denominator by January 1, 2019, and not less than 18% of its risk-weighted assets and 6.75% of the applicable Basel III leverage ratio denominator by January 1, 2022.

Following the publication of the final TLAC standards for G-SIBs by the Financial Stability Board in November 2015, the FSA published an explanatory paper outlining its approach for the introduction of the TLAC framework in Japan on April 15, 2016 and released revisions to the paper on April 13, 2018. According to the FSA s approach, which is subject to change based on future international discussions, the preferred resolution strategy for G-SIBs in Japan is SPE resolution, in which resolution powers are applied to the top-level entity of a banking group by a single national resolution authority. To implement this SPE resolution strategy effectively, the FSA plans to require bank holding companies of Japanese G-SIBs, which will be the resolution entities, to (i) meet the minimum external TLAC requirements provided under the Financial Stability Board s TLAC standard, and (ii) cause their material subsidiaries that are designated as systemically important by the FSA, including but not limited to certain material sub-groups as provided in the Financial Stability Board s TLAC standard, to maintain a certain level of capital and debt recognized by the FSA as having Internal TLAC. In addition, under the approach, Japanese G-SIBs would be allowed to count the Japanese Deposit Insurance Fund Reserves in an amount equivalent to 2.5% of their consolidated risk-weighted assets from 2019 and 3.5% of their consolidated risk-weighted assets from 2022 as external TLAC.

Furthermore, under the SPE resolution strategy provided for in the approach, while the actual measures to be taken will be determined on a case-by-case basis considering the actual condition of the relevant Japanese G-SIB in crisis, a possible model of Japanese G-SIB resolution will be:

(i)

Certain measures are taken with the involvement of the relevant authority with respect to the Internal TLAC obligations that the relevant material subsidiaries of the bank holding company of the relevant Japanese G-SIB owe to the bank holding company so as to cause the bank holding company to absorb the losses incurred by such material subsidiaries.

(ii) After the bank holding company absorbs the losses of its material subsidiaries, if it fulfills the requirements for the application of Specified Item 2 measures (*tokutei dai nigo sochi*) set forth in

Article 126-2, Paragraph 1, Item 2 of the Deposit Insurance Act, the Prime Minister confirms that Specified Item 2 measures (*tokutei dai nigo sochi*) need to be applied to the bank holding company and orders its operations and assets to be placed under the special control of the Deposit Insurance Corporation. At this point, Basel III-eligible Additional Tier 1 instruments and Tier 2 instruments issued by the bank holding company are written off or converted into equity under the terms of such instruments prior to the loss absorption of external TLAC-eligible senior debt liabilities issued by the bank holding company. In addition, the Prime Minister prohibits by its designation creditors of the bank holding company from attaching any of its movable assets and claims which are to be transferred to a bridge financial institution established by the Deposit Insurance Corporation pursuant to Article 126-16 of the Deposit Insurance Act.

(iii) The bank holding company transfers its systemically important assets and liabilities (including shares of its material subsidiaries) to such bridge financial institution with court permission in lieu of any shareholder resolutions under Article 126-13 of the Deposit Insurance Act, under a decision by the Prime Minister that the bridge financial institution succeed to the business of the bank holding company. On the other hand, it is expected that the bank holding company s obligations with respect to external TLAC-eligible senior notes would not be transferred to the bridge financial institution and would remain as the bank holding company s liabilities.

(iv) After transferring its systemically important assets and liabilities, the Deposit Insurance Corporation files a petition for the commencement of a bankruptcy proceeding against the bank holding company through which it will be dissolved, and the creditors of the bank holding company, including the holders of external TLAC-eligible senior notes, will receive liquidation distributions out of the residual assets of the bank holding company, as a result of which they may absorb losses.

On July 6, 2017, the Financial Stability Board published Guiding Principles on the Internal Total Loss-absorbing Capacity of G-SIBs (Internal TLAC). These principles were intended to assist the implementation of the Financial Stability Board s internal TLAC requirement by providing guidance on the size and composition of the internal TLAC requirement, cooperation and coordination between home and host authorities, and the trigger mechanism for internal TLAC. The internal TLAC requirement is subject to implementation through legislation and regulation in each of the relevant jurisdictions, including Japan.

See Item 3.D. Key Information Risk Factors Risks Related to Our Business We may not be able to maintain our capital ratios above minimum required levels, which could result in the suspension of some or all of our operations. and Item 5. Operating and Financial Review and Prospects Recent Developments.

Liquidity Coverage Ratio. Japanese banks and bank holding companies with international operations are required to disclose their LCRs calculated in accordance with the methodology prescribed in the FSA guidance that has been adopted to implement the relevant Basel III standard. The LCR is a measure to determine whether a bank has a sufficient amount of high-quality liquid assets, which are assets that can be converted easily and immediately into cash in private markets in order to meet the bank s liquidity needs, to survive in a 30-day financial stress scenario, including sizable deposit outflows, inability to issue new bonds or access the interbank market, stoppage of the collateralized funding market, need for additional collateral in connection with derivative transactions, and significant outflows of cash under commitment lines to customers. Once a bank or bank holding company fails to meet the minimum LCR of 100%, it is required to immediately report such failure to the FSA. If the FSA deems the financial condition of the bank or bank holding company to be serious, the FSA may issue a business improvement order. A minimum LCR of 90% is required in 2018, and the required minimum ratio is expected to be raised by 10 percentage points to 100% in 2019.

Net Stable Funding Ratio. The NSFR is a measure to determine whether a bank has sustainable and long-term liabilities and capital for its assets and activities. The Basel Committee on Banking Supervision issued the final standard of NSFR in October 2014. In Japan, details of the NSFR requirements are currently under discussion.

Leverage Ratio. Japanese banks and bank holding companies with international operations are required to disclose their leverage ratios calculated in accordance with the methodology prescribed in the FSA guidance that has been adopted to implement the relevant Basel III standard. The leverage ratio is designed for monitoring and preventing the build-up of excessive leverage in the banking sector and is expressed as the ratio of Tier 1 capital to total balance sheet assets adjusted in accordance with the FSA guidance. In December 2017, the Group of Central Bank Governors and Heads of Supervision announced final Basel III reforms. The announced reforms include the revisions to the measurement of the leverage ratio and a 3% minimum leverage ratio requirement, plus a G-SIB leverage ratio buffer equal to 50% of the applicable G-SIB capital surcharge. The announcement sets forth implementation dates of January 1, 2018 for the minimum leverage ratio requirement and January 1, 2022 for the G-SIB leverage ratio buffer requirement. These requirements are subject to implementation through legislation and regulation in each of the relevant jurisdictions, including Japan.

Other major developments relating to international bank capital regulatory standards. In March 2018, the Basel Committee on Banking Supervision published a consultative document on revisions to the minimum capital requirements for market risk. The proposals included in this consultative document are intended to address issues that the Basel Committee has identified in the course of monitoring the implementation and impact of the market risk standard issued in January 2016. The Committee proposes to revise certain items such as recalibration of standardized approach risk weights for general interest risk, equity risk and foreign exchange risk and the assessment process to determine whether a bank s internal risk management models appropriately reflect the risks of individual trading desks. The implementation date was set for January 1, 2022.

Inspection and reporting. By evaluating banks systems of self-assessment, inspecting their accounts and reviewing their compliance with laws and regulations, the FSA monitors the financial soundness of banks, including the status and performance of their control systems for business activities. The FSA applies the Financial Inspection Rating System, or FIRST, to major banks. By providing inspection results in the form of graded evaluations (i.e., ratings), the FSA expects this rating system to motivate financial institutions to voluntarily improve their management and operations. Additionally, the FSA currently takes the better regulation approach in its financial regulation and supervision. This consists of four pillars: (1) optimal combination of rules-based and principles-based supervisory approaches, (2) timely recognition of priority issues and effective responses, (3) encouraging voluntary efforts by financial firms and placing greater emphasis on providing them with incentives, and (4) improving the transparency and predictability of regulatory actions, in pursuit of improvement of the quality of financial regulation and supervision.

In the FSA s Strategic Directions and Priorities 2017-2018 published in November 2017, the FSA announced new supervisory approaches in which it intends to focus on (i) whether financial institutions provide high-quality financial services based on best practices, (ii) whether financial institutions implement measures sufficient to sustain their long-term financial health, (iii) whether financial institutions appropriately respond to issues that are critical to their business on an institution-wide basis from a holistic perspective. To implement these approaches, the FSA announced plans to (i) balance between rule-based supervision and principle-based supervision, (ii) encourage financial institutions to provide more information on their initiatives for customers, and (iii) develop a dynamic supervisory program taking into consideration future changes.

Furthermore, the Securities and Exchange Surveillance Commission of Japan, or SESC, inspects banks in connection with their securities business as well as financial instruments business operators, such as securities firms. The Bank of Japan also conducts inspections of banks. The Bank of Japan Law provides that the Bank of Japan and financial institutions may agree as to the form of inspection to be conducted by the Bank of Japan.

Laws limiting shareholdings of banks. The provisions of the Antimonopoly Act that generally prohibit a bank from holding more than 5% of another company s voting rights do not apply to a bank holding company.

However, the Banking Law prohibits a bank holding company and its subsidiaries from holding, on an aggregated basis, more than 15% of the voting rights of companies other than those which can legally become subsidiaries of bank holding companies. There have recently been amendments to various financial regulation related laws, including the Banking Law, which includes certain deregulations on restrictions for shareholdings by banks, as described above.

In addition, a bank is prohibited from holding shares in other companies exceeding the aggregate of its Common Equity Tier 1 capital amount and Additional Tier 1 capital amount.

Restrictions on exposures to single large counterparties. The Banking Law prohibits banks and bank holding companies (on a consolidated basis with their subsidiaries and affiliates) from having exposures exceeding 25% of the sum of their Tier 1 and Tier 2 capital to a single counterparty (on a consolidated basis with its subsidiaries and specially related parties as defined in the law). The Banking Law is expected to be amended in light of the Basel Committee on Banking Supervision s final standard published in April 2014, which, among other things, (1) requires all exposures to a counterparty or a group of connected counterparties equal to or exceeding 10% of Tier 1 capital to be reported to national supervisors and (2) prohibits a large exposure exceeding 25% of Tier 1 capital.

Financial Instruments and Exchange Act. The Financial Instruments and Exchange Act provides protection for investors and also regulates sales of a wide range of financial instruments and services, requiring financial institutions to improve their sales rules and strengthen compliance frameworks and procedures. Among the instruments that the Japanese banks deal in, derivatives, foreign currency-denominated deposits, and variable insurance and annuity products are subject to regulations covered by the sales-related rules of conduct under the law.

Article 33 of the Financial Instruments and Exchange Act generally prohibits banks from engaging in securities transactions. However, bank holding companies and banks may, through a domestic or overseas securities subsidiary, conduct all types of securities businesses, with appropriate approval from the FSA. Similarly, registered banks are permitted to provide securities intermediation services and engage in certain other similar types of securities related transactions, including retail sales of investment funds and government and municipal bonds.

Subsidiaries of bank holding companies engaging in the securities business are subject to the supervision of the FSA as financial instruments business operators. The Prime Minister has the authority to regulate the securities industry and securities companies, which authority is delegated to the Commissioner of the FSA under the Financial Instruments and Exchange Act. In addition, the SESC, an external agency of the FSA, is independent from the FSA s other bureaus and is vested with the authority to conduct day-to-day monitoring of the securities markets and to investigate irregular activities that hinder fair trading of securities, including inspections of securities companies as well as banks in connection with their securities business. Furthermore, the Commissioner of the FSA delegates certain authority to the Director General of the Local Finance Bureau to inspect local securities companies and their branches. A violation of applicable laws and ordinances may result in various administrative sanctions, including revocation of registration, suspension of business or an order to discharge any director or executive officer who has failed to comply with applicable laws and ordinances. Securities companies are also subject to the rules and regulations of the Japanese stock exchanges and the Japan Securities Dealers Association, a self-regulatory organization of securities companies.

Act on Sales, etc. of Financial Instruments. The Act on Sales, etc. of Financial Instruments was enacted to protect customers from incurring unexpected losses as a result of purchasing financial instruments. Under this act, sellers of financial instruments have a duty to their potential customers to explain important matters such as the nature and magnitude of risks involved regarding the financial instruments that they intend to sell. If a seller fails to comply with the duty, there is a rebuttable presumption that the loss suffered by the customer due to the seller s failure to explain is equal to the amount of decrease in the value of the purchased financial instruments.

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Anti-money laundering laws. Under the Act on Prevention of Transfer of Criminal Proceeds, specified business operators, including financial institutions, are required to verify customer identification data, preserve transaction records, and file Suspicions Transaction Reports with the FSA or other regulatory authorities in cases where any asset received through their business operations is suspected of being criminal proceeds.

Most recent amendments to the Act, which became effective on October 1, 2016, included, among others, (1) enhancement of customer due diligence including identification of beneficial owners who are natural persons

controlling corporate customers through voting rights or other means, and (2) stricter requirements for the risk-based approach through assessment of money laundering and terrorist financing risks and application of adequate resources effectively to mitigate such risks.

In February 2018, the FSA issued Guidelines on Anti-Money Laundering and Terrorist Financing to require financial institutions to further strengthen their management of anti-money laundering and terrorist financing functions and their risk-based approach used in such functions.

Acts concerning trust business conducted by financial institutions. Under the Trust Business Act, joint stock companies that are licensed by the Prime Minister as trust companies, including non-financial companies, are allowed to conduct trust business. In addition, under the Act on Provision, etc. of Trust Business by Financial Institutions, banks and other financial institutions, as permitted by the Prime Minister, are able to conduct trust business. The Trust Business Act provides for a separate type of registration for trustees who conduct only administration type trust business. The Trust Business Act also provides for various duties imposed on the trustee in accordance with and in addition to the Trust Act.

Regulatory developments relating to lending to small and medium-sized firms and others. The Act Concerning Temporary Measures to Facilitate Financing for Small and Medium-sized Firms and Others required financial institutions, among other things, to make an effort to reduce their customers burden of loan repayment by employing methods such as modifying the term of loans at the request of eligible borrowers, including small and medium-sized firms and individual home loan borrowers. This legislation also required financial institutions to internally establish a system to implement the requirements of the legislation and periodically make public disclosure of and report to the relevant authority on the status of implementation. Although this legislation expired on March 31, 2013, the FSA continues to encourage financial institutions to continue to provide support to small and medium-sized firms by revising the Inspection Manual, Supervisory Policy and Ordinance for Enforcement of the Baking Law in order to encourage financial institutions to modify the terms of loans, provide smooth financing, and take active roles in supporting operations of such firms.

Act on the Protection of Personal Information. With regard to protection of personal information, the Act on the Protection of Personal Information requires, among other things, Japanese banking institutions to limit the use of personal information to the stated purposes and to properly manage the personal information in their possession, and forbids them from providing personal information to third parties without consent. If a bank violates certain provisions of the act, the FSA may advise or order the bank to take proper action. In addition, the Banking Law and the Financial Instruments and Exchange Act contain certain provisions with respect to appropriate handling of customer information.

Act on the Use of Personal Identification Numbers in the Administration of Government Affairs. Pursuant to the Act on the Use of Personal Identification Numbers in the Administration of Government Affairs, which became effective in October 2015, the Japanese government has adopted a Social Security and Tax Number System, which is designed to (1) improve social security services, (2) enhance public convenience in obtaining government services, and

(3) increase the efficiency of the administration of government affairs. Under this system, a 12-digit unique number will be assigned to each resident of Japan to identify and manage information relating to the resident for government service and tax purposes. Effective October 2015, financial institutions are required to implement measures to ensure that such customer information will be protected from inappropriate disclosure and other unauthorized use.

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Act Concerning Protection of Depositors from Illegal Withdrawals Made by Counterfeit or Stolen Cards. The Act on Protection, etc. of Depositors and Postal Saving Holders from Unauthorized Automated Withdrawal, etc. Using Counterfeit Cards, etc. and Stolen Cards, etc. requires financial institutions to establish internal systems to prevent illegal withdrawals of deposits made using counterfeit or stolen bank cards. The act also requires a financial institution to compensate depositors for any amount illegally withdrawn using stolen bank cards except in certain cases, including those where the financial institution can verify that it acted in good faith without negligence and there was gross negligence on the part of the relevant depositor. In addition, the act provides that illegal withdrawals with counterfeit bank cards are invalid unless the financial institution acted in good faith without negligence and there was gross negligence on the part of the relevant account holder.

Government reforms to restrict maximum interest rates on consumer lending business. In December 2006, the Diet passed legislation to reform the regulations relating to the consumer lending business, including amendments to the Act Regulating the Receipt of Contributions, Receipt of Deposits and Interest Rates which, effective June 18, 2010, reduced the maximum permissible interest rate from 29.2% per annum to 20% per annum. The regulatory reforms also included amendments to the Law Concerning Lending Business which, effective June 18, 2010, abolished the so-called gray-zone interest. Gray-zone interest refers to interest rates exceeding the limits stipulated by the Interest Rate Restriction Act (between 15% per annum to 20% per annum depending on the amount of principal). Prior to June 18, 2010, gray-zone interests were permitted under certain conditions set forth in the Law Concerning Lending Business. As a result of the regulatory reforms, all interest rates are now subject to the lower limits imposed by the Interest Rate Restriction Act, compelling lending institutions, including our consumer finance subsidiaries and equity method investees, to lower the interest rates they charge borrowers. Furthermore, the new regulations, which became effective on June 18, 2010, require, among other things, consumer finance companies to limit their lending to a single customer to a maximum of one third of the customer s annual income regardless of the customer s repayment capability.

In addition, as a result of decisions made by the Supreme Court of Japan prior to June 18, 2010, imposing stringent requirements for charging such gray-zone interest rates, consumer finance companies have been responding to borrowers claims for reimbursement of previously collected interest payments in excess of the limits stipulated by the Interest Rate Restriction Act. See Item 3.D. Key Information Risk Factors Risks Related to Our Business Because of our loans to consumers and our shareholdings in companies engaged in consumer lending, changes in the business or regulatory environment for consumer finance companies in Japan may further adversely affect our financial results.

Act on Special Provisions of the Income Tax Act, the Corporation Tax Act and the Local Tax Act Incidental to Enforcement of Tax Treaties. Pursuant to the Amendments to the Act on Special Provisions of the Income Tax Act, the Corporation Tax Act and the Local Tax Act Incidental to Enforcement of Tax Treaties, which became effective in January 2017, financial institutions are required to collect certain information from their accountholders, including jurisdictions of tax residence, and report such information to the National Tax Agency in accordance with the Common Reporting Standard as developed by the Organization for Economic Co-operation and Development.

Recent Regulatory Actions. In June 2018, the SESC issued a recommendation that the FSA impose a ¥218.4 million administrative monetary penalty against Mitsubishi UFJ Morgan Stanley Securities. The SESC is an external agency of the FSA established in 1992 and has the authority to, among other things, investigate market misconduct and recommend administrative actions to the FSA. The SESC found that certain orders to buy and sell 10-year Japanese government bond futures placed by an employee of Mitsubishi UFJ Morgan Stanley Securities in August 2017 amounted to market manipulation. Mitsubishi UFJ Morgan Stanley Securities cooperated with the SESC s investigation, and continues to work on enhancing its internal controls and compliance framework.

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United States

As a result of our operations in the United States, we are subject to extensive U.S. federal and state supervision and regulation.

Overall supervision and regulation. We are subject to supervision, regulation and examination with respect to our U.S. operations by the FRB pursuant to the U.S. Bank Holding Company Act of 1956, as amended, or the BHCA, and the International Banking Act of 1978, as amended, or the IBA, because we and MUFG Bank are bank holding companies and foreign banking organizations, as defined pursuant to those statutes. The FRB functions as our umbrella supervisor under amendments to the BHCA effected by the Gramm-Leach-Bliley Act of 1999, which among other things:

- prohibited further expansion of the types of activities in which bank holding companies, acting directly or through non-bank subsidiaries, may engage;
- authorized qualifying bank holding companies to opt to become financial holding companies, and thereby acquire the authority to engage in an expanded list of activities; and
- modified the role of the FRB by specifying new relationships between the FRB and the functional regulators of non-bank subsidiaries of both bank holding companies and financial holding companies.

The BHCA generally prohibits each of a bank holding company and a foreign banking organization that maintains branches or agencies in the United States from, directly or indirectly, acquiring more than 5% of the voting shares of any company engaged in non-banking activities in the United States unless the bank holding company or foreign banking organization has elected to become a financial holding company, as discussed above, or the FRB has determined, by order or regulation, that such activities are so closely related to banking as to be a proper incident thereto and has granted its approval to the bank holding company or foreign banking organization for such an acquisition. The BHCA also requires a bank holding company or foreign banking organization that maintains branches or agencies in the United States to obtain the prior approval of an appropriate federal banking authority before acquiring, directly or indirectly, the ownership of more than 5% of the voting shares or control of any U.S. bank or bank holding company. In addition, under the BHCA, a U.S. bank or a U.S. branch or agency of a foreign bank is prohibited from engaging in various tying arrangements involving it or its affiliates in connection with any extension of credit, sale or lease of any property or provision of any services.

In October 2008, we, MUFG Bank, Mitsubishi UFJ Trust and Banking and MUFG Americas Holdings initially attained financial holding company status. In August 2016, Mitsubishi UFJ Trust and Banking relinquished its financial holding company status. Financial holding company status is subject to periodic regulatory review. A financial holding company is authorized to engage in an expanded list of activities deemed to be financial in nature or incidental to such financial activity as well as certain specified non-banking activities deemed to be closely related to banking. In order to maintain the status as a financial holding company, a bank holding company must continue to meet certain standards established by the FRB. Those standards require that a financial holding company exceed the minimum standards applicable to bank holding companies that have not elected to become financial holding companies. These higher standards include meeting the well capitalized and well managed standards for financial holding companies as defined in the regulations of the FRB. Failure to meet these standards, due to inadequate capital management or shortcomings in operations, results in restrictions on the ability to engage in expanded activities as a financial holding company. In addition, a financial holding company must ensure that its U.S. banking subsidiaries meet certain minimum standards under the Community Reinvestment Act of 1977.

U.S. branches and agencies of subsidiary Japanese banks. Under the authority of the IBA, our banking subsidiaries, MUFG Bank and Mitsubishi UFJ Trust and Banking, operate five branches, two agencies and seven representative offices in the United States. MUFG Bank operates branches in Los Angeles, California; Chicago, Illinois; and two branches in New York, New York; agencies in Houston and Dallas, Texas; and representative

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offices in Washington, D.C; San Francisco, California; Seattle, Washington; Atlanta, Georgia; Minnetonka, Minnesota; Jersey City, New Jersey; and Florence, Kentucky. Mitsubishi UFJ Trust and Banking operates a branch in New York, New York.

The IBA provides, among other things, that the FRB may examine U.S. branches and agencies of foreign banks, and each branch and agency shall be subject to on-site examination by the appropriate federal or state bank supervisor as frequently as would a U.S. bank. The IBA also provides that if the FRB determines that a foreign bank is not subject to comprehensive supervision or regulation on a consolidated basis by the appropriate authorities in its home country, or if there is reasonable cause to believe that the foreign bank or its affiliate has committed a violation of law or engaged in an unsafe or unsound banking practice in the United States, the FRB may order the foreign bank to terminate activities conducted at a branch or agency in the United States.

U.S. branches and agencies of foreign banks must be licensed, and are also supervised and regulated, by a state or by the Office of the Comptroller of the Currency, or the OCC, the federal regulator of U.S. national banks. The OCC is an independent bureau of the U.S. Department of the Treasury. Effective November 7, 2017, all of the branches and agencies of MUFG Bank and Mitsubishi UFJ Trust and Banking in the United States converted from state-licensed branches and agencies to federally-licensed branches and agencies supervised and regulated by the OCC. MUFG Bank is currently in litigation with the New York State Department of Financial Services regarding the license conversion of the New York branches of MUFG Bank and Mitsubishi UFJ Trust and Banking. See Item 8.A. Financial Information Legal Proceedings.

When opening a federal branch or agency, a foreign bank must establish and maintain a deposit account with an FRB member bank of at least (1) the amount of capital that would be required of a national bank being organized at the same location or (2) five percent of the total liabilities of the federal branch or agency, including acceptances but excluding (i) accrued expenses and (ii) amounts due and other liabilities to offices, branches, and subsidiaries of the foreign bank, whichever is greater. Federally-licensed branches and agencies must also submit written reports concerning their assets and liabilities and other matters, to the extent required by the OCC or the FRB, and are examined at periodic intervals by the OCC and the FRB.

U.S. banking subsidiaries. We indirectly own and control one U.S. bank, MUFG Union Bank, N.A. (known prior to July 1, 2014 as Union Bank, N.A.), through MUFG Bank and its subsidiary, MUFG Americas Holdings, a registered bank holding company.

MUFG Union Bank is a national bank subject to the supervision, examination and regulatory authority of the OCC pursuant to the National Bank Act.

In regulating national banks such as MUFG Union Bank, the OCC has the power to examine those banks; approve or deny applications for new charters, branches, capital, or other changes in corporate or banking structure; take supervisory actions against national banks that do not comply with laws and regulations or that otherwise engage in unsound practices; remove officers and directors, negotiate agreements to change banking practices, and issue cease and desist orders as well as civil money penalties; and issue rules and regulations, legal interpretations, and corporate decisions governing investments, lending, and other practices. The OCC s staff of bank examiners conducts on-site reviews and provides sustained supervision of national banks. Examiners analyze loan and investment portfolios, funds management, capital, earnings, liquidity, and sensitivity to market risk for national banks. Examiners also review internal controls, internal and external audit, and compliance with law, and evaluate management s ability to identify and control risk.

In addition, the FDIC insures the deposits of MUFG Union Bank up to legally specified maximum amounts. In the event of a failure of an FDIC-insured bank, the FDIC is virtually certain to be appointed as receiver, and would resolve the failure under provisions of the Federal Deposit Insurance Act. In the liquidation or other resolution of a failed FDIC-insured depository institution, deposits in its U.S. offices and other claims for administrative expenses and employee compensation are afforded priority over other general unsecured claims,

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including deposits in offices outside the United States, non-deposit claims in all offices and claims of a parent company. Moreover, under longstanding FRB policy, a bank holding company is expected to act as a source of financial strength for its banking subsidiaries and to commit resources to support such banks.

Bank capital requirements and capital distributions. MUFG Union Bank is subject to applicable risk-based and leverage capital guidelines issued by U.S. regulators for banks and bank holding companies. In addition, MUFG Bank and Mitsubishi UFJ Trust and Banking, as foreign banking organizations that have U.S. branches and agencies and that are controlled by us, are subject to the FRB s requirements that they be well-capitalized based on Japan s risk based capital standards. MUFG Union Bank, MUFG Bank, Mitsubishi UFJ Trust and Banking, and MUFG Americas Holdings are all well capitalized as defined under, and otherwise comply with, all U.S. regulatory capital requirements applicable to them. The Federal Deposit Insurance Corporation Improvement Act of 1991, or FDICIA, provides, among other things, for expanded regulation of insured depository institutions, including banks, and their parent holding companies. As required by FDICIA, the federal banking agencies have established five capital tiers ranging from well capitalized to critically undercapitalized for insured depository institutions. As an institution s capital position deteriorates, the federal banking regulators may take progressively stronger actions, such as further restricting affiliate transactions, activities, asset growth or interest payments. In addition, FDICIA generally prohibits an insured depository institution from making capital distributions, including the payment of dividends, or the payment of any management fee to its holding company, if the insured depository institution would be undercapitalized after making such distribution or paying such dividend or fee.

The availability of dividends from insured depository institutions in the United States is limited by various other statutes and regulations. The National Bank Act and other federal laws prohibit the payment of dividends

by a national bank under various circumstances and limit the amount a national bank can pay without the prior approval of the OCC. In addition, state-chartered banking institutions are subject to dividend limitations imposed by applicable federal and state laws.

Other regulated U.S. subsidiaries. Our non-bank subsidiaries that engage in securities-related activities in the United States are regulated by appropriate functional regulators, such as the SEC, any self-regulatory organizations of which they are members, and the appropriate state regulatory agencies. These non-bank subsidiaries are required to meet separate minimum capital standards as imposed by those regulatory authorities.

Anti-Money Laundering Initiatives and the USA PATRIOT Act. A major focus of U.S. governmental policy relating to financial institutions in recent years has been aimed at preventing money laundering and terrorist financing. The USA PATRIOT Act of 2001 substantially broadened the scope of U.S. anti-money laundering laws and regulations by imposing significant new compliance and due diligence obligations, creating new crimes and penalties and expanding the extra-territorial jurisdiction of the United States. The U.S. Department of the Treasury has issued a number of regulations that impose obligations on financial institutions to maintain appropriate policies, procedures and controls to detect, prevent and report money laundering and terrorist financing, and to verify the identity of their customers. In addition, the bank regulatory agencies carefully scrutinize the adequacy of an institution s policies, procedures and controls. As a result, there have been an increased number of regulatory sanctions and law enforcement authorities have been taking a more active role in enforcing these laws. Failure of a financial institution to maintain and implement adequate policies, procedures and controls to prevent money laundering and terrorist financing could in some cases have serious legal and reputational consequences for the institution, including the incurrence of expenses to enhance the relevant programs, the imposition of limitations on the scope of their operations and the imposition of fines and other monetary penalties. See Item 3.D. Risk Factors We may become subject to regulatory actions or other legal proceedings relating to our transactions or other aspects of our operations, which could result in significant financial losses, restrictions on our operations and damage to our reputation.

Foreign Corrupt Practices Act. In recent years, U.S. regulatory and enforcement agencies including the SEC and the U.S. Department of Justice have significantly increased their enforcement efforts of the Foreign

Corrupt Practices Act, or the FCPA. The FCPA prohibits U.S. securities issuers, U.S. domestic entities, and parties doing substantial business within the United States (including their shareholders, directors, agents, officers, and employees) from making improper payments to non-U.S. government officials in order to obtain or retain business. The FCPA also requires U.S. securities issuers to keep their books and records in detail, accurately, and in such a way that they fairly reflect all transactions and dispositions of assets. Those enforcement efforts have targeted a wide range of U.S. and foreign-based entities and have been based on a broad variety of alleged fact patterns, and in a number of cases have resulted in the imposition of substantial criminal and civil penalties or in agreed payments in settlement of alleged violations. Failure of a financial institution doing business in the United States to maintain adequate policies, procedures, internal controls, and books and records on a global basis that address compliance with FCPA requirements could in some cases have serious legal and reputational consequences for the institution, including the incurrence of expenses to enhance the relevant programs and the imposition of fines and other monetary penalties.

Regulatory Reform Legislation. In response to the global financial crisis and the perception that lax supervision of the financial industry in the United States may have been a contributing cause, legislation designed to reform the system for supervision and regulation of financial firms doing business in the United States, the so-called Dodd-Frank Act, was signed into law on July 21, 2010. The Dodd-Frank Act is complex and extensive in its coverage and contains a wide range of provisions that affect financial institutions operating in the United States, including our U.S. operations. Included among these provisions are sweeping reforms designed to reduce systemic risk presented by very large financial firms, promote enhanced supervision, regulation, and prudential standards for financial firms, establish comprehensive supervision of financial markets, impose new limitations on permissible financial institution activities and investments, expand regulation of the derivatives markets, protect consumers and investors from financial abuse, and provide the government

with the tools needed to manage a financial crisis. Key provisions that impact our operations are summarized below. However certain regulatory rules under the Dodd-Frank Act are not yet finalized, require further interpretive guidance by the relevant supervisory agencies, or do not yet require us to fully implement compliance procedures. Accordingly, while the legislation has an impact on our operations, including the imposition of significant compliance costs, we are unable to assess with certainty the full degree of impact of the Dodd-Frank Act on our operations at this time.

Among the components of the Dodd-Frank Act that have impacted or may impact our operations are the provisions relating to enhanced prudential standards, including capital, liquidity and structural requirements, the Volcker Rule, derivatives regulation, credit reporting, resolution plans, incentive-based compensation, the establishment of the Consumer Financial Protection Bureau, and debit interchange fees. Although certain of the regulatory rules regarding the foregoing components are still pending, as noted above, based on information currently available to us, other than the Volcker Rule and derivatives regulations as discussed below, the impact of these components is expected to be mainly limited to our U.S. operations and not to be material to us on a consolidated basis. We intend to continue to monitor developments relating to the Dodd-Frank Act and the potential impact on our activities inside and outside of the United States.

With respect to the Dodd-Frank Act provisions related to enhanced prudential standards, in February 2014 the FRB issued final rules that established enhanced prudential standards for the U.S. operations of foreign banking organizations such as MUFG. These rules required us to organize by July 1, 2016 all of our U.S. bank and non-bank subsidiaries, with certain limited exceptions, under a U.S. IHC that is subject to U.S. capital requirements and enhanced prudential standards comparable to those applicable to top-tier U.S. bank holding companies of the same size. Under these rules, we were required to change the structure of our U.S. operations, including the manner in which we oversee and manage those operations, and may be required to inject additional capital into our U.S. operations. We have designated MUFG Americas Holdings as our IHC.

MUFG Americas Holdings is subject to various U.S. prudential requirements and has become subject to others with the designation of MUFG Americas Holdings as our IHC as of July 1, 2016. MUFG Americas Holdings was previously subject to risk-based and leverage capital requirements, liquidity requirements, and other enhanced prudential standards applicable to large U.S. bank holding companies. MUFG Americas Holdings was also subject to capital planning and stress testing requirements. MUFG Americas Holdings is now subject to the capital planning and stress testing requirements and certain enhanced prudential standards applicable to IHCs. On June 22, 2017, the FRB released the results of the 2017 Dodd-Frank Act stress tests. It found that, even in the severely adverse economic stress test scenario, MUFG Americas Holdings would maintain capital ratios well above the required minimum levels. On June 28, 2017, the FRB announced that it had no objections to the capital plan submitted by MUFG Americas Holdings as part of the 2017 Comprehensive Capital Analysis and Review, or CCAR. The FRB announced early in 2017 that MUFG Americas Holdings would not be subject to the qualitative portion of the CCAR.

The FRB has the authority to examine an IHC and any of its subsidiaries. U.S. leverage requirements applicable to the IHC took effect beginning in January 2018. MUFG Americas Holdings is subject to a requirement to maintain an LCR equal to at least 100% based on total projected net cash outflows over a 30-calendar day period, effectively using net cash outflow assumptions equal to 70% of the outflow assumptions prescribed for internationally active banking organizations. Our combined U.S. operations, including MUFG Bank s and Mitsubishi UFJ Trust and Banking s branches, are also subject to certain requirements related to liquidity and risk management.

The Volcker Rule was issued in final form by the Federal Reserve in December 2013. Under the Volcker Rule, we are required to cease conducting certain proprietary trading activities, which means trading in securities and financial instruments for our own account, subject to certain exceptions, including market-making, hedging, and underwriting activities if such activities are conducted within a rigorous compliance framework. We are also restricted from engaging in certain activities regarding hedge funds and private equity funds, or covered funds. While the Volcker Rule excludes restrictions on such activities conducted solely outside of the United States, the

regulatory definition of such exempted activities is narrow and complex and in some cases requires further clarification. Our proprietary trading and covered funds activities are generally executed outside of the United States, but certain activities within the United States could potentially have fallen within the scope of the Rule. We have undertaken steps that we believe are appropriate to bring our activities and investments into compliance with the Rule. Given the limited amount of restricted activities in which we previously engaged within the United States, we do not expect the implementation of the Volcker Rule to be material to our operations.

U.S. regulators continue to issue final regulations and regulatory determinations governing swaps and derivatives markets as contemplated by the Dodd-Frank Act. To date, MUFG Bank and Mitsubishi UFJ Securities International, plc, have registered as swap dealers with the U.S. Commodity Futures Trading Commission, or CFTC. Depending on the finalization of regulations and regulatory determinations governing swaps and derivatives markets under the Dodd-Frank Act, as well as the activities of our other subsidiaries located inside and outside of the United States, our other subsidiaries may have to register as swap dealers with, or be subject to the regulations of, the CFTC and/or SEC. Regulation of swap dealers by the CFTC and SEC imposes numerous corporate governance, business conduct, capital, margin, reporting, clearing, execution, and other regulatory requirements on our operations, which may adversely impact our derivatives businesses and make us less competitive than those competitors that are not subject to the same regulations. Although many regulations applicable to swap dealers are already in effect, it is difficult to assess the full impact of these requirements because some of the most important regulatory determinations have not yet been implemented or finalized. For example, U.S. regulators have adopted guidance and rules on the application of U.S. regulations to activities of registered swap dealers outside of the United States. The extraterritorial application of swap dealer regulatory requirements imposes significant operational and compliance burdens on our swaps activities outside of the United States.

On June 14, 2018, the FRB approved a final rule regarding single counterparty credit limits, or SCCL, for large banking organizations. The SCCL final rule is considered the last major piece of regulatory action needed to implement Section 165(e) of the Dodd-Frank Act. Section 165(e) was a response to the concern that failure or financial distress of one large, interconnected financial institution could cascade through the U.S. financial system and impair the financial condition of that firm s counterparties, including other large, interconnected firms. Section 165(e) generally, and the SCCL final rule specifically, seek to mitigate this risk by limiting the aggregate exposure among such financial institutions and their counterparties. The deadlines for compliance with the requirements of the final rule are in 2020. We are currently analyzing the requirements of the final rule and its impact on MUFG.

Foreign Account Tax Compliance Act. The Hiring Incentives to Restore Employment Act was enacted in March 2010 and contains provisions commonly referred to as the Foreign Account Tax Compliance Act, or FATCA. The U.S. Treasury, acting through the Internal Revenue Service, or the IRS, issued final FATCA regulations in January 2013.

The FATCA framework has been expanded with the introduction of Intergovernmental Agreements between the U.S. Treasury and foreign governments, which pursue a framework for intergovernmental cooperation to facilitate the implementation of FATCA. The United States and Japan have entered into an Intergovernmental Agreement.

We have developed internal procedures and processes that we believe address the regulatory requirements under FATCA. However, doing so has required us to develop extensive systems capabilities and internal processes to identify and report U.S. account holders who are subject to FATCA requirements, which has been a complex and costly process requiring significant internal resources. If our procedures and processes are determined not to be adequate to meet the requirements of FATCA, we could potentially be subject to serious

legal and reputational consequences, including the imposition of withholding taxes on certain amounts payable to us from U.S. sources, and could be required to expend additional resources to enhance our systems, procedures and processes and take other measures in response to such consequences.

Capital Adequacy. MUFG Americas Holdings and MUFG Union Bank are required to maintain minimum capital ratios in accordance with rules issued by the U.S. Federal banking agencies. In July 2013, the U.S. Federal banking agencies issued final rules to implement the Basel Committee on Banking Supervision s capital guidance for U.S. banking organizations, or U.S. Basel III. These rules establish more restrictive capital definitions, create additional categories and higher risk weightings for certain asset classes and off-balance sheet exposures, higher minimum capital and leverage ratios and capital conservation buffers that will be added to the minimum capital requirements. These rules supersede the U.S. federal banking agencies general risk-based capital rules generally referred to as Basel I, the advanced approaches rules generally referred to as Basel II, which are applicable to certain large banking organizations, and leverage rules, and are subject to certain transition provisions. MUFG Americas Holdings became subject to the U.S. Basel III capital rules in January 2015, with certain provisions subject to a phase-in period, while MUFG Union Bank continues to be subject to the U.S. Basel III capital rules which became effective for advanced approaches institutions on January 1, 2014. The U.S. Basel III capital rules are scheduled to be substantially phased in by January 1, 2019.

Both MUFG Americas Holdings and MUFG Union Bank are subject to the following regulatory minimum risk-based capital ratios: (1) 4.5% Common Equity Tier 1 capital ratio, (2) 6.0% Tier 1 capital ratio and (3) 8.0% total capital ratio. Failure to meet minimum capital requirements can result in certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a material effect on MUFG Americas Holdings consolidated financial statements.

In addition to these regulatory minimum ratio requirements, MUFG Americas Holdings and MUFG Union Bank will become subject to a fully phased-in capital conservation buffer requirement of 2.5%. The phase-in period for the capital conservation buffer commenced on January 1, 2016 at 0.625% with applicable rates increasing in each successive January until its full implementation on January 1, 2019. MUFG Americas Holdings and MUFG Union Bank are also subject to a Tier 1 leverage ratio regulatory minimum requirement of 4% and a well-capitalized prompt corrective action standard of 5%.

In October 2015, the FRB proposed long-term debt and TLAC requirements for U.S. globally systemically important bank holding companies and U.S. IHCs of non-U.S. globally systemically important banks, including MUFG Americas Holdings. In December 2016, the FRB finalized rules imposing such requirements. Under the final rules, a covered IHC such as MUFG Americas Holdings is required to maintain a minimum amount of eligible long-term debt issued to a non-U.S. parent entity that could be cancelled or converted to equity in order to absorb losses and recapitalize the IHC s operating subsidiaries at or near the point of resolution. A covered IHC is also required to maintain a minimum level of eligible TLAC issued to a non-U.S. parent entity consisting of regulatory capital and eligible long-term debt and maintain related buffers consisting of Common Equity Tier 1 capital. In addition, an IHC is restricted from issuing short-term debt and certain other types of liabilities that are structurally senior to eligible long-term debt. MUFG Americas Holdings will be required to comply with these rules by January 1, 2019. Pursuant to 12 CFR § 252.164(a), we have certified to the FRB that we plan to follow an SPE resolution strategy, and that MUFG Americas Holdings would therefore be considered a non-resolution covered IHC.

For more information, see Item 5.B. Operating and Financial Review and Prospects Liquidity and Capital Resources Capital Adequacy and Note 22 to our audited consolidated financial statements included elsewhere in this Annual Report.

Disclosure pursuant to Section 13(r) of the US Securities Exchange Act of 1934

Section 13(r) of the U.S. Securities Exchange Act of 1934 (Exchange Act) requires an issuer to disclose whether it or any of its affiliates knowingly engaged in certain activities, transactions or dealings relating to Iran or with natural persons or entities designated by the U.S. government under specified Executive Orders. The scope of activities that must be reported includes activities not prohibited by U.S. law and conducted outside the United States in compliance with applicable local law.

During the fiscal year ended March 31, 2018, one of our non-U.S. subsidiaries engaged in business activities with entities in, or affiliated with, Iran, including counterparties owned or controlled by the Iranian government. Specifically, our non-U.S. banking subsidiary, MUFG Bank, issued letters of credit and guarantees and provided remittance and other settlement services mainly in connection with customer transactions related to the purchase and exportation of Iranian crude oil to Japan, and in some cases, in connection with other petroleum-related transactions with Iran by its customers. These transactions did not involve U.S. dollars nor clearing services of U.S. banks for the settlement of payments. For the fiscal year ended March 31, 2018, the aggregate interest and fee income relating to these transactions was less than ¥130 million, representing less than 0.005 percent of our total interest and fee income. Some of these transactions were conducted through the use of non-U.S. dollar correspondent accounts and other similar settlement accounts maintained with MUFG Bank outside the United States by Iranian financial institutions and other entities in, or affiliated with, Iran. In addition to such accounts, MUFG Bank receives deposits in Japan from, and provides settlement services in Japan to, fewer than 10 Iranian government-related entities and fewer than 100 Iranian government-related individuals such as Iranian diplomats in Japan, and maintains settlement accounts outside the United States for certain other financial institutions specified in Executive Order 13382, which settlement accounts were frozen in accordance with applicable laws and regulations. For the fiscal year ended March 31, 2018, the average aggregate balance of deposits held in these accounts represented less than 0.1 percent of the average balance of our total deposits. The fee income from the transactions attributable to these account holders was less than ¥7 million, representing less than 0.001 percent of our total fee income. MUFG Bank also holds loans that were arranged prior to changes in applicable laws and regulations to borrowers in, or affiliated with, Iran, including entities owned by the Iranian government, the outstanding balance of which was less than ¥50 million, representing less than 0.0001 percent of our total loans, as of March 31, 2018. For the fiscal year ended March 31, 2018, the aggregate gross interest and fee income relating to these loan transactions was less than ¥20 million, representing less than 0.001 percent of our total interest and fee income.

MUFG Bank recognizes that following the withdrawal in May 2018 by the United States from the Joint Comprehensive Plan of Action, the United States is planning to re-impose secondary sanctions against non-U.S.

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persons who engage in or facilitate a broad range of transactions and activities involving Iran. Although MUFG Bank expects to continue to participate in certain types of transactions relating to Iran, MUFG Bank will take the recent sanctions related developments into account and monitor its transactions as part of its efforts to comply with applicable U.S. and Japanese regulations as well as U.S., Japanese and other international sanctions.

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C. Organizational Structure

The following chart presents our corporate structure summary as of March 31, 2018:

Note:

(1) MUFG Bank, Ltd. was renamed from The Bank of Tokyo-Mitsubishi UFJ, Ltd. on April 1, 2018. The chart above reflects the name change.

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Set forth below is a list of our principal consolidated subsidiaries as of March 31, 2018:

Name	Country of Incorporation	Proportion of Ownership Interest (%)	Proportion of Voting Interest (%)
MUFG Bank, Ltd. (1)	Japan	*100.00%*	*100.00%*
Mitsubishi UFJ Trust and Banking Corporation	Japan	*100.00%*	*100.00%*
Mitsubishi UFJ Real Estate Services Co., Ltd.	Japan	*100.00%*	*100.00%*
The Master Trust Bank of Japan, Ltd.	Japan	*46.50%*	*46.50%*
MU Investments Co., Ltd.	Japan	*100.00%*	*100.00%*
Mitsubishi UFJ Kokusai Asset Management Co., Ltd.	Japan	*100.00%*	*100.00%*
Mitsubishi UFJ Securities Holdings Co., Ltd.	Japan	*100.00%*	*100.00%*
Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.	Japan	*60.00%*	*60.00%*
Mitsubishi UFJ Morgan Stanley PB Securities Co., Ltd.	Japan	*100.00%*	*100.00%*
kabu.com Securities Co., Ltd.	Japan	*59.27%*	*59.28%*
Mitsubishi UFJ NICOS Co., Ltd.	Japan	*100.00%*	*100.00%*
Japan Digital Design, Inc	Japan	*100.00%*	*100.00%*
Mitsubishi UFJ Home Loan Credit Co., Ltd.	Japan	*99.88%*	*99.88%*
MUFG Americas Holdings Corporation	USA	*100.00%*	*100.00%*
Bank of Ayudhya Public Company Limited	Thailand	*76.88%*	*76.88%*
Mitsubishi UFJ Trust International Limited	UK	*100.00%*	*100.00%*
Mitsubishi UFJ Baillie Gifford Asset Management Limited	UK	*51.00%*	*51.00%*
Mitsubishi UFJ Investor Services & Banking (Luxembourg) S.A.	Luxembourg	*100.00%*	*100.00%*
MUFG Lux Management Company S.A.	Luxembourg	*100.00%*	*100.00%*
Mitsubishi UFJ Asset Management (UK) Ltd.	UK	*100.00%*	*100.00%*
MUFG Investor Services Holdings Limited	Bermuda	*100.00%*	*100.00%*
MUFG Securities EMEA plc	UK	*100.00%*	*100.00%*
MUFG Securities Asia Limited	China	*100.00%*	*100.00%*
MUFG Securities Asia (Singapore) Limited	Singapore	*100.00%*	*100.00%*
MUFG Securities (Canada), Ltd.	Canada	*100.00%*	*100.00%*

Note:

(1) MUFG Bank, Ltd. was renamed from The Bank of Tokyo-Mitsubishi UFJ, Ltd. on April 1, 2018. The chart above reflects the name change.

D. Property, Plant and Equipment

Premises and equipment as of March 31, 2017 and 2018 consisted of the following:

As of March 31,

	2017	2018
	(in millions)	
Land	¥ 385,961	¥ 370,669
Buildings	750,232	739,665
Equipment and furniture	650,120	659,699
Leasehold improvements	303,130	311,645
Construction in progress	46,375	119,195
Total	2,135,818	2,200,873
Less accumulated depreciation	1,141,547	1,187,285
Premises and equipment net	¥ 994,271	¥ 1,013,588

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Our registered address is 7-1, Marunouchi 2-chome, Chiyoda-ku, Tokyo 100-8330, Japan. As of March 31, 2018, we and our subsidiaries conducted our operations either in premises we owned or in properties we leased.

The following table presents the book values of our material offices and other properties as of March 31, 2018:

	Book Value (in millions)
Owned land	¥ 370,669
Owned buildings	177,681

The buildings and land we own are primarily used by us and our subsidiaries as offices and branches. Most of the buildings and land we own are free from material encumbrances.

During the fiscal year ended March 31, 2018, we invested approximately ¥159,003 million, primarily for office renovations and relocation.

Item 4A. Unresolved Staff Comments.

None.

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Item 5. Operating and Financial Review and Prospects.

The following discussion and analysis should be read in conjunction with Item 3.A. Key Information Selected Financial Data, Selected Statistical Data and our consolidated financial statements and related notes included elsewhere in this Annual Report.

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Introduction

We are the holding company for MUFG Bank, Ltd. (formerly, The Bank of Tokyo-Mitsubishi UFJ, Ltd.), or BK, Mitsubishi UFJ Trust and Banking Corporation, or TB, Mitsubishi UFJ Morgan Stanley Securities Co., Ltd., or MUMSS (through Mitsubishi UFJ Securities Holdings Co., Ltd., or SCHD, an intermediate holding company), Mitsubishi UFJ NICOS Co., Ltd. and other subsidiaries. Through our subsidiaries and affiliated companies, we engage in a broad range of financial businesses and services, including commercial banking, investment banking, trust assets and asset management services, securities businesses, and credit card businesses, and provide related services to individuals and corporate customers in Japan and abroad.

Financial Results for the Fiscal Year Ended March 31, 2018 Compared to the Fiscal Year Ended March 31, 2017

Net income attributable to Mitsubishi UFJ Financial Group increased ¥1,025.5 billion to ¥1,228.2 billion for the fiscal year ended March 31, 2018 from ¥202.7 billion for the previous fiscal year. This increase was primarily due to an increase in non-interest income reflecting smaller trading account losses compared to the previous fiscal year, as well as the reversal of credit losses recorded in the fiscal year ended March 31, 2018. Our business and results of operations, as well as our assets and liabilities, continued to be affected by fluctuations in interest rates. Long-term interest rates in the United States rose at a more moderate pace during the fiscal year ended March 31, 2018, compared to the previous fiscal year, resulting in smaller losses on the fair values of U.S. Treasury bonds and positively affecting our net profits on interest rate contracts. In the United States, the yields on 10-year U.S. Treasury bonds rose from around 1.85% to around 2.38% from mid-November 2016 to March 2017, and then rose to around 2.74% in March 2018. In addition, we recorded reversal of credit losses for the fiscal year ended March 31, 2018, compared to provision for credit losses for the previous fiscal year as the financial performance of various borrowers improved.

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

	Fiscal years ended March 31,		
	2016	2017	2018
	(in billions, except per share data)		
Net interest income	¥ 2,261.4	¥ 2,221.1	¥2,230.3
Provision for (reversal of) credit losses	231.9	253.7	(240.8)
Non-interest income	2,407.7	1,196.7	1,935.1
Non-interest expense	3,274.5	2,891.6	2,744.4
Income before income tax expense	1,162.7	272.5	1,661.8
Net income before attribution of noncontrolling interests	793.2	178.1	1,254.0
Net income attributable to Mitsubishi UFJ Financial Group	802.3	202.7	1,228.2
Diluted earnings per common share Earnings applicable to common shareholders of Mitsubishi UFJ Financial Group	57.51	14.68	92.10

Our net income attributable to Mitsubishi UFJ Financial Group for the fiscal year ended March 31, 2018 mainly reflected the following:

Net interest income. Net interest income increased ¥9.2 billion to ¥2,230.3 billion for the fiscal year ended March 31, 2018 from ¥2,221.1 billion for the previous fiscal year. The increase was mainly due to higher foreign interest income, reflecting higher average balance and interest rates on foreign loans and deposits in other banks, particularly in the United States. This increase was partially offset by an increase in interest expense, reflecting higher interest paid on deposits in the United States and higher U.S. dollar funding rates in Japan.

Provision for credit losses. For the fiscal year ended March 31, 2018, we recorded ¥240.8 billion of reversal of credit losses, compared to ¥253.7 billion of provision for credit losses for the previous fiscal year. This improvement mainly reflected the improvements in the financial performance of some large borrowers in the domestic electronics manufacturing industry, some foreign borrowers in the oil and gas sector, and a broader number of small and medium-sized borrowers in the domestic manufacturing industry.

Non-interest income. Total non-interest income increased ¥738.4 billion to ¥1,935.1 billion for the fiscal year ended March 31, 2018 from ¥1,196.7 billion for the previous fiscal year. This increase in non-interest income was mainly due to an improvement in net trading account losses resulting from the more moderate pace of increases interest rates in the United States. We also recorded lower net foreign exchange losses primarily due to the depreciation of the Japanese yen against the euro.

Non-interest expense. Total non-interest expense decreased ¥147.2 billion to ¥2,744.4 billion for the fiscal year ended March 31, 2018 from ¥2,891.6 billion for the previous fiscal year. This improvement was mainly due to ¥96.1 billion of reversal of off-balance sheet credit instruments in the fiscal year ended March 31, 2018, compared to ¥106.6 billion of provision for off-balance sheet credit instruments for the previous fiscal year. This improvement was partially offset by higher expenses for global financial regulatory compliance purposes and larger investment in digitalization.

Core Business Groups

The following table sets forth the relative contributions of our five core business groups and Other to our operating profit for the fiscal years ended March 31, 2017 and 2018 based on our business segment information.

During the fiscal year ended March 31, 2018, we made certain modifications to our business segments internal management accounting rules and practices, and, as a result, prior period segment information has been restated to enable comparison between relevant amounts for the fiscal years ended March 31, 2017, and 2018. For further information, see A. Operating Results Business Segment Analysis.

	Customer Business							
	Retail Banking Business Group	Corporate Banking Business Group[(1)]	Global Business Group[(1)]	Trust Assets Business Group	Total[(1)]	Global Markets Business Group	Other	Total
	(in billions)							
Fiscal year ended March 31, 2017:								
Net revenue	¥1,198.1	¥ 1,029.0	¥1,303.2	¥ 173.1	¥3,526.3	¥ 582.9	¥ 2.7	¥4,111.9
Operating expenses	972.4	576.5	821.0	112.2	2,335.9	213.2	167.0	2,716.1
Operating profit (loss)	¥ 225.7	¥ 452.5	¥ 482.2	¥ 60.9	¥1,190.4	¥ 369.7	¥(164.3)	¥1,395.8
Fiscal year ended March 31, 2018:								
Net revenue	¥1,226.9	¥ 1,003.2	¥1,279.6	¥ 186.7	¥3,514.8	¥ 477.2	¥ (24.8)	¥3,967.2
Operating expenses	960.8	580.7	857.3	116.9	2,363.8	222.7	156.6	2,743.1
Operating profit (loss)	¥ 266.1	¥ 422.5	¥ 422.3	¥ 69.8	¥1,151.0	¥ 254.5	¥(181.4)	¥1,224.1

Note:

(1) Each of the Corporate Banking Business Group and the Global Business Group includes ¥177.1 billion of net revenue, ¥146.2 billion of operating expenses and ¥30.9 billion of operating profit relating to the overseas Japanese corporate business for the fiscal year ended March 31, 2017, and ¥181.6 billion of net revenue, ¥151.9 billion of operating expenses and ¥29.7 billion of operating profit relating to the overseas Japanese corporate business for the fiscal year ended March 31, 2018. To eliminate the double-counting of these amounts, adjustments have been made to the Total of Customer Business.

Our business segment information is based on financial information prepared in accordance with Japanese GAAP, as adjusted in accordance with internal management accounting rules and practices and is not consistent with our consolidated financial statements included elsewhere in this Annual Report, which have been prepared in accordance with U.S. GAAP. For a reconciliation of operating profit under the internal management reporting system to income before income tax expense shown on the consolidated statements of income, see Note 30 to our consolidated financial statements included elsewhere in this Annual Report.

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Summary of Our Financial Condition as of March 31, 2018 Compared to March 31, 2017

The following table presents some key asset figures:

	As of March 31,	
	2017	2018
	(in billions)	
Total assets	¥ 297,185.0	¥ 300,570.3
Net loans	117,032.8	116,271.8
Loans, net of unearned income, unamortized premiums and deferred loan fees	118,215.0	117,035.9
Allowance for credit losses	(1,182.2)	(764.1)
Investment securities	43,233.6	43,654.2
Available-for-sale securities	39,090.1	39,504.7
Held-to-maturity securities	3,587.3	3,582.9
Other investment securities	556.2	566.6
Trading account assets	41,320.0	35,186.7
Trading securities	22,486.9	22,601.5
Trading derivative assets	18,833.1	12,585.2
Cash, due from banks and interest-earning deposits in other banks	64,009.7	75,858.1
Cash and due from banks	25,682.7	32,648.4
Interest-earning deposits in other banks	38,327.0	43,209.7

The increase in total assets of ¥3,385.3 billion is primarily due to higher volumes of cash, due from banks and interest-earning deposits in other banks, partially offset by a decrease in trading account assets.

Total loans outstanding as of March 31, 2018 decreased ¥1,179.1 billion to ¥117,035.9 billion from ¥118,215.0 billion as of March 31, 2017. The decrease was primarily due to repayments by some large domestic manufacturers and repayments of loans made to fund several large-scale corporate acquisition transactions.

Total investment securities increased ¥420.6 billion to ¥43,654.2 billion as of March 31, 2018 from ¥43,233.6 billion as of March 31, 2017, primarily due to an increase of ¥414.6 billion in available-for-sale securities. This increase in available-for-sale securities was mainly due to higher unrealized gains on marketable equity securities.

Trading account assets as of March 31, 2018 decreased ¥6,133.3 billion to ¥35,186.7 billion from ¥41,320.0 billion as of March 31, 2017. This decrease was mainly due to a decrease in trading derivative assets as a result of the application of new accounting rules for derivative transactions through central counterparty clearing houses.

Cash, due from banks and interest-earning deposits in other banks increased ¥11,848.4 billion to ¥75,858.1 billion as of March 31, 2018 from ¥64,009.7 billion as of March 31, 2017, mainly due to an increase in the volume of deposits with the Bank of Japan.

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The following table presents some key liability figures:

	As of March 31,	
	2017	2018
	(in billions)	
Total liabilities	¥ 282,420.3	¥284,924.5
Total deposits	190,401.6	195,674.6
Domestic	144,840.4	149,602.1
Overseas	45,561.2	46,072.5
Payables under repurchase agreements(1)	17,693.4	18,134.6
Payables under securities lending transactions	5,549.0	8,170.2
Other short-term borrowings	7,969.5	6,881.1
Trading account liabilities	18,790.1	12,222.3
Long-term debt(1)	26,131.5	27,069.6

Note:

(1) Reflects the changes in presentation adopted in the fiscal year ended March 31, 2018, where long-term payables under repurchase agreements are no longer included in long-term debt but are aggregated with short-term payables under repurchase agreements in payables under repurchase agreements, and applied to the fiscal years ended March 31, 2017. For further information, see Note 1 to our consolidated financial statements included elsewhere in this Annual Report.

Total liabilities increased ¥2,504.2 billion to ¥284,924.5 billion as of March 31, 2018 from ¥282,420.3 billion as of March 31, 2017. The increase was mainly due to increases in domestic deposits and payables under securities lending transactions. The increase in domestic deposits was mainly due to an increase in interest-bearing deposits from retail customers in Japan. Payables under securities lending transactions increased as investor preference in Japan shifted from deposits back to investments in the money market during the fiscal year ended March 31, 2018. These increases were partially offset by a decrease in trading account liabilities as a result of the application of new accounting rules for derivative transactions through central counterparty clearing houses.

The following table presents some key shareholders equity figures:

	As of March 31,	
	2017	2018
	(in billions)	
Total Mitsubishi UFJ Financial Group shareholders equity	¥ 13,985.5	¥14,970.2
Retained earnings	4,171.2	5,185.3
Accumulated other comprehensive income, net of taxes	2,281.4	2,477.3
Treasury stock, at cost	(514.0)	(522.9)

As of March 31, 2018, treasury stock was ¥522.9 billion compared to ¥514.0 billion as of March 31, 2017, as a result of the market repurchase of shares by the trustee of the trust for our performance-based stock compensation plan. For further information, see Item 5. Operating and Financial Review and Prospects Recent Developments.

Capital Ratios

MUFG s Common Equity Tier 1 capital ratio, Tier 1 capital ratio and Total capital ratio calculated in accordance with Basel III requirements as adopted by the FSA, were 12.58%, 14.32% and 16.56% as of March 31, 2018, respectively, compared to 11.76%, 13.36% and 15.85% as of March 31, 2017, respectively. MUFG was required to maintain minimum Common Equity Tier 1 capital, Tier 1 capital and Total capital ratios of 4.50%, 6.00% and 8.00%, respectively, plus a capital conservation buffer of 1.875%, a G-SIB surcharge of 1.125% and a countercyclical buffer of 0.01% as of March 31, 2018. The underlying figures for these ratios were calculated in accordance with Japanese banking regulations based on information derived from our consolidated financial statements prepared in accordance with Japanese GAAP.

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Leverage Ratios

MUFG s leverage ratio in accordance with Basel III as of March 31, 2018, was 5.01%, compared to 4.81% as of March 31, 2017. The minimum leverage ratio requirement endorsed by the Group of Central Bank Governors and Heads of Supervision is 3.0%. The underlying figures for the ratio were calculated in accordance with Japanese banking regulations based on information derived from our consolidated financial statements prepared in accordance with Japanese GAAP.

Liquidity Coverage Ratios

MUFG s Liquidity Coverage Ratio, or LCR, in accordance with Basel III as adopted by the FSA for the three months ended March 31, 2018 was 144.8%, compared to 137.9% for the three months ended March 31, 2017. MUFG was required to maintain a minimum LCR of 90% during the period from January 1 to December 31, 2018. The figures underlying the ratio were calculated in accordance with Japanese banking regulations.

Business Environment

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

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

General Economic Conditions

During the fiscal year ended March 31, 2018, the global economy stayed on a moderately improving trend. Uncertainties grew, however, concerning future global economic trends in light of recent changes in economic, monetary and trade policies and geopolitical developments in various jurisdictions, which have contributed to higher volatility in the financial market.

Japan s economic growth continued at a moderate pace but lacked momentum with the quarter-on-quarter real GDP growth rate being 0.5% for each of the quarters ended June 30, 2017 and September 30, 2017, and 0.3% for the quarter ended December 31, 2017, although the rate for the quarter ended March 31, 2018 was negative 0.2%. The year-over-year real GDP growth rate was 1.6% for the quarter ended June 30, 2017, 2.0% for the quarter ended September 30, 2017, 1.9% for the quarter ended December 31, 2017 and 1.1% for the quarter ended March 31, 2018. Japan s Consumer Price Index, or CPI, fluctuated between negative 0.4% and positive 0.5% on a month-on-month basis and between 0.2% and 1.5% on a year-over-year basis in the fiscal year ended March 31, 2018. During the same period, the unemployment rate in Japan remained low, declining to 2.5% for March 2018. According to Teikoku Databank, a Japanese research institution, the number of companies that filed for legal bankruptcy in Japan for the fiscal year ended March 31, 2018 was 8,285, a 2% increase from the previous fiscal year, remaining lower level than the fiscal year ended March 31, 2016. The total liabilities of companies that filed for legal bankruptcy in the 12 months ended March 31, 2018 were ¥1,693 billion, a 13.0% decrease from the previous fiscal year. The Japanese economy remains subject to the continuing deflationary pressure, increasing public debt, intensifying trade conflicts, and various other factors that could adversely affect its economic conditions.

The U.S. economy expanded with the quarter-on-quarter annualized real GDP growth rate being 3.1% for the quarter ended June 30, 2017, 3.2% for the quarter ended September 30, 2017, 2.9% for the quarter ended December 31, 2017 and 2.2% for the quarter ended March 31, 2018. The year-over-year real GDP growth rate was 2.2% for the quarter ended June 30, 2017, 2.3% for the quarter ended September 30, 2017, 2.6% for the quarter ended December 31, 2017 and 2.8% for the quarter ended March 31, 2018. The U.S. economic growth was supported by the improvement in the labor market, higher wages and increased corporate production activities. However, the long-term prospects of the

U.S. economy remain uncertain in light of the changes in the government s economic, monetary, trade and foreign relations policies under the Trump administration, and various other factors.

The Eurozone s economic growth continued at a slow rate with the quarter-on-quarter real GDP growth rate being 0.7% for each of the quarters ended June 30, 2017, September 30, 2017 and December 31, 2017, and 0.4% for the quarter ended March 31, 2018. The year-over-year real GDP growth rate was 2.5% for the quarter ended June 30, 2017, 2.8% for the quarter ended September 30, 2017, 2.8% for the quarter ended December 31, 2017 and 2.5% for the quarter ended March 31, 2018. During the same period, the unemployment rate in the Eurozone declined to 8.5% for March 2018. There are still uncertainties in the Eurozone economy, including the process and ramifications of the United Kingdom s withdrawal from the European Union and the large accumulation of non-performing loans in some European peripheral countries.

In Asia excluding Japan, economic conditions in ASEAN (Association of Southeast Asian Nations) and NIEs (Newly Industrialized Economies) generally improved but the economic growth remained relatively modest during the fiscal year ended March 31, 2018. In China, economic conditions continued to improve at a moderate pace during the fiscal year, with some downward pressure on economic growth resulting from structural adjustments still remaining. China s quarter-on-quarter real GDP growth rate was 1.8% for the quarter ended June 30, 2017, 1.8% for the quarter ended September 30, 2017, 1.6% for the quarter ended December 31, 2017 and 1.4% for the quarter ended March 31, 2018. China s year-over-year real GDP growth rate was 6.9% for the quarter ended June 30, 2017 and 6.8% for each of the quarters ended September 30, 2017, December 31, 2017 and March 31, 2018. The Thai economy was on a moderate recovering trend during the fiscal year ended March 31, 2018, with varying degrees of impact on the financial conditions of consumers and small and medium-sized enterprises. Thailand s quarter-on-quarter real GDP growth rate was 1.3% for the quarter ended June 30, 2017, 1.0% for the quarter ended September 30, 2017, 0.5% for the quarter ended December 31, 2017 and 2.0% for the quarter ended March 31, 2018. Thailand s year-over-year real GDP growth rate was 3.9% for the quarter ended June 30, 2017, 4.3% for the quarter ended September 30, 2017, 4.0% for the quarter ended December 31, 2017 and 4.8% for the quarter ended March 31, 2018. Although there were some signs of further economic growth in ASEAN and NIEs, such as growth in exports to developed countries and larger investments in infrastructure projects in the region, uncertainties still remain in light of, among other things, potential trade conflicts and geopolitical issues.

Interest Rates

The yield on 10-year Japanese government bonds fluctuated between negative 0.009% and positive 0.104% during the fiscal year ended March 31, 2018. However, interest rates remained at historically low levels in Japan. The Bank of Japan maintained a quantitative and qualitative monetary easing with negative interest rates policy until September 2016. Under this policy, the Bank of Japan increased its aggregate holding of Japanese government bonds by approximately ¥80 trillion each year and applied a negative interest rate of minus 0.1% to the Policy-Rate Balances, which are a part of current account amounts held by financial institutions at the Bank of Japan, aiming to achieve the price stability target of 2%. In September 2016, the Bank of Japan announced a new quantitative and qualitative monetary easing with yield curve control policy, adding to its monetary policy a Japanese government bond purchase program with an aim to keep the yield of 10-year Japanese government bonds around zero percent. The yield on 10-year Japanese government bonds was 0.07% on March 31, 2017 and 0.04% on March 30, 2018. The yield currently fluctuates around 0.04%.

In the United States, the FRB raised the target range for the federal funds rate to between1.0% and 1.25% in June 2017, to between 1.25% and 1.50% in December 2017, and then to between 1.50% and 1.75% in March 2018. The 10-year U.S. Treasury bond yield increased from 2.4% at the end of March 2017 to 2.74% at the end of March 2018, while fluctuating between 2.05% and 2.94% during the period. The yield currently fluctuates around 2.85%.

The yield on 10-year German Bunds increased from 0.328% at the end of March 2017 to 0.497% as of March 30, 2018, while fluctuating between 0.156% and 0.767% during the period. The yield currently fluctuates around 0.350%. The yield on 10-year French Obligations Assimilables du Trésor decreased from 0.970% at the end of March 2017 to 0.721% as of March 30, 2018, while fluctuating between 0.583% and 1.018% during the period. The yield currently fluctuates around 0.720%.

Foreign Currency Exchange Rates

The Japanese yen appreciated against the U.S. dollar from ¥111.39 to the U.S. dollar as of March 31, 2017 to ¥106.28 to the U.S. dollar as of March 30, 2018, while fluctuating between ¥104.74 to the U.S. dollar and

¥114.28 to the U.S. dollar during the period. The Japanese yen has since been fluctuating around ¥110.70 to the U.S. dollar.

The Japanese yen was on a generally depreciating trend against the euro for the fiscal year ended March 31, 2018, with the exchange rate increasing from ¥118.67 to the euro as of March 31, 2017 to ¥130.97 to the euro as of March 30, 2018. The Japanese yen has since been fluctuating around ¥128.90 to the euro.

Similarly, the Japanese yen was on a generally depreciating trend against the Thai baht for the fiscal year ended March 30, 2018, with the exchange rate increasing from ¥3.24 to the Thai baht as of March 31, 2017 to ¥3.41 to the Thai baht as of March 31, 2018. The Japanese yen has since been o fluctuating around ¥3.35 to the Thai baht.

Stock and Real Estate Prices

The closing price of the Nikkei Stock Average, which is the average of 225 blue chip stocks listed on the Tokyo Stock Exchange, increased from ¥18,909.26 on March 31, 2017 to ¥21,454.30 on March 30, 2018. On June 2, 2017, the closing price of the Nikkei Stock Average exceeded ¥20,000 for the first time since December 2015. The closing price of the Nikkei Stock Average reached ¥23,849.99, on January 9, 2018, the highest closing price since November 1991, and has since been fluctuating around ¥22,300. The Japanese stock market has been positively affected by the recent stock price momentum in the United States.

According to a land price survey conducted by the Japanese government, between January 1, 2017 and January 1, 2018, the average residential land price in Japan increased 0.3%, and the average commercial land price in Japan increased 1.9%. In the three major metropolitan areas of Tokyo, Osaka and Nagoya, between January 1, 2017 and January 1, 2018, the average residential land price increased 0.7% and the average commercial land price also increased 3.9%. In the local regions of Japan, which consist of regions other than the three major metropolitan areas, between January 1, 2017 and January 1, 2018, the average residential land price decreased 0.1% and the average commercial land price turned to positive 0.5%.

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Recent Developments

During the fiscal year ended March 31, 2018, we continued to pursue a strategy to improve our operational efficiency and financial performance and achieve sustainable growth. We sought to strengthen our management structure, while selectively reviewing and considering growth opportunities that would enhance our global competitiveness. We also continued to monitor regulatory developments and pursue prudent transactions that would create a strong capital structure to enable us to contribute to the real economy, both domestically and globally, as a provider of a stable source of funds and high quality financial services. In addition, in order to respond to the increasingly complex market and legal risks, we continued to endeavor to enhance our compliance and internal control frameworks. Starting in the current fiscal year ending March 31, 2019, we launched our new three-year medium-term business plan, under which we aim to integrate the expertise and capabilities of our subsidiaries to build a foundation for future growth.

Implementation of Share Repurchase Programs and Cancellation of Purchased Shares

During May 2018 and June 2018, we repurchased 72,420,700 shares of our common stock for ¥49,999,969,714 under a share repurchase program that was adopted in May 2018 and completed in June 2018. Under the program, we were authorized by the Board of Directors to repurchase up to the lesser of an aggregate of 100,000,000 shares of our common stock and an aggregate of ¥50.0 billion between May 16, 2018 and June 30, 2018 and to cancel the repurchased shares. We plan to cancel all of the repurchased shares on July 20, 2018. Based on the Japanese GAAP information used to calculate our capital ratios as of March 31, 2018, we estimate that the repurchased shares would result in a decline in each of our Common Equity Tier 1 capital ratio, our Tier 1 capital ratio and our total capital ratio by approximately 0.05 percentage point.

During November 2017 and December 2017, we repurchased 127,666,900 shares of our common stock for ¥99,999,957,675 under a share repurchase program that was adopted in November 2017 and completed in December 2017.

During May 2017 and June 2017, we repurchased 141,158,900 shares of our common stock for ¥99,999,941,022 under a share repurchase program that was adopted in May 2017 and completed in June 2017.

The purposes of the above three share repurchase programs were to enhance shareholder value, to improve our capital efficiency and to allow the implementation of flexible capital policies in response to changes in the business environment.

Issuances of Senior Debt Securities for TLAC Purposes

During and after the fiscal year ended March 31, 2018, we issued $7.7 billion, or ¥815.9 billion, 2.0 billion, or ¥255.3 billion, AU$0.2 billion, or ¥17.6 billion, and HK$0.3 billion, or ¥4.2 billion, aggregate principal amount of senior notes that were intended to qualify as Total Loss Absorbing Capacity, or TLAC, debt. Since our first issuance of senior notes intended to qualify as TLAC debt in March 2016, we have issued approximately ¥2,574.6 billion aggregate principal amount of such senior notes.

In March 2018, we repurchased through tender offers $850.0 million aggregate principal amount of our outstanding 2.95% senior notes due March 1, 2021 and $150.0 million aggregate principal amount of our outstanding floating rate senior notes due March 1, 2021 for a total repurchase price of ¥ 107.9 billion. All of the repurchased senior notes were cancelled.

Under the Financial Stability Board s TLAC standard, we are required to hold TLAC debt in an amount not less than 16% of our risk-weighted assets and 6% of the applicable Basel III leverage ratio denominator by January 1, 2019, and not less than 18% of its risk-weighted assets and 6.75% of the applicable Basel III leverage ratio denominator by January 1, 2022. We plan to issue additional senior debt securities intended to qualify as

TLAC debt to meet the requirements, although TLAC requirements for Japanese financial institutions, including us, have not yet been finalized. See Item 4.B. Information on the Company Business Overview Supervision and Regulation Japan Total loss-absorbing capacity in our annual report on Form 20-F for the fiscal year ended March 31, 2017.

Redemption of Preferred Securities Issued by Special Purpose Company

In January 2018, we redeemed in full ¥150.0 billion of Japanese yen-denominated non-cumulative preferred securities issued by an overseas special purpose company in the Cayman Islands called MUFG Capital Finance 6 Limited.

Issuances of Basel III-Compliant Domestic Subordinated Bonds

In October 2017, we issued, in a public offering in Japan, ¥320.0 billion aggregate principal amount of unsecured perpetual subordinated Additional Tier 1 notes. These notes are subject to our discretion to cease interest payments and a write-down of the principal upon the occurrence of certain events, including when our Common Equity Tier 1 capital ratio declines below 5.125%, when we are deemed to be at risk of becoming non-viable or when we become subject to bankruptcy proceedings, but, following any write-down, the principal may be reinstated to the extent permitted by the Japanese banking regulator. Since our first issuance of unsecured perpetual subordinated Additional Tier 1 notes with similar terms in March 2015, we have issued ¥1,270.0 billion aggregate principal amount of such notes, including the October 2017 issuance. See Item 4.B. Information on the Company Business Overview Supervision and Regulation Japan.

Strategic Investment in Bank Danamon in Indonesia

In December 2017, MUFG Bank entered into conditional share purchase agreements with Asia Financial (Indonesia) Pte. Ltd. and other affiliated entities to acquire their equity interests in PT Bank Danamon Indonesia, Tbk, or Danamon, subject to applicable regulatory approvals. This strategic acquisition of Danamon is being executed in three steps. In Step 1, MUFG Bank acquired an initial 19.9% equity interest in Danamon on December 29, 2017 for an aggregate purchase price of IDR 15.875 trillion, or ¥133.4 billion, based on a price of IDR 8,323, or ¥70, per share. In Step 2, MUFG Bank intends to acquire an additional 20.1% equity interest to increase its equity interest in Danamon to 40% with regulatory and other relevant approvals. This additional acquisition is expected to be completed by September 2018. Upon completion of Step 2, MUFG Bank intends to seek the necessary approvals to increase its equity interest in Danamon above 40% in a transaction that is designed to provide an opportunity for all of the other existing Danamon shareholders to either remain as shareholders or receive cash from MUFG Bank. Upon the closing of Step 3, MUFG Bank aims to increase its equity interest in Danamon to above 73.8%.

This investment is part of our strategic plan to expand our presence in Asia and Oceania and contribute to the economic growth in the region. The investment is expected to enable us to leverage our financial strength, relationships with Japan s leading companies, and global network as well as our product and sectorial expertise to further enhance our growth strategy. In our capacity as a long-term shareholder, we aim to build on Danamon s established and respected brand franchise to foster synergies and enhance Danamon s position as a leading and prominent Indonesian bank that remains committed to delivering high quality services to its customers.

Danamon, which was established in 1956, is the fifth most profitable Indonesian commercial bank in terms of net income. Danamon provides banking and financial products and services to consumer, micro-finance, small and medium enterprise, and corporate customers, with a network of approximately 1,800 offices in Indonesia. Asia Financial (Indonesia) Pte. is a wholly-owned subsidiary of Fullerton Financial Holdings Pte. Ltd. and makes strategic investments and maintains operations in the financial and related services sector of emerging markets. Fullerton

Financial Holdings Pte. is a wholly owned portfolio company of Temasek Holdings (Private) Limited, an investment company headquartered in Singapore.

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Functional Realignment of Subsidiaries

In April 2018, Mitsubishi UFJ Trust and Banking s corporate loan-related businesses were transferred to MUFG Bank.

Also in April 2018, Mitsubishi UFJ Trust and Banking acquired MUFG Bank s 15% equity interest and Mitsubishi UFJ Securities Holding s 34% equity interest in Mitsubishi UFJ Kokusai Asset Management Co., Ltd. to make the asset management company a wholly owned subsidiary of Mitsubishi UFJ Trust and Banking. The acquisition followed the transfer to Mitsubishi UFJ Trust and Banking of the shares of Mitsubishi UFJ Investor Services & Banking (Luxembourg) S.A. held by MUFG Bank in May 2017 to make the Luxembourg company a wholly owned subsidiary of Mitsubishi UFJ Trust and Banking. Through these transactions, the corporate loan related businesses within the Group were concentrated at MUFG Bank. Mitsubishi UFJ Trust and Banking currently operates as the Group s primary asset management and administration subsidiary, and seeks to further strengthen its real estate, pension and estate administration services. The realignment of these functions of our subsidiaries was executed as part of our strategy to increase effectiveness in accumulating and applying the expertise of our subsidiaries and to enhance efficiency in offering and providing a diverse array of sophisticated financial products and services to customers through collaboration among our subsidiaries. See Item 4.B Information on the Company Business Overview.

Sale of Shares in Banco Bradesco SA

In April 2018, MUFG Bank sold a portion of its equity interest in Banco Bradesco SA, a Brazil-based universal banking group in Latin America, for approximately 1,411million Brazilian Real, or approximately ¥45.3 billion. Although MUFG Bank s shareholding ratio decreased to 1.25% as a result of the transaction, Bradesco remains our important alliance partner in the Latin American region and continues to collaborate with MUFG Bank in a broad range of business areas.

Share Purchase to Make Mitsubishi UFJ NICOS a Wholly Owned Subsidiary

In October 2017, we acquired all of Norinchukin Bank s 15.02% equity interest in Mitsubishi UFJ NICOS for ¥50.0 billion in cash to make Mitsubishi UFJ NICOS a wholly owned subsidiary pursuant to our agreement with Norinchukin Bank in May 2017. We also agreed to strengthen our strategic retail business alliance with Norinchukin Bank in a wide range of areas, including settlement solutions and marketing. See Note 2 to our unaudited condensed consolidated financial statements included elsewhere in this Report.

Sale of Shares in CIMB Group Holdings Berhad

In September 2017, MUFG Bank sold its shares in CIMB Group Holdings Berhad, or CIMB, a Malaysia-based financial group, for approximately 2,557.0 million Malaysian Ringgit, or approximately ¥68.0 billion. The sale was part of our strategy to improve our capital management and profitability in light of the heightened regulatory standards and changes in the business environment for global financial institutions. CIMB remains one of our most important business alliance partners in the ASEAN region.

Implementation of Measures to Comply with U.S. Enhanced Prudential Standards

In July 2017, MUFG Bank and Mitsubishi UFJ Trust and Banking transferred their ownership interests in their U.S. subsidiaries, namely, BTMU Leasing & Finance, Inc., BTMU LF Capital LLC, MUFG Capital Analytics LLC, and MUFG Investor Services (US) LLC, to MUFG Americas Holdings, our U.S. intermediate holding company. As a result of the ownership transfer transactions, MUFG and MUFG Bank hold 4.89% and 95.11%, respectively, of the ownership interest in MUFG Americas Holdings. Prior to the transactions, MUFG and MUFG Bank held 3.8% and

96.2%, respectively, of the ownership interest in MUFG Americas Holdings.

Resources and management attention are being expended to implement an appropriate governance structure with an effective internal control system for our U.S. bank and non-bank subsidiaries and affiliates to comply with applicable regulatory requirements. See Item 4.B Information on the Company Business Overview Business Groups Global Commercial Banking Business Group.

Critical Accounting Estimates

Our consolidated financial statements included elsewhere in this Annual Report are prepared in accordance with U.S. GAAP. Certain accounting policies require management to make difficult, complex or subjective judgments regarding the valuation of assets and liabilities. The accounting policies are fundamental to understanding our operating and financial review and prospects. The notes to our consolidated financial statements included elsewhere in this Annual Report provide a summary of our significant accounting policies. The following is a summary of the critical accounting estimates:

Allowance for Credit Losses

The allowance for credit losses represents management s best estimate of probable losses in our loan portfolio. The evaluation process, including credit-ratings and self-assessments, involves a number of estimates and judgments. The allowance is based on two principles of accounting guidance: (1) the guidance on contingencies requires that losses be accrued when they are probable of occurring and can be estimated, and (2) the guidance on accounting by creditors for impairment of a loan requires that losses be accrued based on the difference between the loan balance, on the one hand, and the present value of expected future cash flows discounted at the loan s original effective interest rate, the fair value of collateral or the loan s observable market value, on the other hand.

We divide our loan portfolio into the following segments Commercial, Residential, Card, MUFG Americas Holdings and Krungsri based on the segments used to determine the allowance for credit losses. We further divide the Commercial segment into classes based on initial measurement attributes, risk characteristics, and our approach to monitoring and assessing credit risk. We determine the appropriate level of the allowance for credit losses for each of our loan portfolios by evaluating various factors and assumptions, such as the borrower s credit rating, collateral value and historical loss experience as well as existing economic conditions. We update these factors and assumptions on a regular basis and upon the occurrence of unexpected changes in the economic environment.

For all portfolio segments, key elements relating to the policies and discipline used in determining the allowance for credit losses are our credit classification and the related borrower categorization process. Each of these components is determined based on estimates subject to change when actual events occur. The categorization is based on conditions that may affect the ability of borrowers to service their debt, taking into consideration current financial information, historical payment experience, credit documentation, public information, analyses of relevant industry segments and current trends. In determining the appropriate level of allowance, we evaluate the probable loss by category of loan based on its type and characteristics.

In addition to the allowance for credit losses on our loan portfolio, we maintain an allowance for credit losses on off-balance sheet credit instruments, including commitments to extend credit, a variety of guarantees and standby letters of credit and other financial instruments. This allowance is included in other liabilities.

Determining the adequacy of the allowance for credit losses requires the exercise of considerable judgment and the use of estimates, such as those discussed above. Our actual losses could be more or less than the estimates. To the extent that actual losses differ from management s estimates, additional provisions for credit losses may be required that would adversely impact our operating results and financial condition in future periods. For further information regarding our methodologies used in establishing the allowance for credit losses by portfolio segments and allowance for credit losses policies, see Note 1 to our consolidated financial statements included elsewhere in this Annual Report and B. Liquidity and Capital Resources Financial Condition Loan Portfolio.

For more information on our credit and borrower ratings, see Item 11. Quantitative and Qualitative Disclosures about Credit, Market and Other Risk Credit Risk Management.

Impairment of Investment Securities

U.S. GAAP requires the recognition in earnings of an impairment loss on investment securities for a decline in fair value that is other than temporary. Determination of whether a decline is other than temporary often involves estimating the outcome of future events. Management judgment is required in determining whether factors exist that indicate that an impairment loss has been incurred at the balance sheet date. These judgments are based on subjective as well as objective factors. We conduct a review semi-annually to identify and evaluate investment securities that have indications of possible impairment. The assessment of other-than-temporary impairment requires judgment and therefore can have an impact on the results of operations. Impairment is evaluated considering various factors, and their significance varies from case to case.

Debt and marketable equity securities. In determining whether a decline in fair value below cost is other than temporary for a particular equity security, we generally consider factors such as the ability and positive intent to hold the investments for a period of time sufficient to allow for any anticipated recovery in fair value. In addition, an other-than-temporary impairment is recognized in earnings for marketable equity securities when one of the following criteria is met:

- the fair value of the investment is 20% or more below cost as of the end of the reporting period,

- due to the financial condition and near-term prospects of the issuer, the issuer is categorized as Likely to become Bankrupt, Virtually Bankrupt or Bankrupt or de facto Bankrupt status under the Japanese banking regulations,

- the fair value of the investment has been below cost for six months or longer, or

- the fair value of the security is below cost and a decision has been made to sell the securities.

For debt securities, an other-than-temporary impairment is recognized in earnings if we have an intent to sell a debt security or if it is more likely than not we will be required to sell the debt security before recovery of its amortized cost basis. When we do not intend to sell a debt security and if it is more likely than not that we will not be required to sell the debt security before recovery of its amortized cost basis, the credit component of an other-than-temporary impairment of the debt security is recognized in earnings, but the noncredit component is recognized in accumulated other comprehensive income.

Certain securities held by MUFG Bank, Mitsubishi UFJ Trust and Banking and certain other subsidiaries, which primarily consist of debt securities issued by the Japanese national government and generally considered to be of minimal credit risk, are determined not to be impaired as the respective subsidiaries do not have an intention to sell the securities, or it is more likely than not that those subsidiaries will not be required to sell before recovery of their amortized cost basis.

The determination of other-than-temporary impairment for certain debt securities held by MUFG Americas Holdings, which primarily consist of residential mortgage-backed securities and certain asset-backed securities, is made on the basis of a cash flow analysis and monitoring of the performance of such securities, as well as whether MUFG Americas Holdings intends to sell, or is more likely than not required to sell, the securities before recovery of their amortized cost basis.

For further information on the amount of the impairment losses and the aggregate amount of unrealized gross losses on investment securities, see Note 3 to our consolidated financial statements included elsewhere in this Annual Report.

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Equity method investees. We determine whether any loss on investments is other than temporary, through consideration of various factors, such as the length of time and the extent to which the fair value has been less than cost, the financial condition and near-term prospects of the investees, and our intent and ability to retain the investment in the investees for a period of time sufficient to allow for any anticipated recovery in the fair value. We also evaluate additional factors, such as the condition and trend of the economic cycle, and trends in the general market.

Our assessment of potential impairment involves risks and uncertainties depending on market conditions that are global or regional in nature and the condition of specific issuers or industries, as well as management s subjective assessment of the estimated future performance of investments. If we later conclude that a decline is other than temporary, the impairment loss may significantly affect our operating results and financial condition in future periods.

Allowance for Repayment of Excess Interest

We maintain an allowance for repayment of excess interest based on our estimate of the potential liability exposure. Our estimate of the potential liability exposure represents the estimated amount of claims for repayment of excess interest to be received in the future. We expect that any such claim will be made on the basis of a 2006 ruling of the Japanese Supreme Court, or the Ruling. Under the Ruling, lenders are generally required to reimburse borrowers for interest payments made in excess of the limits stipulated by the Interest Rate Restriction Act upon receiving claims for reimbursement, despite the then-effective provisions of the Law Concerning Lending Business that exempted a lender from this requirement if the lender provided required notices to the borrower and met other specified requirements, and the borrower voluntarily made the interest payment.

While we have not entered into any consumer loan agreement after April 2007 that imposes an interest rate exceeding the limits stipulated by the Interest Rate Restriction Act, we need to estimate the number of possible claims for reimbursement of excess interest payments. To determine the allowance for repayment of excess interest, we analyze the historical number of repayment claims we have received, the amount of such claims, borrowers profiles, the actual amount of reimbursements we have made, management s future forecasts, and other events that are expected to possibly affect the repayment claim trends in order to arrive at our best estimate of the potential liability. We believe that the provision for repayment of excess interest is adequate and the allowance is at the appropriate amount to absorb probable losses, so that the impact of future claims for reimbursement of excess interest will not have a material adverse effect on our financial position and results of operations. The allowance is recorded as a liability in Other liabilities.

For further information, see Note 27 to our consolidated financial statements included elsewhere in this Annual Report and Item 3.D. Key Information Risk Factors Risks Related to Our Business Because of our loans to consumers and our shareholdings in companies engaged in consumer lending, changes in the business or regulatory environment for consumer finance companies in Japan may further adversely affect our financial results.

Income Taxes

Valuation of deferred tax assets. A valuation allowance for deferred tax assets is recognized if, based on the weight of available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. All available evidence, both positive and negative, is considered to determine whether, based on the weight of that evidence, a valuation allowance is needed. Future realization of the tax benefit of existing deductible temporary differences or carryforwards ultimately depends on the existence of sufficient taxable income.

In determining a valuation allowance, we perform a review of future reversals of existing taxable temporary differences, and future taxable income exclusive of reversing temporary differences. Future taxable income is developed from forecasted operating results, based on recent historical trends and approved business plans, the eligible carryforward periods and other relevant factors. For certain subsidiaries where strong negative evidence exists, such as cumulative losses and the expiration of unused operating loss carryforwards in recent years, a valuation allowance is recognized against the deferred tax assets to the extent that it is more likely than not that they will not be realized.

Because the establishment of the valuation allowance is an inherently uncertain process involving estimates, if we are not able to realize all or part of our net deferred tax assets in the future, we will incur additional deferred tax expenses, which could materially affect our operating results and financial condition in future periods.

Accounting for Goodwill and Intangible Assets

Accounting for Goodwill. U.S. GAAP requires us to test goodwill for impairment at least annually, or more frequently if events or changes in circumstances indicate that goodwill may be impaired, using a two-step process that begins with an estimation of the fair value of a reporting unit of our business, which is to be compared with the carrying amount of the unit, to identify potential impairment of goodwill. A reporting unit is an operating segment or component of an operating segment that constitutes a business for which discrete financial information is available and is regularly reviewed by management. The fair value of a reporting unit is defined as the amount at which the unit as a whole could be bought or sold in a current transaction between willing parties. For a reporting unit for which an observable quoted price is not available, the fair value is determined using an income approach. In the income approach, the present value of expected future cash flows is calculated by taking the net present value based on each reporting unit s internal forecasts. A control premium factor is also considered in relation to market capitalization.

If the carrying amount of a reporting unit exceeds its estimated fair value, the second step of the goodwill impairment test is performed to measure the amount of impairment loss recorded in our consolidated statements of income. This test requires comparison of the implied fair value of the unit s goodwill with the carrying amount of that goodwill. The estimate of the implied fair value of the reporting unit s goodwill requires us to allocate the fair value of a reporting unit to all of the assets and liabilities of that reporting unit, including unrecognized intangible assets, if any, since the implied fair value is determined as the excess of the fair value of a reporting unit over the net amounts assigned to its assets and liabilities in the allocation. Accordingly, the second step of the impairment test also requires an estimate of the fair value of individual assets and liabilities, including any unrecognized intangible assets that belong to that unit. A change in the estimation could have an impact on impairment recognition since it is driven by hypothetical assumptions, such as customer behavior and interest rate forecasts. The estimation is based on information available to management at the time the estimation is made.

Accounting for Intangible Assets. Intangible assets having indefinite useful lives are subject to annual impairment tests. An impairment exists if the carrying value of an indefinite lived asset exceeds its fair value. For other intangible assets subject to amortization, an impairment is recognized if the carrying amount is not recoverable and the carrying amount exceeds the fair value of the intangible asset. Management judgment is required to evaluate whether indications of potential impairment have occurred, and to test intangible assets for impairment if required.

Accrued Severance Indemnities and Pension Liabilities

We have defined retirement benefit plans, including lump-sum severance indemnities and pension plans, which cover substantially all of our employees. Severance indemnities and pension costs are calculated based upon a number of actuarial assumptions, including discount rates and expected long-term rates of return on our plan assets. In accordance with U.S. GAAP, actual results that differ from the assumptions are accumulated and amortized over future periods, and affect our recognized net periodic pension costs and accrued severance

indemnities and pension obligations in future periods. Differences in actual experience or changes in assumptions may affect our financial condition and operating results in future periods.

The discount rates for the domestic plans are set to reflect the interest rates of high-quality fixed-rate instruments with maturities that correspond to the timing of future benefit payments.

In developing our assumptions for expected long-term rates of return, we refer to the historical average returns earned by the plan assets and the rates of return expected to be available for reinvestment of existing plan assets, which reflect recent changes in trends and economic conditions, including market prices.

Valuation of Financial Instruments

We measure certain financial assets and liabilities at fair value. The majority of such assets and liabilities are measured at fair value on a recurring basis, including trading securities, trading derivatives and investment securities. In addition, certain other assets and liabilities are measured at fair value on a non-recurring basis, including held for sale loans which are carried at the lower of cost or fair value, collateral dependent loans and nonmarketable equity securities subject to impairment.

We have elected the fair value option for certain foreign securities classified as available-for-sale securities, whose unrealized gains and losses are reported in income.

The guidance on the measurement of fair value defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. We have an established and documented process for determining fair value in accordance with the guidance. To determine fair value, we use quoted prices which include those provided from pricing vendors, where available. We generally obtain one price or quote per instrument and do not adjust it to determine fair value of the instrument. We perform internal price verification procedures to ensure that the prices and quotes provided from the independent pricing vendors are reasonable. Such verification procedures include comparison of pricing sources and analysis of variances among pricing sources. These verification procedures are periodically performed by independent risk management departments. For collateralized loan obligations, or CLOs, backed by general corporate loans, the fair value is determined by weighting the internal model valuation and the non-binding broker-dealer quotes. If quoted prices are not available to determine fair value of derivatives, the fair value is based upon valuation techniques that use, where possible, current market-based or independently sourced parameters, such as interest rates, yield curves, foreign exchange rates, volatilities and credit curves. The fair values of trading liabilities are determined by discounting future cash flows at a rate which incorporates our own creditworthiness. In addition, valuation adjustments may be made to ensure that the financial instruments are recorded at fair value. These adjustments include, but are not limited to, amounts that reflect counterparty credit quality, liquidity risk, and model risk. Our financial models are validated and periodically reviewed by risk management departments independent of divisions that created the models.

For a further discussion of the valuation techniques applied to the material assets or liabilities, see Note 32 to our consolidated financial statements included elsewhere in this Annual Report.

Accounting Changes and Recently Issued Accounting Pronouncements

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

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A. Operating Results

Results of Operations

The following table sets forth a summary of our results of operations for the fiscal years ended March 31, 2016, 2017 and 2018:

	Fiscal years ended March 31, 2016	2017	2018
	(in billions)		
Interest income	¥ 3,005.7	¥ 2,990.7	¥ 3,259.0
Interest expense	744.3	769.6	1,028.7
Net interest income	2,261.4	2,221.1	2,230.3
Provision for (reversal of) credit losses	231.9	253.7	(240.8)
Non-interest income	2,407.7	1,196.7	1,935.1
Non-interest expense	3,274.5	2,891.6	2,744.4
Income before income tax expense	1,162.7	272.5	1,661.8
Income tax expense	369.5	94.4	407.8
Net income before attribution of noncontrolling interests	¥ 793.2	¥ 178.1	¥ 1,254.0
Net income (loss) attributable to noncontrolling interests	(9.1)	(24.6)	25.8
Net income attributable to Mitsubishi UFJ Financial Group	¥ 802.3	¥ 202.7	¥ 1,228.2

Major components of our net income attributable to Mitsubishi UFJ Financial Group for the fiscal years ended March 31, 2016, 2017 and 2018 are discussed in further detail below.

Net Interest Income

The following table is a summary of the interest rate spread for the fiscal years ended March 31, 2016, 2017 and 2018:

	Fiscal years ended March 31, 2016 Average balance	2016 Interest income (expense)	2016 Average rate	2017 Average balance	2017 Interest income (expense)	2017 Average rate	2018 Average balance	2018 Interest income (expense)	2018 Average rate
	(in billions, except percentages)								
Interest-earning assets:									
Domestic	¥ 153,612.6	¥ 1,097.5	0.71%	¥ 145,179.3	¥ 1,018.5	0.70%	¥ 144,602.0	¥ 1,002.0	0.69%
Foreign	99,103.1	1,908.2	1.93	94,013.1	1,972.2	2.10	94,447.0	2,257.0	2.39

Total	¥252,715.7	¥3,005.7	1.19%	¥239,192.4	¥2,990.7	1.25%	¥239,049.0	¥ 3,259.0	1.36%
Financed by:									
Interest-bearing liabilities:									
Domestic	¥159,312.9	¥ (296.9)	0.19%	¥166,305.3	¥ (313.5)	0.19%	¥173,166.0	¥ (367.6)	0.21%
Foreign	61,822.3	(447.4)	0.72	57,217.0	(456.1)	0.80	60,691.1	(661.1)	1.09
Total	221,135.2	(744.3)	0.34	223,522.3	(769.6)	0.34	233,857.1	(1,028.7)	0.44
Non-interest-bearing liabilities	31,580.5			15,670.1			5,191.9		
Total	¥252,715.7		0.29%	¥239,192.4		0.32%	¥239,049.0		0.43%
Net interest income and interest rate spread		¥2,261.4	0.85%		¥2,221.1	0.91%		¥ 2,230.3	0.92%
Net interest income as a percentage of total interest-earning assets			0.89%			0.93%			0.93%

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The following table shows changes in our net interest income by changes in volume and by changes in rates for the fiscal year ended March 31, 2018 compared to the fiscal year ended March 31, 2017, and the fiscal year ended March 31, 2017 compared to the fiscal year ended March 31, 2016:

	Fiscal Year Ended March 31, 2016 versus Fiscal Year Ended March 31, 2017 Increase (decrease) due to changes in			Fiscal Year Ended March 31, 2017 versus Fiscal Year Ended March 31, 2018 Increase (decrease) due to changes in		
	Volume[1]	Rate[1]	Net change	Volume[1]	Rate[1]	Net change
	(in millions)					
Domestic	¥ (97,961)	¥ 2,419	¥ (95,542)	¥ (50,302)	¥ (20,346)	¥ (70,648)
Foreign	(2,318)	57,614	55,296	(9,764)	89,545	79,781
Total	¥ (100,279)	¥ 60,033	¥ (40,246)	¥ (60,066)	¥ 69,199	¥ 9,133

Note:
(1) Volume/rate variance is allocated based on the percentage relationship of changes in volume and changes in rate to the total net change.

Net interest income is a function of:

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

Our net interest income for each of the fiscal years ended March 31, 2016, 2017 and 2018 was not materially affected by gains or losses resulting from interest rate and other derivative contracts. We use such derivative instruments to manage the risks affecting the values of our financial assets and liabilities. Although these contracts are generally entered into for risk management purposes, a majority of them do not meet the specific conditions to qualify for hedge accounting under U.S. GAAP and thus are accounted for as trading assets or liabilities. Any gains or losses resulting from such derivative instruments are recorded as part of Trading account profits net. For a detailed discussion of our risk management activities, see A. Operating Results Results of Operations Non-Interest Income and Item 11. Quantitative and Qualitative Disclosures about Credit, Market and Other Risk.

Fiscal Year Ended March 31, 2018 Compared to Fiscal Year Ended March 31, 2017

Net interest income increased ¥9.2 billion to ¥2,230.3 billion for the fiscal year ended March 31, 2018 from ¥2,221.1 billion for the fiscal year ended March 31, 2017. This increase was mainly due to higher foreign interest income, reflecting the higher average balance of interest-earning assets as well as higher average interest rates, particularly in the United States. This increase was partially offset by an increase in interest expense, reflecting higher interest paid on deposits in the United States and higher U.S. dollar funding rates in Japan.

Interest income increased ¥268.3 billion to ¥3,259.0 billion for the fiscal year ended March 31, 2018 from ¥2,990.7 billion for the previous fiscal year. Domestic interest income decreased ¥16.5 billion mainly due to the lower average volume of our Japanese government bond portfolio. Foreign interest income increased ¥284.8 billion primarily due to higher volumes and interest rates on foreign loans and deposits in other banks, particularly in the United States.

Interest expense increased ¥259.1 billion to ¥1,028.7 billion for the fiscal year ended March 31, 2018 from ¥769.6 billion for the previous fiscal year. Domestic interest expense increased ¥54.1 billion, and foreign interest expense increased ¥205.0 billion. The higher domestic interest expense was primarily attributable to higher U.S. dollar funding rates in Japan and additional issuances of domestic bonds. The higher foreign interest expense was mainly due to higher interest rates on deposits and higher money market interest rates in the United States.

Our average interest rate spread (which is the average interest rate on interest-earning assets less the average interest rate on interest-bearing liabilities) increased one basis point to 0.92% for the fiscal year ended March 31, 2018 from 0.91% for the previous fiscal year. Between the same periods, the average interest rate spread on domestic activities decreased three basis points to 0.48% from 0.51%, while the average interest rate spread on foreign activities remained at 1.30%. The decrease in the average interest rate spread on domestic activities mainly reflected lower interest rates on our Japanese government bond portfolio and higher U.S. dollar funding rates in Japan. The average interest rate spread on foreign activities remained at the same level since the average interest rate on total interest-earning assets rose 29 basis points and the average interest rate on total interest-bearing liabilities also rose to a similar extent.

Since February 2016, the Bank of Japan has maintained a quantitative and qualitative monetary easing with negative interest rates policy, as updated in September 2016 with a quantitative and qualitative monetary easing with yield curve control policy, adding to its monetary policy a Japanese government bond purchase program with an aim to keep the yield of 10-year Japanese government bonds around zero percent. As a result, the yield on many financial instruments and other market interest rates in Japan have declined to near-zero levels, and the average interest rate on domestic assets continued to decline, while the average rate on domestic liabilities has remained at historically low levels. If the policy is maintained in Japan for an extended period, market interest rates may decline further, and our interest rate spread on domestic activities will likely continue to be under severe pressure. On the other hand, in the United States, the FRB raised the target range for the federal funds rate to between 1.00% to 1.25% in June 2017, to between 1.25% and 1.50% in December 2017, to between 1.50% and 1.75% in March 2018 and further to between 1.75% to 2.00% in June 2018. The FRB is expected to raise it further during this year, which may provide an opportunity to improve our interest rate spread but which may adversely impact the value of some of our interest-earning assets and the costs relating to some of our interest-bearing liabilities. For more information, see Business Environment.

The average balance of interest-earning assets decreased ¥143.4 billion to ¥239,049.0 billion for the fiscal year ended March 31, 2018 from ¥239,192.4 billion for the fiscal year ended March 31, 2017. The average balance of domestic interest-earning assets decreased ¥577.3 billion to ¥144,602.0 billion mainly due to a decrease in the balance of our available-for-sale Japanese government bond portfolio as we continued to reduce our holdings of such bonds to manage the risk of losses resulting from declines in the values of Japanese government bonds in a rising interest rate environment. The lower average balance of domestic interest-earning assets was also due to a decrease in the average balance of domestic loans, primarily reflecting repayments of loans by borrowers in the manufacturing industry. The average balance of foreign interest-earning assets increased ¥433.9 billion primarily due to increases in foreign currency-denominated loans and deposits in other banks, partially offset by a decrease in the balances of trading account assets, particularly U.S. Treasury bonds as interest rates rose in the United States.

The average balance of interest-bearing liabilities increased ¥10,334.8 billion to ¥233,857.1 billion for the fiscal year ended March 31, 2018 from ¥223,522.3 billion for the fiscal year ended March 31, 2017. The average balance of domestic interest-bearing liabilities increased ¥6,860.7 billion mainly due to additional issuances of bonds to fund our foreign activities and an increase in the balance of domestic deposits. The average balance of foreign interest-bearing liabilities increased ¥3,474.1 billion, primarily reflecting a larger balance of deposits.

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Fiscal Year Ended March 31, 2017 Compared to Fiscal Year Ended March 31, 2016

Net interest income decreased ¥40.3 billion to ¥2,221.1 billion for the fiscal year ended March 31, 2017 from ¥2,261.4 billion for the fiscal year ended March 31, 2016. This decrease was mainly due to lower domestic interest income, reflecting the lower average balance of interest-earning assets as well as lower average interest rates in Japan. This decrease was also attributable to an increase in interest expense, reflecting higher U.S. dollar funding rates in Japan and additional issuances of bonds. This decrease was partially mitigated by an increase in foreign interest income mainly due to higher average interest rates, reflecting generally rising trends in interest rates in the United States.

Interest income decreased ¥15.0 billion to ¥2,990.7 billion for the fiscal year ended March 31, 2017 from ¥3,005.7 billion for the previous fiscal year. Domestic interest income decreased ¥79.0 billion mainly due to lower volume and interest rates on domestic loans. Foreign interest income increased ¥64.0 billion primarily due to higher volumes and interest rates on foreign trading account assets and higher interest rates on foreign loans.

Interest expense increased ¥25.3 billion to ¥769.6 billion for the fiscal year ended March 31, 2017 from ¥744.3 billion for the previous fiscal year. Domestic interest expense increased ¥16.6 billion, and foreign interest expense increased ¥8.7 billion. The higher domestic interest expense was primarily attributable to higher U.S. dollar funding rates in Japan and additional issuances of domestic bonds. The higher foreign interest expense was mainly due to higher money market interest rates and higher interest rates on deposits in the United States.

The average interest rate spread increased six basis points to 0.91% for the fiscal year ended March 31, 2017 from 0.85% for the previous fiscal year. Between the same periods, the average interest rate spread on domestic activities decreased one basis point to 0.51% from 0.52%, while the average interest rate spread on foreign activities increased nine basis points to 1.30% from 1.21%. The decrease in the average interest rate spread on domestic activities reflected the continued near-zero interest rate environment in Japan. In such an environment, for the fiscal year ended March 31, 2017 compared to the previous fiscal year, the average interest rate on domestic loans decreased four basis points to 1.09% from 1.13%, while the average interest rate on domestic deposits decreased two basis points to 0.04% from 0.06%. The increase in the average interest rate spread on foreign activities mainly reflected higher interest rates across all the interest-earning asset categories, with the average interest rates on loans, trading account assets, short-term interest-earning assets and interest-earning deposits in other banks increasing 11, 11, 18 and 15 basis points, respectively, for the fiscal year ended March 31, 2017 compared to the previous fiscal year. Between the same periods, the average interest rates also increased across all the interest-bearing liability categories except long-term liabilities. The average interest rate on foreign deposits increased 11 basis points, while the average interest rate on call money, funds purchased, and payable under repurchase agreements and securities lending transactions increased five basis points, and the average interest rate on other short-term borrowings and trading account liabilities increased 42 basis points. In contrast, the average interest rate on long-term debt decreased 43 basis points.

The Bank of Japan maintained a quantitative and qualitative monetary easing with negative interest rates policy throughout the reporting period. As a result, the yield on many financial instruments and other market interest rates in Japan have declined to negative levels, and the average interest rate on domestic assets continued to decline while the average rate on domestic liabilities reached historically low levels. In September 2016, the Bank of Japan announced a new quantitative and qualitative monetary easing with yield curve control policy, adding to its monetary policy a Japanese government bond purchase program with an aim to keep the yield of 10-year Japanese government bonds around zero percent. If the policy is maintained in Japan for an extended period, market interest rates may decline further, and our interest rate spread on domestic activities will likely continue to be under severe pressure. On the other hand, in the United States, the FRB raised the target range for the federal funds rate to between 0.5% to 0.75% in December 2016, to between 0.75% to 1.00% in March 2017, and to between 1.00% to 1.25% in June 2017. The

FRB may decide to raise it further during this year, which may provide an opportunity to improve our interest rate spread but which may adversely impact the value of some of our interest-earning assets and the costs relating to some of our interest-bearing liabilities. For more information, see Business Environment.

The average balance of interest-earning assets decreased ¥13,523.3 billion to ¥239,192.4 billion for the fiscal year ended March 31, 2017 from ¥252,715.7 billion for the fiscal year ended March 31, 2016. The average balance of domestic interest-earning assets decreased ¥8,433.3 billion to ¥145,179.3 billion mainly due to a decrease in the balance of our available-for-sale Japanese government bond portfolio, reflecting a reduction in our holdings of Japanese government bonds to manage the risk of losses resulting from declines in the values of Japanese government bonds in a rising interest rate environment, as well as a decrease in loans, mainly reflecting repayments of loans by national governmental institutions. The average balance of foreign interest-earning assets decreased ¥5,090.0 billion primarily due to lower balances of interest-earning deposits in other banks, short-term lending in the money market and loans, partially offset by an increase of ¥965.0 billion in trading account assets, particularly U.S. Treasury bonds.

The average balance of interest-bearing liabilities increased ¥2,387.1 billion to ¥223,522.3 billion for the fiscal year ended March 31, 2017 from ¥221,135.2 billion for the fiscal year ended March 31, 2016. While the average balance of domestic interest-bearing liabilities increased ¥6,992.4 billion mainly due to a larger balance of deposits and additional issuances of bonds, the average balance of foreign interest-bearing liabilities decreased ¥4,605.3 billion, reflecting lower balances across all the interest-bearing liability categories.

Provision for (reversal of) credit losses

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

Fiscal Year Ended March 31, 2018 Compared to Fiscal Year Ended March 31, 2017

We recorded ¥240.8 billion of reversal of credit losses for the fiscal year ended March 31, 2018, compared to ¥253.7 billion of provision for credit losses for the previous fiscal year. By segment, for the fiscal year ended March 31, 2018, ¥297.4 billion, ¥22.3 billion and ¥9.3 billion, of reversal of credit losses were recorded in the Commercial, Residential and MUFG Americas Holdings segments respectively, while ¥23.4 billion and ¥64.8 billion of provision for credit losses were recorded in the Card and Krungsri segments respectively. For the previous fiscal year, ¥177.3 billion, ¥12.2 billion, ¥13.3 billion and ¥51.0 billion of provision for credit losses were recorded in the Commercial, Residential, Card and Krungsri segments, respectively, while ¥0.1 billion of reversal of credit losses was recorded in the MUFG Americas Holdings segment.

The reversal of credit losses recorded in the Commercial segment for the fiscal year ended March 31, 2018 mainly reflected the improvements in the financial performance of some large borrowers in the domestic electronics manufacturing industry, some foreign borrowers in the oil and gas sector, and a broader number of small and medium-sized borrowers in the domestic manufacturing industry. The reversal of credit losses in the Residential segment for the fiscal year ended March 31, 2018 primarily reflected the improved credit quality of borrowers who were positively affected by the stable domestic corporate environment in recent periods and repayments of impaired loans through debt workout programs. The reversal of credit losses in the MUFG Americas Holdings segment for the fiscal year ended March 31, 2018 was primarily due to the improvement in the credit quality of borrowers in the oil and gas sector, particularly those which are engaged in the petroleum exploration and production businesses.

The provision for credit losses in the Card segment for the fiscal year ended March 31, 2018 was primarily attributable to increases in borrowers filing for bankruptcy and borrowers becoming delinquent on their interest payments as the recent improvement in domestic corporate profits had and is expected to continue to have a disparate impact on consumer loan borrowers. The provision for credit losses in the Krungsri segment for the fiscal year ended March 31, 2018 reflected growth in the retail and consumer loan portfolio as well as the negative impact of stagnant economic conditions in Thailand on the repayment ability of corporate borrowers.

We recorded ¥266.1 billion of reversal of credit losses for our domestic loan portfolio for the fiscal year ended March 31, 2018, compared to provision for credit losses of ¥163.2 billion for the previous fiscal year. This reflected the improvement in the credit quality of borrowers in the domestic manufacturing industry in the Commercial segment and the credit quality of borrowers in the Residential segment, partially offset by the weaker credit quality among consumer loan borrowers. We recorded ¥25.3 billion of provision for credit losses for our foreign portfolio for the fiscal year ended March 31, 2018, compared to provision for credit losses of ¥90.5 billion for the previous fiscal year. The smaller provision was primarily attributable to the improvement in the credit quality of some borrowers in the oil and gas sector in the Commercial and MUFG Americas Holdings segments.

For more information, see B. Liquidity and Capital Resources Financial Condition Loan Portfolio.

Fiscal Year Ended March 31, 2017 Compared to Fiscal Year Ended March 31, 2016

We recorded ¥253.7 billion of provision for credit losses for the fiscal year ended March 31, 2017, compared to ¥231.9 billion for the previous fiscal year. By segment, for the fiscal year ended March 31, 2017, ¥177.3 billion, ¥12.2 billion, ¥13.3 billion and ¥51.0 billion of provision for credit losses were recorded in the Commercial, Residential, Card and Krungsri segments, respectively, while ¥0.1 billion of reversal of credit losses was recorded in the MUFG Americas Holdings segment. For the previous fiscal year, ¥117.1 billion, ¥0.9 billion, ¥47.4 billion and ¥76.0 billion of provision for credit losses were recorded in the Commercial, Card, MUFG Americas Holdings and Krungsri segments, respectively, while ¥9.5 billion of reversal of credit losses was recorded in the Residential segment.

The provision for credit losses recorded in the Commercial segment for the fiscal year ended March 31, 2017 mainly reflected the deterioration in the business and financial performance of a large borrower in the domestic electronics manufacturing industry and a large foreign borrower in the trading industry. The provision for credit losses in the Residential segment for the fiscal year ended March 31, 2017 primarily resulted from updates to our future forecast of credit losses with respect to certain individual borrowers reflecting information relating to more recent transactions with such borrowers. The provision for credit losses in the Krungsri segment for the fiscal year ended March 31, 2017 mainly reflected the negative impact of the stagnant economic conditions in Thailand on the credit quality of the small and medium-sized enterprise portfolio and the retail and consumer finance portfolio.

The reversal of credit losses in the MUFG Americas Holdings segment for the fiscal year ended March 31, 2017 compared to the provision for credit losses of the previous fiscal year was primarily due to the stabilization of the credit quality of borrowers in the oil and gas sector in MUFG Americas Holdings loan portfolio, particularly those that are engaged in the petroleum exploration and production businesses. Recovering oil and gas prices positively affected those businesses.

We recorded ¥163.2 billion of provision for credit losses for our domestic loan portfolio for the fiscal year ended March 31, 2017, compared to reversal of credit losses of ¥5.3 billion for the previous fiscal year. This reflected the deteriorated credit quality of the large domestic borrower in the Commercial segment and the provisions recorded for certain individual borrowers in the Residential segment. We recorded ¥90.5 billion of provision for credit losses for our foreign portfolio for the fiscal year ended March 31, 2017, compared to provision for credit losses of ¥237.2 billion for the previous fiscal year. This smaller provision was primarily attributable to improvements in the credit quality of foreign subsidiaries of a large Japanese electronics

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manufacturer in the Commercial segment and the stabilization of the credit quality of oil and gas borrowers in the MUFG Americas Holdings segment.

For more information, see B. Liquidity and Capital Resources Financial Condition Loan Portfolio.

Non-Interest Income

The following table is a summary of our non-interest income for the fiscal years ended March 31, 2016, 2017 and 2018:

	Fiscal years ended March 31,		
	2016	**2017**	**2018**
		(in billions)	
Fees and commissions income:			
Fees and commissions on deposits	¥ 58.9	¥ 53.9	¥ 53.5
Fees and commissions on remittances and transfers	169.1	168.6	169.3
Fees and commissions on foreign trading business	84.7	75.0	78.2
Fees and commissions on credit card business	193.6	198.1	212.5
Fees and commissions on security-related services	285.3	239.5	258.7
Fees and commissions on administration and management services for investment funds	149.9	155.7	159.5
Trust fees	110.1	103.1	112.4
Guarantee fees	44.7	41.8	44.2
Insurance commissions	69.5	59.9	49.2
Fees and commissions on real estate business	43.5	39.8	40.6
Other fees and commissions	266.6	279.5	284.7
Total	1,475.9	1,414.9	1,462.8
Foreign exchange gains (losses) net	192.1	(134.9)	(49.6)
Trading account profits (losses) net:			
Net profits (losses) on interest rate and other derivative contracts	434.4	(325.0)	(226.8)
Net profits (losses) on trading account securities, excluding derivatives	(157.7)	(314.2)	153.7
Total	276.7	(639.2)	(73.1)
Investment securities gains net:			
Net gains on sales of available-for-sale securities:			
Debt securities	110.9	118.9	73.9
Marketable equity securities	153.7	185.7	207.3
Impairment losses on available-for-sale securities:			
Debt securities	(1.0)	(0.7)	(0.1)
Marketable equity securities	(21.9)	(32.0)	(6.7)
Other	(9.4)	9.3	12.5

Total	232.3	281.2	286.9
Equity in earnings of equity method investees net	176.9	197.8	228.0
Gains on sales of loans	12.2	13.3	16.1
Other non-interest income	41.6	63.6	64.0
Total non-interest income	¥ 2,407.7	¥ 1,196.7	¥ 1,935.1

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Non-interest income consists of the following:

Fees and commissions income

Fees and commissions income consist of the following:

Fees and commissions on deposits consist of fees and commissions charged for ATM transactions and other deposit and withdrawal services.

Fees and commissions on remittances and transfers consist of fees and commissions charged for settlement services such as domestic fund remittances, including those made through electronic banking.

Fees and commissions on foreign trading business consist of fees and commissions charged for fund collection and financing services related to foreign trading business activities.

Fees and commissions on credit card business consist of fees and commissions related to the credit card business such as interchange income, annual fees, royalty and other service charges from franchisees.

Fees and commissions on security-related services primarily consist of fees and commissions for sales and transfers of securities, including investment funds, underwriting, brokerage and advisory services, securitization arrangement services, and agency services for the calculation and payment of dividends.

Fees and commissions on administration and management services for investment funds primarily consist of fees and commissions earned on managing investment funds on behalf of clients.

Trust fees consist primarily of fees earned on fiduciary asset management and administration services for corporate pension plans and investment funds.

Guarantee fees consist of fees related to the guarantee business, including those charged for providing guarantees on residential mortgage loans and other loans.

Insurance commissions consist of commissions earned by acting as agent for insurance companies for the sale of insurance products.

Fees and commissions on real estate business primarily consist of fees from real estate agent services.

Other fees and commissions include various fees and commissions, such as arrangement fees and agent fees, other than the fees mentioned above.

Net foreign exchange gains (losses)

Net foreign exchange gains (losses) consist of the following:

Net foreign exchange gains (losses) on derivative contracts are net gains (losses) primarily on currency derivative instruments entered into for trading purposes. For more information on our derivative contracts, see Note 24 to our consolidated financial statements included elsewhere in this Annual Report.

Net foreign exchange gains (losses) on other than derivative contracts include foreign exchange trading gains (losses) as well as transaction gains (losses) on the translation into Japanese yen of monetary assets and liabilities denominated in foreign currencies. The transaction gains (losses) on the translation into Japanese yen fluctuate from period to period depending upon the spot rates at the end of each fiscal year. In principle, all transaction gains (losses) on translation of monetary assets and liabilities denominated in foreign currencies are included in current earnings.

Net foreign exchange gains (losses) related to the fair value option include transaction gains (losses) on the translation into Japanese yen of securities under the fair value option. For more information on the fair value option, see Note 32 to our consolidated financial statements included elsewhere in this Annual Report.

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Net trading account profits (losses)

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

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

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

Of the two categories, trading account assets relating to the application of certain accounting rules represent a larger portion of our trading account losses for the fiscal year ended March 31, 2018.

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

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

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

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

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

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

Credit derivatives: Credit derivatives are mainly utilized as a part of our credit portfolio risk management. Derivative instruments for trading purposes also include those used as hedges of net exposures rather than for specifically identified assets or liabilities, which do not meet the specific criteria for hedge accounting.

Net profits (losses) on trading account securities, excluding derivatives, consist of:

Net profits (losses) on trading account securities, which primarily consist of gains and losses on trading and valuation of trading securities which relate to trading purpose activities. Net profits (losses) on investment securities held by certain consolidated variable interest entities, or VIEs, are included in accordance with the applicable accounting rules.

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Net profits (losses) on trading account securities under the fair value option, which are classified into trading accounts profits (losses) in accordance with certain accounting rules. For more information on the fair value option, see Note 32 to our consolidated financial statements included elsewhere in this Annual Report.

Net investment securities gains (losses)

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

Net equity in earnings (losses) of equity method investees

Net equity in earnings (losses) of equity method investees includes our equity interest in the earnings of our equity method investees and impairment losses on our investments in equity method investees.

Fiscal Year Ended March 31, 2018 Compared to Fiscal Year Ended March 31, 2017

Non-interest income increased ¥738.4 billion to ¥1,935.1 billion for the fiscal year ended March 31, 2018 from ¥1,196.7 billion for the fiscal year ended March 31, 2017. This increase was mainly attributable to improvement of ¥566.1 billion in net trading account losses, primarily reflecting fluctuations in interest rates in the United States and equity prices in Japan.

Fees and commissions income

Fees and commissions income increased ¥47.9 billion to ¥1,462.8 billion for the fiscal year ended March 31, 2018 from ¥1,414.9 billion for the fiscal year ended March 31, 2017. This increase was primarily due to an increase in fees and commissions on securities-related services due to higher investment banking fees in United States. The increase in fees and commissions income was also attributable to an increase in fees and commissions on credit card business, reflecting an increase in payment processing fees and an increase in credit card issuance fees as credit card use grew in Japan. These increases were partially offset by a decrease in insurance commissions mainly due to weaker demand for insurance products.

Net foreign exchange gains (losses)

The following table sets forth the details of our foreign exchange gains and losses for the fiscal years ended March 31, 2017 and 2018:

	Fiscal years ended March 31, 2017	2018
	(in billions)	
Foreign exchange gains (losses) net:		
Net foreign exchange losses on derivative contracts	¥ (183.2)	¥ (160.0)
Net foreign exchange gains on other than derivative contracts	455.7	377.9
Net foreign exchange losses related to the fair value option	(407.4)	(267.5)
Total	¥ (134.9)	¥ (49.6)

Net foreign exchange losses for the fiscal year ended March 31, 2018 were ¥49.6 billion, compared to net losses of ¥134.9 billion for the fiscal year ended March 31, 2017. This improvement was mainly due to smaller net foreign exchange losses on foreign-denominated investment securities under the fair value option as the

Japanese yen depreciated against the euro from ¥119.79 to the euro as of March 31, 2017 to ¥130.52 to the euro as of March 31, 2018, while the Japanese yen appreciating against the euro during the previous fiscal year resulting in larger net foreign exchange losses on euro-denominated investment securities under the fair value option. Net foreign exchange losses on derivative contracts also improved primarily because the mark-to-market valuation on currency swaps entered into in connection with our U.S. dollar funding improved. These improvements were partially offset by a decrease in net foreign exchange gains on other than derivative contracts. This decrease was mainly attributable to the negative impact of fluctuations in the foreign currency exchange rates on the Japanese yen translated amounts of our monetary assets denominated in foreign currencies as the Japanese yen appreciated against other major currencies on a spot rate basis particularly during the first three quarters ended December 31, 2017.

Net trading account profits (losses)

The following table sets forth details of our trading account profits and losses for the fiscal years ended March 31, 2017 and 2018:

	Fiscal years ended March 31,	
	2017	**2018**
	(in billions)	
Trading account profits (losses) net:		
Net profits (losses) on interest rate and other derivative contracts		
Interest rate contracts	¥ (136.9)	¥ 51.0
Equity contracts	(153.1)	(260.4)
Commodity contracts	1.8	6.3
Credit derivatives	18.1	(1.8)
Other	(54.9)	(21.9)
Total	¥ (325.0)	¥ (226.8)
Net profits (losses) on trading account securities, excluding derivatives		
Trading account securities	¥ 150.7	¥ 301.9
Trading account securities under the fair value option	(464.9)	(148.2)
Total	¥ (314.2)	¥ 153.7
Total	¥ (639.2)	¥ (73.1)

Net trading account losses were ¥73.1 billion for the fiscal year ended March 31, 2018, compared to net trading account losses of ¥639.2 billion for the fiscal year ended March 31, 2017. This improvement was mainly due to ¥153.7 billion of net profits on trading account securities, excluding derivatives, for the fiscal year ended March 31, 2018, compared to ¥314.2 billion of net losses for the previous fiscal year. This resulted mainly from smaller losses on trading account securities under the fair value option, particularly U.S. Treasury bonds, as interest rates in the United States rose at a more moderate rate during the fiscal year ended March 31, 2018, compared to the previous fiscal year. The yield of 10-year U.S. Treasury bonds rose from around 2.4% as of March 31, 2017 to around 2.7% as of March 30, 2018, whereas the yields rose from around 1.8% as of March 31, 2016 to around 2.4% as of March 31, 2017. The larger net profits on trading account securities reflected the increasing trend in equity prices in Japan towards the end of the calendar year 2017.

Net trading account losses on interest rate and other derivative contracts improved ¥98.2 billion to ¥226.8 billion for the fiscal year ended March 31, 2018 from ¥325.0 billion for the fiscal year ended March 31, 2017. This improvement was mainly due to ¥51.0 billion of net profits on interest rate contracts for the fiscal year ended March 31, 2018, compared to ¥136.9 billion of net losses on such contracts for the fiscal year ended March 31, 2017, as interest rates in Japan and the United States rose at a more moderate pace during the fiscal year ended March 31, 2018, compared to the previous fiscal year. This improvement was partially offset by

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larger net losses on equity contracts due to a reduction in the market value of equity contracts designed to hedge against downside price fluctuations, reflecting the increasing trend in equity prices in Japan.

Net investment securities gains (losses)

Net investment securities gains increased ¥5.7 billion to ¥286.9 billion for the fiscal year ended March 31, 2018 from ¥281.2 billion for the fiscal year ended March 31, 2017. This increase was mainly due to a ¥25.3 billion reduction in impairment losses on available-for-sale equity securities, reflecting the higher values of equity securities held by our commercial banking subsidiaries as stock prices rose in Japan during the fiscal year ended March 31, 2018. In addition, net gains on sales of available-for-sale marketable equity securities increased ¥21.6 billion as we continued to sell down our equity holdings. These increases were partially offset by a ¥45.0 billion decrease in net gains on sales of available-for-sale debt securities, primarily reflecting a lower volume of sales of Japanese government bonds in our investment securities portfolio during the fiscal year ended March 31, 2018, compared to the previous fiscal year.

Net equity in earnings of equity method investees

Net equity in earnings of equity method investees for the fiscal year ended March 31, 2018 was ¥228.0 billion, compared to ¥197.8 billion for the previous fiscal year, reflecting higher earnings of our equity method investees, including Morgan Stanley.

Fiscal Year Ended March 31, 2017 Compared to Fiscal Year Ended March 31, 2016

Non-interest income decreased ¥1,211.0 billion to ¥1,196.7 billion for the fiscal year ended March 31, 2017 from ¥2,407.7 billion for the fiscal year ended March 31, 2016. This decrease was mainly attributable to a ¥915.9 billion decrease in net trading account profits, reflecting fluctuations in interest rates and equity prices in Japan and the United States, and a ¥327.0 billion decrease in net gains on foreign exchange.

Fees and commissions income

Fees and commissions income decreased ¥61.0 billion to ¥1,414.9 billion for the fiscal year ended March 31, 2017 from ¥1,475.9 billion for the fiscal year ended March 31, 2016. This decrease was primarily due to a decrease in fees and commissions on security-related services due to weaker customer demand in response to uncertain market conditions between April 2016 and mid-November 2016. The decrease in fees and commissions income was also attributable to lower insurance commissions since the sales of certain types of single premium insurance products were suspended in April 2016 after Japanese government bonds began trading on negative yields.

Net foreign exchange gains (losses)

The following table sets forth the details of our foreign exchange gains and losses for the fiscal years ended March 31, 2016 and 2017:

	Fiscal years ended March 31,	
	2016	**2017**
	(in billions)	
Foreign exchange gains (losses) net:		
Net foreign exchange gains (losses) on derivative contracts	¥ 374.3	¥ (183.2)

Net foreign exchange gains on other than derivative contracts	875.8	455.7
Net foreign exchange losses related to the fair value option	(1,058.0)	(407.4)
Total	¥ 192.1	¥ (134.9)

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Net foreign exchange losses for the fiscal year ended March 31, 2017 were ¥134.9 billion, compared to net gains of ¥192.1 billion for the fiscal year ended March 31, 2016. This was mainly due to larger transaction losses on foreign exchange derivative contracts. This was primarily due to lower mark to market valuation on currency swaps entered in connection with our U.S. dollar funding, reflecting the fluctuations in the exchange rate between the Japanese yen and the U.S. dollar and the wider gap in interest rates between Japan and the United States. In addition, our net foreign exchange gains on other than derivative contracts decreased primarily due to the negative impact of foreign currency exchange rates on the Japanese yen translated amounts of our monetary assets denominated in foreign currencies as the Japanese yen appreciated against other major currencies between December 30, 2015 and 2016 on a spot rate basis. These losses were partially offset by smaller net foreign exchange losses on foreign currency-denominated investment securities under the fair value option, particularly U.S. Treasury bonds.

Net trading account profits (losses)

The following table sets forth details of our trading account profits and losses for the fiscal years ended March 31, 2016 and 2017:

	Fiscal years ended March 31, 2016	2017
	(in billions)	
Trading account profits (losses) net:		
Net profits (losses) on interest rate and other derivative contracts		
Interest rate contracts	¥ 243.7	¥ (136.9)
Equity contracts	149.2	(153.1)
Commodity contracts	1.8	1.8
Credit derivatives	12.4	18.1
Other	27.3	(54.9)
Total	¥ 434.4	¥ (325.0)
Net losses on trading account securities, excluding derivatives		
Trading account securities	¥ 0.1	¥ 150.7
Trading account securities under the fair value option	(157.8)	(464.9)
Total	¥ (157.7)	¥ (314.2)
Total	¥ 276.7	¥ (639.2)

We recorded net trading account losses of ¥639.2 billion for the fiscal year ended March 31, 2017, compared to net trading account profits of ¥276.7 billion for the fiscal year ended March 31, 2016. This decrease was mainly due to ¥325.0 billion of net losses on interest rate and other derivative contracts for the fiscal year ended March 31, 2017, compared to ¥434.4 billion of net profits on such derivative contracts for the previous fiscal year. This resulted mainly from increases in long-term interest rates in Japan and the United States and increases in equity prices in Japan. The yields of 10-year Japanese government bonds rose from negative rates to around 0.05% between mid-November 2016 and March 2017. The yields of 10-year U.S. Treasury bonds also rose from around 1.7% between April 2016 and mid-November 2016 to around 2.4% between mid-November 2016 and March 2017. The Nikkei Stock Average rose from around ¥16,500 between April 2016 and mid-November 2016 to around ¥19,000 between mid-November 2016 and March 2017. We also recorded larger net losses on trading account securities, excluding derivatives, due to the lower values of trading account securities under the fair value option, particularly U.S. Treasury bonds, as interest rates rose in the United States. The losses were partially offset by larger net profits on trading account securities in the securities subsidiaries as equity prices increased in Japan towards the end of the calendar year 2016.

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Net investment securities gains (losses)

Net investment securities gains increased ¥48.9 billion to ¥281.2 billion for the fiscal year ended March 31, 2017 from ¥232.3 billion for the fiscal year ended March 31, 2016. This increase was mainly due to an increase of ¥32.0 billion in net gains on sales of available-for-sale marketable equity securities as we continued to sell down our equity holdings in an effort to reduce the risk of stock price fluctuations. In addition, net gains on sales of available-for-sale debt securities increased ¥8.0 billion, reflecting a higher volume of sales of Japanese government bonds to reduce our holdings of such bonds as part of our asset and liability management and interest rate risk management measures. These increases were partially offset by larger impairment losses on available-for-sale equity securities, mainly reflecting decreases in the prices of equity securities held by our commercial banking subsidiaries as the Nikkei Stock Average declined during the first half of the fiscal year ended March 31, 2017.

Net equity in earnings of equity method investees

Net equity in earnings of equity method investees for the fiscal year ended March 31, 2017 was ¥197.8 billion, compared to ¥176.9 billion for the previous fiscal year, reflecting higher earnings of our equity method investees, including Morgan Stanley.

Non-Interest Expense

The following table shows a summary of our non-interest expense for the fiscal years ended March 31, 2016, 2017 and 2018:

	Fiscal years ended March 31,		
	2016	**2017**	**2018**
		(in billions)	
Salaries and employee benefits	¥ 1,158.9	¥ 1,096.8	¥ 1,099.5
Occupancy expenses net	182.8	176.8	179.1
Fees and commissions expenses	285.4	273.7	297.8
Outsourcing expenses, including data processing	244.7	258.3	276.2
Depreciation of premises and equipment	99.7	99.8	96.2
Amortization of intangible assets	237.3	227.9	234.4
Impairment of intangible assets	117.7	5.8	21.9
Insurance premiums, including deposit insurance	91.9	91.9	91.8
Communications	58.3	55.3	58.1
Taxes and public charges	93.7	94.0	90.2
Impairment of goodwill	333.7	6.6	
Provision for (reversal of) off-balance sheet credit instruments	(0.2)	106.6	(96.1)
Other non-interest expenses	370.6	398.1	395.3
Total non-interest expense	¥ 3,274.5	¥ 2,891.6	¥ 2,744.4

Non-interest expense consists of:

salaries and employee benefits, which include the amount of money paid as salaries and bonuses as well as the cost of fringe-benefits,

occupancy expenses net, which include the amount of money paid as rents for offices and other facilities,

fees and commissions expenses, which include the amount of money paid as fees and commissions on services received,

outsourcing expenses, including data processing, which include the amount of money paid for the outsourcing services, including IT-related services,

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depreciation of premises and equipment, which includes the depreciation of the value of buildings, equipment and furniture through the passage of time,

amortization of intangible assets, which includes the amount of deductions of the cost of investments in software and other intangible assets over their estimated useful lives,

impairment of intangible assets, which includes the amount of reductions in the carrying amounts of intangible assets with indefinite useful lives in excess of their fair values,

insurance premiums, including deposits insurance, which include the amount of money paid as the insurance premiums including the deposit insurance premiums paid to the Deposit Insurance Corporation of Japan

communications, which include the amount of money paid for communications such as postal services and telecommunications,

taxes and public charges, which include the amount of tax payments and other public charges,

impairment of goodwill, which includes the amount of reductions in the carrying amount of goodwill recorded in connection with the acquisition of companies in excess of their fair values,

provision for (reversal of) off-balance sheet credit instruments, which includes the amount of money reserved for the estimated amount of losses on off-balance sheet credit instruments or reversal of any portion of such amount, and

other non-interest expenses.

Fiscal Year Ended March 31, 2018 Compared to Fiscal Year Ended March 31, 2017

Non-interest expense decreased ¥147.2 billion to ¥2,744.4 billion for the fiscal year ended March 31, 2018 from ¥2,891.6 billion for the previous fiscal year. Major factors affecting this improvement are discussed below.

Fees and commissions expenses

Fees and commissions expenses increased ¥24.1 billion to ¥297.8 billion. This increase was mainly attributable to larger expenses for global financial regulatory compliance purposes.

Outsourcing expenses, including data processing

Outsourcing expenses, including data processing, increased ¥17.9 billion to ¥276.2 billion. This was primarily attributable to larger investment in digitalization in our commercial banking subsidiaries.

Impairment of intangible assets

Impairment of intangible assets increased ¥16.1 billion to ¥21.9 billion. This was primarily attributable to ¥11.1 billion of impairment losses on the acquired customer base of Mitsubishi UFJ Trust and Banking s overseas subsidiary as we revised our future cash flow estimation relating to the subsidiary s customer relationships. For further discussion of impairment on intangible assets, see Note 6 to our audited consolidated financial statements included elsewhere in this Annual Report.

Provision for (reversal of) off-balance sheet credit instruments

We recorded ¥96.1 billion of reversal of off-balance sheet credit instruments for the fiscal year ended March 31, 2018, compared to ¥106.6 billion of provision for off-balance sheet credit instruments for the previous fiscal year. This was primarily as a result of an improvement in the credit quality of a large borrower in the domestic electronic manufacturing industry.

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Fiscal Year Ended March 31, 2017 Compared to Fiscal Year Ended March 31, 2016

Non-interest expense decreased ¥382.9 billion to ¥2,891.6 billion for the fiscal year ended March 31, 2017 from ¥3,274.5 billion for the previous fiscal year. Major factors affecting this decrease are discussed below.

Salaries and employee benefits

The decrease of ¥62.1 billion in salaries and employee benefits was mainly due to headcount reductions in our subsidiaries in the Americas.

Impairment of intangible assets

Impairment of intangible assets as of March 31, 2017 was ¥5.8 billion, compared to ¥117.7 billion as of March 31, 2016. This was primarily attributable to a smaller impairment of the core deposit intangible assets held by MUFG Bank.

Impairment of goodwill

Impairment of goodwill as of March 31, 2017 was ¥6.6 billion, compared to ¥333.7 billion as of March 31, 2016. This was primarily attributable to a smaller impairment of goodwill recognized relating to reporting units within the Global Business Group segment.

Provision for (reversal of) off-balance sheet credit instruments

We recorded ¥106.6 billion of provision for off-balance sheet credit instruments for the fiscal year ended March 31, 2017 primarily relating to commitments and guarantees extended to large borrowers in the domestic electronic manufacturing industry in financial difficulty.

Income Tax Expense

The following table shows a summary of our income tax expense for the fiscal years ended March 31, 2016, 2017 and 2018:

	Fiscal years ended March 31,		
	2016	**2017**	**2018**
	(in billions, except percentages)		
Income before income tax expense	¥ 1,162.7	¥ 272.5	¥ 1,661.8
Income tax expense	369.4	94.4	407.8
Effective income tax rate	31.8%	34.7%	24.5%
Combined normal effective statutory tax rate	33.9%	31.5%	30.6%

Reconciling items between the combined normal effective statutory tax rates and the effective income tax rates for the fiscal years ended March 31, 2016, 2017 and 2018 are summarized as follows:

	Fiscal years ended March 31,		
	2016	2017	2018
Combined normal effective statutory tax rate	33.9%	31.5%	30.6%
Increase (decrease) in taxes resulting from:			
Nondeductible expenses	0.3	2.0	0.2
Impairment of goodwill	9.7	0.8	
Foreign tax credit and payments	(1.9)	(9.6)	(1.7)
Lower tax rates applicable to income of subsidiaries	(0.2)	(0.2)	(0.4)
Change in valuation allowance	(4.0)	25.4	(3.0)
Nontaxable dividends received	(1.9)	(12.5)	(2.0)
Undistributed earnings of subsidiaries	0.7	3.5	0.7
Tax and interest expense for uncertainty in income taxes	0.0	(0.6)	0.0
Noncontrolling interest income (loss)	(0.1)	5.4	0.1
Enacted change in tax rates	(4.3)	(9.8)	(0.6)
Other net	(0.4)	(1.2)	0.6
Effective income tax rate	31.8%	34.7%	24.5%

Income taxes applicable to us in Japan are imposed by the national, prefectural and municipal governments, and the aggregate of these taxes resulted in a combined normal effective statutory tax rate of 33.9%, 31.5% and 30.6% for the fiscal years ended March 31, 2016, 2017 and 2018. Foreign subsidiaries are subject to income taxes of the jurisdictions in which they operate. These taxes are reflected in the effective income tax rate.

Fiscal Year Ended March 31, 2018

The effective income tax rate for the fiscal year ended March 31, 2018 was 24.5%, which was 6.1 percentage points lower than the combined normal effective statutory rate of 30.6%. This primarily reflected a reduction in valuation allowance to the extent that it was more likely than not that the deferred tax assets would be realized mainly because a subsidiary was added to our consolidated tax payment system during the fiscal year ended March 31, 2018 after it was fully consolidated into our financial statements. The projected taxable income of the subsidiary, for which we had valuation allowance recorded on its deferred tax assets, significantly increased due to the application of our consolidated tax payment system to the subsidiary. As a result, the realizability of the subsidiary s deferred tax assets became more likely than not, and the relevant valuation allowance was reduced to the extent of the improved realizability. The reduction in the relevant valuation allowance resulted in a decrease of ¥33.3 billion in income tax expense and a decrease of 2.0 percentage points in the effective income tax rate for the fiscal year ended March 31, 2018. Another factor contributing to the lower effective income tax rate was our receipt of nontaxable dividends, which resulted in a decrease of ¥32.6 billion in income tax expense and a decrease of 2.0 percentage points in the effective income tax rate for the fiscal year ended March 31, 2018. Under Japanese tax law, a certain percentage of dividends received is considered nontaxable and excluded from gross revenue in computing taxable income. This creates a permanent difference between our taxable income for Japanese tax purposes and our income before income tax expense reported under U.S. GAAP.

Fiscal Year Ended March 31, 2017

The effective income tax rate for the fiscal year ended March 31, 2017 was 34.7%, 3.2 percentage points higher than the combined normal effective statutory rate of 31.5%. This higher effective income tax rate primarily reflected an increase in the valuation allowance against deferred tax assets which accounted for 25.4% of the difference between the combined normal effective statutory tax rate and the effective income tax rate. The valuation allowance increased ¥60.2 billion to ¥268.5 billion at March 31, 2017 from ¥208.3 billion at March 31, 2016, as a result of an additional valuation allowance related to operating loss carryforwards by a consumer finance subsidiary that we no longer deemed more likely than not to be realized, considering various factors, including the existence of significant amounts of operating loss carryforwards and the operating results over the prior several years of the subsidiary as well as the outlook regarding the subsidiary s prospective operating performance.

This was partially offset by our receipt of nontaxable dividends, which resulted in a decrease of ¥34.2 billion, or 12.5%, in income tax expense for the fiscal year ended March 31, 2017. Another factor lowering the effective income tax rate was the revisions of domestic tax laws. In June 2016, the Tokyo Metropolitan Government Bureau of Taxation promulgated revisions to the local tax law. The revisions was expected to reduce the combined normal effective statutory tax rate from approximately 31.5% as of March 31, 2016 to approximately 30.6% starting in a corporation s fiscal year that begins on or after April 1, 2017. The revisions resulted in a release of net deferred tax liabilities, which had the effect of reducing our income tax expense for the fiscal year ended March 31, 2017 by ¥26.8 billion, or 9.8%.

Fiscal Year Ended March 31, 2016

The effective income tax rate for the fiscal year ended March 31, 2016 was 31.8%, 2.1 percentage points lower than the combined normal effective statutory rate of 33.9%. The lower effective income tax rate was attributable to the effect of changes in tax law, resulting in a 4.3 percentage point decrease in the effective income tax rate. Under the 2016 Tax Reform enacted by the Japanese Diet on March 29, 2016, the effective statutory rate of corporate income tax was expected to be reduced from approximately 33.9% to 31.5% starting in a corporation s fiscal year that begins on or after April 1, 2016. The tax reform legislation also included changes in the limitation on the use of net operating loss carryforwards from 65% to 60% of taxable income for the period between April 1, 2016 and March 31, 2017, and from 50% to 55% for the period between April 1, 2017 and March 31, 2018, respectively, and a one-year reduction in the carryforward period of certain net operating loss carryforwards from ten years to nine years for the period between April 1, 2017 and March 31, 2018. The changes in tax laws resulted in a decrease of ¥50,081 million in income tax expense for the fiscal year ended March 31, 2016.

This lower effective income tax rate also reflected a valuation allowance release of ¥65.7 billion, which reduced our valuation allowance to ¥208.3 billion as of March 31, 2016 and resulted in a 4.0 percentage point reduction in the effective income tax rate. Generally, we reduce our valuation allowance to the extent that it is more likely than not that the deferred tax assets would be realized. For the fiscal year ended March 31, 2016, we recorded the valuation allowance release primarily because the profitability of a subsidiary improved. Management considered various factors, including the subsidiary s improved operating performance and cumulative operating results over the prior several years as well as the outlook regarding the subsidiary s prospective operating performance, and determined that sufficient positive evidence existed as of March 31, 2016 to conclude that it was more likely than not that a portion of the subsidiary s operating loss carryforwards reflected in our deferred tax assets would be realizable. As a result, our valuation allowance was reduced to the extent of that portion as of March 31, 2016.

The foregoing factors were offset by a 9.7 percentage point increase as a result of our recording an impairment of goodwill under U.S. GAAP, decreasing our income from continuing operations before income tax expense to ¥1,162.7 billion for the fiscal year ended March 31, 2016. Under Japanese tax law, such impairment was not deductible in computing our taxable income.

Net income (loss) attributable to noncontrolling interests

Fiscal Year Ended March 31, 2018 Compared to Fiscal Year Ended March 31, 2017

We recorded net income attributable to noncontrolling interests of ¥25.8 billion for the fiscal year ended March 31, 2018, compared to net loss attributable to noncontrolling interests of ¥24.6 billion for the previous

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fiscal year. This improvement mainly reflected reductions in our interests in investment funds which reported losses during the previous fiscal year ended March 31, 2017.

Fiscal Year Ended March 31, 2017 Compared to Fiscal Year Ended March 31, 2016

We recorded net loss attributable to noncontrolling interests of ¥24.6 billion for the fiscal year ended March 31, 2017, compared to net loss attributable to noncontrolling interests of ¥9.1 billion for the previous fiscal year. The larger losses mainly reflected net losses of Mitsubishi UFJ NICOS.

Business Segment Analysis

We measure the performance of each of our business segments primarily in terms of operating profit. Operating profit and other segment information in this Annual Report are based on the financial information prepared in accordance with Japanese GAAP as adjusted in accordance with internal management accounting rules and practices. Accordingly, the format and information are not consistent with our consolidated financial statements prepared in accordance with U.S. GAAP. For example, operating profit does not reflect items such as a component of the provision for (reversal of) credit losses (primarily equivalent to the formula allowance under U.S. GAAP), foreign exchange gains (losses) and investment securities gains (losses). For a reconciliation of operating profit under the internal management reporting system to income before income tax expense shown on the consolidated statements of income, see Note 30 to our consolidated financial statements included elsewhere in this Annual Report. We do not use information on the segments total assets to allocate our resources and assess performance. Accordingly, business segment information on total assets is not presented.

For the fiscal year ended March 31, 2018, our internal management accounting rules and practices were based on a matrix framework management used to manage the operations of our group companies. The framework consisted of an integrated business group system and an operating entity system. The integrated business group system integrated the operations of our group companies into five business groups Retail Banking, Corporate Banking, Global, Trust Assets and Global Markets. Under the operating entity system, our group companies were grouped under the major operating subsidiaries as follows: MUFG Bank, Mitsubishi UFJ Trust and Banking, Mitsubishi UFJ Morgan Stanley Securities (through Mitsubishi UFJ Securities Holdings), Mitsubishi UFJ NICOS and other subsidiaries. Our reporting segments were based on the integrated business group system as it reflected management s view that the operating entities provided financial services and products under unified strategies for each of the integrated business groups as well as on an MUFG group-wide basis. Accordingly, our reporting segments consisted of the five core business groups described above, which served as the core sources of our revenue, as well as Other, which represented the operations that were not covered under the five core business groups and the elimination of duplicated amounts of net revenues among business segments as further described below.

The following is a brief explanation of our business segments for the fiscal year ended March 31, 2018:

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

Corporate Banking Business Group Covered all Japanese corporate businesses, including commercial banking, investment banking, trust banking and securities businesses, in and outside of Japan, mainly Japanese companies.

Through the integration of these business lines, diverse financial products and services were provided to our corporate clients. This business group had strategic domains, sales channels and methods to match the different growth stages and financial needs of our corporate clients.

Global Business Group Covered the businesses of MUFG Bank and Mitsubishi UFJ Securities Holdings outside Japan, including commercial banking, such as loans, deposits and cash management services, investment banking, retail banking, trust assets, and securities businesses (with the retail banking and trust assets businesses being conducted through MUFG Union Bank and Krungsri), through a global network of nearly 1,200 offices outside Japan to provide customers with financial products and services designed to meet their increasingly diverse and sophisticated financing needs.

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

Global Markets Business Group Covered asset and liability management and strategic investments of MUFG Bank and Mitsubishi UFJ Trust and Banking, and sales and trading of financial products of MUFG Bank, Mitsubishi UFJ Trust and Banking and Mitsubishi UFJ Securities Holdings.

Other Consisted mainly of the corporate centers of MUFG, MUFG Bank, Mitsubishi UFJ Trust and Banking and Mitsubishi UFJ Morgan Stanley Securities. The elimination of duplicated amounts of net revenues among business segments was also reflected in Other.

Effective April 1, 2017, we made modifications to refine the definition of the overseas Japanese corporate business. These modifications had the impact of increasing the operating profit of the Corporate Banking Business Group for the fiscal years ended March 31, 2016 and 2017 by ¥9.7 billion and ¥9.8 billion, respectively. Net revenues, operating expenses and operating profits (losses) relating to the overseas Japanese corporate business were recorded in both the Corporate Banking Business Group and the Global Business Group. The double-counting of these amounts was eliminated in aggregating the amounts of net revenues, operating expenses and operating profits (losses) of the Retail Banking Business Group, the Corporate Banking Business Group, the Global Business Group and the Trust Assets Business Group, which amounts are shown in the Total of Customer Business column in the tables below.

In addition, effective April 1, 2017, we made modifications to our internal management accounting rules and practices to clarify the responsibility for profits of each business segment. These modifications had the following impact:

- for the fiscal year ended March 31, 2016, increasing the operating profits of the Retail Banking Business Group and the Global Markets Business Group by ¥0.2 billion and ¥1.8 billion, respectively, and reducing the operating profits of the Corporate Banking Business Group and Other by ¥0.7 billion and ¥1.3 billion, respectively; and

- for the fiscal year ended March 31, 2017, increasing the operating profits of the Retail Banking Business Group and the Global Markets Business Group by ¥0.4 billion and ¥0.6 billion, respectively, and reducing the operating profits of the Corporate Banking Business Group, the Global Business Group and Other by ¥0.5 billion, ¥0.3 billion and ¥0.2 billion, respectively.

Prior period business segment information has been restated to enable comparison between the relevant amounts for the fiscal years ended March 31, 2016, 2017 and 2018.

For further information, see Note 30 to our consolidated financial statements included elsewhere in this Annual Report.

Starting this current fiscal year ending March 31, 2019, we reorganized our business segments in connection with the implementation of our new medium-term business plan. See Item 4.B. Information on the Company Business Overview.

The following tables set forth our business segment information for the fiscal years ended March 31, 2016, 2017 and 2018:

Fiscal year ended March 31, 2016	Customer Business: Retail Banking Business Group	Customer Business: Corporate Banking Business Group[1]	Customer Business: Global Business Group[1]	Customer Business: Trust Assets Business Group	Customer Business: Total[1]	Global Markets Business Group	Other	Total
				(in billions)				
Net revenue	¥ 1,258.7	¥ 1,078.2	¥ 1,272.8	¥ 172.2	¥ 3,603.8	¥ 637.9	¥ 4.5	¥ 4,246.2
BK and TB[2]:	534.9	872.3	446.9	74.3	1,825.5	453.9	116.6	2,396.0
Net interest income	355.7	341.9	207.9		859.9	195.5	271.1	1,326.5
Net fees	171.8	405.9	187.1	74.3	809.3	(23.9)	(91.7)	693.7
Other	7.4	124.5	51.9		156.3	282.3	(62.8)	375.8
Other than BK and TB	723.8	205.9	825.9	97.9	1,778.3	184.0	(112.1)	1,850.2
Operating expenses	971.9	582.9	814.8	102.0	2,329.2	208.6	157.4	2,695.2
Operating profit (loss)	¥ 286.8	¥ 495.3	¥ 458.0	¥ 70.2	¥ 1,274.6	¥ 429.3	¥ (152.9)	¥ 1,551.0

Notes:

(1) Each of the Corporate Banking Business Group and the Global Business Group includes ¥178.1 billion of net revenue, ¥142.4 billion of operating expenses and ¥35.7 billion of operating profit relating to the overseas Japanese corporate business for the fiscal year ended March 31, 2016. To eliminate the double-counting of these amounts, adjustments have been made to the Total of Customer Business. These amounts have been restated in accordance with the modifications resulting in the restatement of the prior period business segment information discussed above.

(2) BK and TB is a sum of MUFG Bank on a stand-alone basis and Mitsubishi UFJ Trust and Banking on a stand-alone basis.

Fiscal year ended March 31, 2017	Customer Business: Retail Banking Business Group	Customer Business: Corporate Banking Business Group[1]	Customer Business: Global Business Group[1]	Customer Business: Trust Assets Business Group	Customer Business: Total[1]	Global Markets Business Group	Other	Total
				(in billions)				
Net revenue	¥ 1,198.1	¥ 1,029.0	¥ 1,303.2	¥ 173.1	¥ 3,526.3	¥ 582.9	¥ 2.7	¥ 4,111.9
BK and TB[2]:	485.9	834.7	444.6	73.0	1,731.3	387.3	71.9	2,190.5
Net interest income	335.3	323.7	213.3		824.7	189.2	207.9	1,221.8
Net fees	144.4	420.0	185.1	73.0	793.1	(8.6)	(95.9)	688.6
Other	6.2	91.0	46.2		113.5	206.7	(40.1)	280.1
Other than BK and TB	712.2	194.3	858.6	100.1	1,795.0	195.6	(69.2)	1,921.4
Operating expenses	972.4	576.5	821.0	112.2	2,335.9	213.2	167.0	2,716.1

Operating profit (loss)	¥ 225.7	¥ 452.5	¥ 482.2	¥ 60.9	¥ 1,190.4	¥ 369.7	¥ (164.3)	¥ 1,395.8

Notes:

(1) Each of the Corporate Banking Business Group and the Global Business Group includes ¥177.1 billion of net revenue, ¥146.2 billion of operating expenses and ¥30.9 billion of operating profit relating to the overseas Japanese corporate business for the fiscal year ended March 31, 2017. To eliminate the double-counting of these amounts, adjustments have been made to the Total of Customer Business. These amounts have been restated in accordance with the modifications resulting in the restatement of the prior period business segment information discussed above.

(2) BK and TB is a sum of MUFG Bank on a stand-alone basis and Mitsubishi UFJ Trust and Banking on a stand-alone basis.

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Fiscal year ended March 31, 2018	Customer Business Retail Banking Business Group	Corporate Banking Business Group(1)	Global Business Group(1)	Trust Assets Business Group	Total(1)	Global Markets Business Group	Other	Total
	(in billions)							
Net revenue	¥1,226.9	¥1,003.2	¥1,279.6	¥186.7	¥3,514.8	¥477.2	¥ (24.8)	¥3,967.2
BK and TB(2):	468.1	809.8	409.0	84.3	1,662.5	280.2	87.2	2,029.9
Net interest income	331.6	313.6	198.5		789.5	92.6	237.6	1,119.7
Net fees	130.9	408.2	169.2	84.3	766.1	(12.9)	(86.0)	667.2
Other	5.6	88.0	41.3		106.9	200.5	(64.4)	243.0
Other than BK and TB	758.8	193.4	870.6	102.4	1,852.3	197.0	(112.0)	1,937.3
Operating expenses	960.8	580.7	857.3	116.9	2,363.8	222.7	156.6	2,743.1
Operating profit (loss)	¥ 266.1	¥ 422.5	¥ 422.3	¥ 69.8	¥1,151.0	¥254.5	¥(181.4)	¥1,224.1

Notes:

(1) Each of the Corporate Banking Business Group and the Global Business Group includes ¥181.6 billion of net revenue, ¥151.9 billion of operating expenses and ¥29.7 billion of operating profit relating to the overseas Japanese corporate business for the fiscal year ended March 31, 2018. To eliminate the double-counting of these amounts, adjustments have been made to the Total of Customer Business.

(2) BK and TB is a sum of MUFG Bank on a stand-alone basis and Mitsubishi UFJ Trust and Banking on a stand-alone basis.

Fiscal Year Ended March 31, 2018 Compared to Fiscal Year Ended March 31, 2017

Retail Banking Business Group

Net revenue of the Retail Banking Business Group increased ¥28.8 billion to ¥1,226.9 billion for the fiscal year ended March 31, 2018 from ¥1,198.1 billion for the fiscal year ended March 31, 2017. Net revenue of the Retail Banking Business Group mainly consists of domestic revenues from commercial banking operations, such as deposits and lending operations, and fees related to sales of investment products to retail customers, as well as fees received by subsidiaries within the Retail Banking Business Group. The increase in net revenue was mainly due to an increase in payment processing fees and an increase in fees from the consumer finance business, reflecting growth in the volume of cashless payments. The increase in net revenue was also attributable to an increase in fees and commissions on sales of securities primarily due to stronger customer demand in response to the rising trend in equity prices. These increases in net revenues were partially offset by the lower net revenue related to operations funded by deposits due to tighter interest rate spreads in the near-zero interest rate environment in Japan.

Operating expenses of the Retail Banking Business Group decreased ¥11.6 billion to ¥960.8 billion for the fiscal year ended March 31, 2018 from ¥972.4 billion for the fiscal year ended March 31, 2017, mainly resulting from our cost reduction measures.

As a result, operating profit of the Retail Banking Business Group increased ¥40.4 billion to ¥266.1 billion for the fiscal year ended March 31, 2018 from ¥225.7 billion for the fiscal year ended March 31, 2017.

Corporate Banking Business Group

Net revenue of the Corporate Banking Business Group decreased ¥25.8 billion to ¥1,003.2 billion for the fiscal year ended March 31, 2018 from ¥1,029.0 billion for the fiscal year ended March 31, 2017. Net revenue of the Corporate Banking Business Group mainly consists of domestic revenues from corporate lending and other commercial banking operations, investment banking and trust banking businesses in relation to corporate clients, as well as fees received by subsidiaries within the Corporate Banking Business Group. The lower net revenue mainly reflected decreases in net revenue related to operations funded by deposits and net revenue from loans to corporate clients due to tighter interest rate spreads in the near-zero interest rate environment in Japan . The lower net revenue was also attributable to a decrease in fee income from the sales of derivative instruments and

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lower net revenues from the M&A and underwriting businesses, mainly reflecting reduced corporate investment and financing activities due to uncertainties surrounding the financial market. The negative impact of these factors on the business group s net revenue was partially offset by the positive impact of increased volume of overseas Japanese corporate business.

Operating expenses of the Corporate Banking Business Group increased ¥4.2 billion to ¥580.7 billion for the fiscal year ended March 31, 2018 from ¥576.5 billion for the fiscal year ended March 31, 2017. This increase was primarily due to the increased volume of overseas Japanese corporate business and higher expenses for global financial regulatory compliance purposes.

As a result, operating profit of the Corporate Banking Business Group decreased ¥30.0 billion to ¥422.5 billion for the fiscal year ended March 31, 2018 from ¥452.5 billion for the fiscal year ended March 31, 2017.

Global Business Group

Net revenue of the Global Business Group decreased ¥23.6 billion to ¥1,279.6 billion for the fiscal year ended March 31, 2018 from ¥1,303.2 billion for the fiscal year ended March 31, 2017. Net revenue of the Global Business Group mainly consists of revenues from commercial banking businesses outside of Japan, including loans, deposits and cash management, investment banking, retail banking, trust assets and securities businesses. The lower net revenue was mainly due to a decrease in the volume of M&A finance business in the United States as well as the application of stricter business acceptance criteria as part of our effort to improve profitability. These decreases were partially offset by an increase in net revenue of Krungsri.

Operating expenses of the Global Business Group increased ¥36.3 billion to ¥857.3 billion for the fiscal year ended March 31, 2018 from ¥821.0 billion for the fiscal year ended March 31, 2017, reflecting higher expenses in Krungsri primarily due to increased business volume and higher expenses for global financial regulatory compliance purposes.

As a result, operating profit of the Global Business Group decreased ¥59.9 billion to ¥422.3 billion for the fiscal year ended March 31, 2018 from ¥482.2 billion for the fiscal year ended March 31, 2017.

Trust Assets Business Group

Net revenue of the Trust Assets Business Group increased ¥13.6 billion to ¥186.7 billion for the fiscal year ended March 31, 2018 from ¥173.1 billion for the fiscal year ended March 31, 2017. Net revenue of the Trust Assets Business Group mainly consists of fees from asset management and administration services for products such as pension trusts and investment trusts. Net revenue of the Trust Assets Business Group increased mainly due to an increase in income from the fund administration and custody services globally, reflecting the contributions of our recently acquired overseas subsidiaries.

Operating expenses of the Trust Assets Business Group increased ¥4.7 billion to ¥116.9 billion for the fiscal year ended March 31, 2018 from ¥112.2 billion for the fiscal year ended March 31, 2017. This was mainly due to the expansion of our fund administration and custody businesses globally through acquisitions.

As a result, operating profit of the Trust Assets Business Group increased ¥8.9 billion to ¥69.8 billion for the fiscal year ended March 31, 2018 from ¥60.9 billion for the fiscal year ended March 31, 2017.

Global Markets Business Group

Net revenue of the Global Markets Business Group decreased ¥105.7 billion to ¥477.2 billion for the fiscal year ended March 31, 2018 from ¥582.9 billion for the fiscal year ended March 31, 2017. This was mainly due to a decrease in net revenue from the asset liability management operations, primarily reflecting a decrease in realized gains on sales of foreign government bonds as well as a decrease in interest income due to the reduction of our foreign government bond portfolio and the flattening of the yield curve of U.S. Treasury bonds. The decrease in net revenue was also attributable to lower net revenue from the sales and trading business in Japan, reflecting the low volatility in interest rates.

Operating expenses of the Global Markets Business Group increased ¥9.5 billion to ¥222.7 billion for the fiscal year ended March 31, 2018 from ¥213.2 billion for the fiscal year ended March 31, 2017, reflecting higher expenses in our overseas securities subsidiaries primarily with larger volumes of sales and trading business as well as higher expenses for financial regulatory compliance purposes.

As a result, operating profit of the Global Markets Business Group decreased ¥115.2 billion to ¥254.5 billion for the fiscal year ended March 31, 2018 from ¥369.7 billion for the fiscal year ended March 31, 2017.

Fiscal Year Ended March 31, 2017 Compared to Fiscal Year Ended March 31, 2016

Retail Banking Business Group

Net revenue of the Retail Banking Business Group decreased ¥60.6 billion to ¥1,198.1 billion for the fiscal year ended March 31, 2017 from ¥1,258.7 billion for the fiscal year ended March 31, 2016. Net revenue of the Retail Banking Business Group mainly consists of domestic revenues from commercial banking operations, such as deposits and lending operations, and fees related to sales of investment products to retail customers, as well as fees received by subsidiaries within the Retail Banking Business Group. The decrease in net revenue was mainly attributable to a decrease in fees and commissions on sales of securities primarily due to weaker customer demand in response to uncertain market conditions as well as a decrease in insurance commissions since the sales of certain types of single premium insurance products were suspended in April 2016 after Japanese government bonds began trading on negative yields. The decrease in net revenue was also attributable to lower net revenue related to operations funded by deposits due to tighter interest rate spreads in the near-zero interest rate environment in Japan.

Operating expenses of the Retail Banking Business Group increased ¥0.5 billion to ¥972.4 billion for the fiscal year ended March 31, 2017 from ¥971.9 billion for the fiscal year ended March 31, 2016. This increase was mainly attributable to investments in a system integration project in our consumer finance subsidiary to establish an efficient and effective business platform for cashless payment and credit card services. The system integration project started in the fiscal year ended March 31, 2017 and is expected to be completed during the fiscal year ended March 31, 2022, for an estimated aggregate budget of ¥157.2 billion.

Operating profit of the Retail Banking Business Group decreased ¥61.1 billion to ¥225.7 billion for the fiscal year ended March 31, 2017 from ¥286.8 billion for the fiscal year ended March 31, 2016.

Corporate Banking Business Group

Net revenue of the Corporate Banking Business Group decreased ¥49.2 billion to ¥1,029.0 billion for the fiscal year ended March 31, 2017 from ¥1,078.2 billion for the fiscal year ended March 31, 2016. Net revenue of the Corporate Banking Business Group mainly consists of domestic revenues from corporate lending and other commercial banking operations, investment banking and trust banking businesses in relation to corporate clients, as well as fees received by subsidiaries within the Corporate Banking Business Group. The lower net revenue mainly reflected decreases in net revenue related to operations funded by deposits and net revenue from loans to corporate clients due to tighter interest rate spreads in the near-zero interest rate environment in Japan, as well as a decrease in fee income from the sales of derivative instruments. These decreases were offset in part by an increase in fees and commissions from hybrid financing transactions, including syndicated loans to large corporations and small and medium-sized enterprises.

Operating expenses of the Corporate Banking Business Group decreased ¥6.4 billion to ¥576.5 billion for the fiscal year ended March 31, 2017 from ¥582.9 billion for the fiscal year ended March 31, 2016.

Operating profit of the Corporate Banking Business Group decreased ¥42.8 billion to ¥452.5 billion for the fiscal year ended March 31, 2017 from ¥495.3 billion for the fiscal year ended March 31, 2016.

Global Business Group

Net revenue of the Global Business Group increased ¥30.4 billion to ¥1,303.2 billion for the fiscal year ended March 31, 2017 from ¥1,272.8 billion for the fiscal year ended March 31, 2016. Net revenue of the Global Business Group mainly consists of revenues from commercial banking businesses outside of Japan, including loans, deposits and cash management, investment banking, retail banking, trust assets and securities businesses. The higher net revenue was mainly due to the positive impact of improvements in the event-driven financing business in Asia and Oceania, EMEA and the Americas, as well as larger volumes of automobile purchase financing and consumer loans in Krungsri. The positive impact was partially offset by the appreciation of the Japanese yen against other major currencies. Net revenue was also adversely affected by tighter interest rate spreads in China, reflecting intensified competition among lending institutions, and lower volumes of U.S. dollar-denominated lending in China as the Renminbi depreciated against the U.S. dollar.

Operating expenses of the Global Business Group increased ¥6.2 billion to ¥821.0 billion for the fiscal year ended March 31, 2017 from ¥814.8 billion for the fiscal year ended March 31, 2016, reflecting an increase in expenses in Krungsri primarily due to the larger volumes of business and an increase in expenses for global financial regulatory compliance purposes. These increases were partially mitigated by our cost management measures, particularly in the Americas.

Operating profit of the Global Business Group increased ¥24.2 billion to ¥482.2 billion for the fiscal year ended March 31, 2017 from ¥458.0 billion for the fiscal year ended March 31, 2016.

Trust Assets Business Group

Net revenue of the Trust Assets Business Group increased ¥0.9 billion to ¥173.1 billion for the fiscal year ended March 31, 2017 from ¥172.2 billion for the fiscal year ended March 31, 2016. Net revenue of the Trust Assets Business Group mainly consists of fees from asset management and administration services for products such as pension trusts and investment trusts. Net revenue of the Trust Assets Business Group increased mainly due to an increase in income from the fund administration and custody services globally, which was largely offset by a decrease in net revenue attributable to the lower market values of pension funds and investment products, reflecting weaker equity prices in Japan between April 2016 and the U.S. presidential election in November 2016.

Operating expenses of the Trust Assets Business Group increased ¥10.2 billion to ¥112.2 billion for the fiscal year ended March 31, 2017 from ¥102.0 billion for the fiscal year ended March 31, 2016. This was mainly due to the expansion of our fund administration and custody services globally.

Operating profit of the Trust Assets Business Group decreased ¥9.3 billion to ¥60.9 billion for the fiscal year ended March 31, 2017 from ¥70.2 billion for the fiscal year ended March 31, 2016.

Global Markets Business Group

Net revenue of the Global Markets Business Group decreased ¥55.0 billion to ¥582.9 billion for the fiscal year ended March 31, 2017 from ¥637.9 billion for the fiscal year ended March 31, 2016. This was mainly due to a decrease in profits on sales of foreign currency-denominated bonds as we reduced the balance of our foreign government bond portfolio in anticipation of, and reaction to, rising interest rates in the United States.

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Operating expenses of the Global Markets Business Group increased ¥4.6 billion to ¥213.2 billion for the fiscal year ended March 31, 2017 from ¥208.6 billion for the fiscal year ended March 31, 2016, reflecting higher costs for a system integration project to enhance coordination and collaboration in the sales and trading business between our commercial banking subsidiaries and our securities subsidiaries as well as higher expenses for financial regulatory compliance purposes.

Operating profit of the Global Markets Business Group decreased ¥59.6 billion to ¥369.7 billion for the fiscal year ended March 31, 2017 from ¥429.3 billion for the fiscal year ended March 31, 2016.

Geographic Segment Analysis

The table below sets forth our total revenue, income (loss) before income tax expense (benefit) and net income (loss) attributable to Mitsubishi UFJ Financial Group on a geographic basis for the fiscal years ended March 31, 2016, 2017 and 2018. Assets, income and expenses attributable to foreign operations are allocated to geographical areas based on the domicile of the debtors and customers. In general, we have allocated all direct expenses and a proportionate share of general and administrative expenses to income derived from foreign loans and other transactions by our foreign operations to the relevant foreign geographical areas. Certain charges, such as most impairment charges on goodwill, are recognized as domestic expenses. For further information, see Note 31 to our consolidated financial statements included elsewhere in this Annual Report.

	Fiscal years ended March 31,		
	2016	2017 (in billions)	2018
Total revenue (interest income and non-interest income):			
Domestic	¥2,995.6	¥1,903.3	¥2,127.3
Foreign:			
United States of America	800.7	749.5	1,337.5
Europe	326.4	330.8	506.2
Asia/Oceania excluding Japan	981.1	818.9	780.0
Other areas(1)	309.6	385.0	443.1
Total foreign	2,417.8	2,284.2	3,066.8
Total	¥5,413.4	¥4,187.5	¥5,194.1
Income (loss) before income tax expense (benefit):			
Domestic	¥ 494.1	¥ (442.5)	¥ 439.9
Foreign:			
United States of America	58.8	72.0	493.7
Europe	120.9	192.6	332.5
Asia/Oceania excluding Japan	319.2	236.3	128.9
Other areas(1)	169.7	214.1	266.8
Total foreign	668.6	715.0	1,221.9
Total	¥1,162.7	¥ 272.5	¥1,661.8
Net income (loss) attributable to Mitsubishi UFJ Financial Group			
Domestic	¥ 185.4	¥ (365.7)	¥ 140.1
Foreign:			
United States of America	173.4	119.2	447.9
Europe	162.6	216.6	322.6

Asia/Oceania excluding Japan	196.7	102.8	92.0
Other areas[1]	84.2	129.8	225.6
Total foreign	616.9	568.4	1,088.1
Total	¥ 802.3	¥ 202.7	¥ 1,228.2

Note:
(1) Other areas primarily include Canada, Latin America, the Caribbean and the Middle East.

Fiscal Year Ended March 31, 2018 Compared to Fiscal Year Ended March 31, 2017

Domestic net income attributable to Mitsubishi UFJ Financial Group for the fiscal year ended March 31, 2018 was ¥140.1 billion, compared to ¥365.7 billion of net loss for the fiscal year ended March 31, 2017. This improvement was mainly attributable to smaller trading account losses in our domestic commercial banking subsidiaries, reflecting the increasing trend in equity prices in Japan towards the end of the calendar year 2017.

Foreign net income attributable to Mitsubishi UFJ Financial Group increased ¥519.7 billion to ¥1,088.1 billion for the fiscal year ended March 31, 2018 from ¥568.4 billion for the fiscal year ended March 31, 2017. The increase in foreign net income was mainly due to higher net profits on trading account securities, excluding derivatives, in the United States, partially offset by a decrease in net income primarily resulting from larger provisions for credit losses in Asia.

Fiscal Year Ended March 31, 2017 Compared to Fiscal Year Ended March 31, 2016

Domestic net income (loss) attributable to Mitsubishi UFJ Financial Group decreased ¥551.1 billion to ¥365.7 billion of net loss for the fiscal year ended March 31, 2017 from ¥185.4 billion of net income for the fiscal year ended March 31, 2016. This was mainly because our domestic commercial banking subsidiaries reported ¥309.9 billion of trading account losses and ¥144.4 billion of foreign exchange losses mainly on securities and derivative contracts for the fiscal year ended March 31, 2017. Domestic interest income also decreased largely due to lower lending volumes.

Foreign net income attributable to Mitsubishi UFJ Financial Group decreased ¥48.5 billion to ¥568.4 billion for the fiscal year ended March 31, 2017 from ¥616.9 billion for the fiscal year ended March 31, 2016. The decrease in foreign net income was mainly due to lower net income in Asia mainly resulting from decreases in interest income and fees on loans in Thailand and China. The decrease in Thailand was mainly attributable to the appreciation of the Japanese yen against the Thai baht during the calendar year 2016 compared to the previous calendar year as well as lower lending volumes to small and medium-sized enterprises and consumers, which were adversely affected by stagnant economic conditions in Thailand. The decrease in China was mainly attributable to tighter interest rate spreads, reflecting intensified competition among lending institutions in China, and lower volumes of U.S. dollar-denominated lending in China as the Renminbi depreciated against the U.S. dollar.

Effect of Change in Exchange Rates on Foreign Currency Translation

Fiscal Year Ended March 31, 2018 Compared to Fiscal Year Ended March 31, 2017

The average exchange rate for the fiscal year ended March 31, 2018 was ¥110.85 per U.S.$1.00, compared to the average exchange rate of ¥108.38 per U.S.$1.00 for the previous fiscal year. The average exchange rate for the conversion of the U.S. dollar financial statements of some of our foreign subsidiaries for the fiscal year ended December 31, 2017 was ¥112.19 per U.S.$1.00, compared to the average exchange rate for the fiscal year ended December 31, 2016 of ¥108.84 per U.S.$1.00.

The change in the average exchange rate of the Japanese yen against the U.S. dollar and other foreign currencies had the effect of increasing total revenue by ¥99.3 billion, net interest income by ¥56.2 billion and income before income tax expense by ¥29.2 billion, respectively, for the fiscal year ended March 31, 2018.

Fiscal Year Ended March 31, 2017 Compared to Fiscal Year Ended March 31, 2016

The average exchange rate for the fiscal year ended March 31, 2017 was ¥108.38 per U.S.$1.00, compared to the average exchange rate of ¥120.14 per U.S.$1.00 for the previous fiscal year. The average exchange rate for the conversion of the U.S. dollar financial statements of some of our foreign subsidiaries for the fiscal year ended December 31, 2016 was ¥108.84 per U.S.$1.00, compared to the average exchange rate for the fiscal year ended December 31, 2015 of ¥121.05 per U.S.$1.00.

The change in the average exchange rate of the Japanese yen against the U.S. dollar and other foreign currencies had the effect of decreasing total revenue by ¥305.1 billion, net interest income by ¥195.7 billion and income before income tax expense by ¥97.6 billion, respectively, for the fiscal year ended March 31, 2017.

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B. Liquidity and Capital Resources
Financial Condition

Total Assets

Our total assets as of March 31, 2018 were ¥300,570.3 billion, an increase of ¥3,385.3 billion from ¥297,185.0 billion as of March 31, 2017. The increase in total assets mainly reflected an increase in cash, due from banks and interest-earning deposits in other banks of ¥11,848.4 billion, which were partially offset by a decrease in trading account assets of ¥6,133.3 billion.

The following table shows our total assets as of March 31, 2017 and 2018 by geographic region based principally on the domicile of the obligors:

	As of March 31,	
	2017	2018
	(in billions)	
Japan	¥ 191,305.6	¥196,121.5
Foreign:		
United States	46,053.2	44,831.7
Europe	23,821.9	22,342.6
Asia/Oceania excluding Japan	25,256.0	27,163.1
Other areas(1)	10,748.3	10,111.4
Total foreign	105,879.4	104,448.8
Total	¥ 297,185.0	¥300,570.3

Note:

(1) Other areas primarily include Canada, Latin America, the Caribbean and the Middle East.

We have allocated a substantial portion of our assets to international activities. As a result, reported amounts are affected by changes in the exchange rates of the Japanese yen against the U.S. dollar and other foreign currencies. Foreign assets are denominated primarily in the U.S. dollar. The Japanese yen amount of foreign currency-denominated assets decreases as major foreign currencies depreciate against the Japanese yen. For example, as of March 31, 2018, the exchange rate was ¥106.24 per U.S.$1.00, as compared with ¥112.19 as of March 31, 2017. This appreciation of the Japanese yen against the U.S. dollar and other foreign currencies between March 31, 2017 and March 31, 2018 resulted in a ¥778.5 billion decrease in the Japanese yen amount of our total assets as of March 31, 2018.

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Loan Portfolio

The following table sets forth our loans outstanding, before deduction of allowance for credit losses, as of March 31, 2017 and 2018, based on the industry segment loan classifications as defined by the Bank of Japan for regulatory reporting purposes, which is not necessarily based on the use of proceeds:

	As of March 31,	
	2017	2018
	(in billions)	
Domestic:		
Manufacturing	¥ 11,796.8	¥ 10,876.6
Construction	819.3	781.3
Real estate	11,622.3	11,763.8
Services	2,549.3	2,689.1
Wholesale and retail	7,970.6	7,989.1
Banks and other financial institutions(1)	5,223.9	4,818.4
Communication and information services	1,634.6	1,551.5
Other industries	8,898.7	8,939.3
Consumer	16,491.0	16,287.3
Total domestic	67,006.5	65,696.4
Foreign:		
Governments and official institutions	1,037.8	920.5
Banks and other financial institutions(1)	13,845.0	12,851.6
Commercial and industrial	30,279.6	30,591.2
Other	6,334.6	7,270.9
Total foreign	51,497.0	51,634.2
Unearned income, unamortized premium net and deferred loan fees net	(288.5)	(294.7)
Total(2)	¥ 118,215.0	¥ 117,035.9

Notes:

(1) Loans to so-called non-bank finance companies are generally included in the Banks and other financial institutions category. Non-bank finance companies are primarily engaged in consumer lending, factoring and credit card businesses.

(2) The above table includes loans held for sale of ¥185.9 billion and ¥226.9 billion as of March 31, 2017 and 2018, respectively, which are carried at the lower of cost or fair value.

Loans are one of our main uses of funds. For the fiscal year ended March 31, 2018, the average balance of loans was ¥117,765.1 billion, accounting for 49.3% of the average total interest-earning assets, compared to ¥117,288.2 billion, representing 49.0% of the average total interest-earning assets, for the previous fiscal year. As of March 31, 2018, our total loans were ¥117,035.9 billion, accounting for 38.9% of total assets, compared to ¥118,215.0 billion, accounting for 39.8% of total assets as of March 31, 2017. As a percentage of total loans before unearned income, net unamortized premiums and net deferred loan fees, between March 31, 2017 and March 31, 2018, domestic loans decreased from 56.5% to 56.0%, while foreign loans increased from 43.5% to 44.0%.

Our domestic loan balance decreased ¥1,310.1 billion, or 2.0%, between March 31, 2017 and March 31, 2018. This was mainly due to repayments by some large borrowers in the domestic manufacturing industry as their financial performance and repayment ability improved and repayments of loans made to fund several large-scale corporate acquisition transactions.

Our foreign loan balance increased ¥137.2 billion, or 0.3%, between March 31, 2017 and March 31, 2018 This was primarily due to increased lending activity in the United States and Asia excluding Japan where

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economic conditions continued to improve at a moderate pace and the lending volumes generally increased across all of the private industry sectors. The increase in the foreign loan balance was also attributable to growth in Krungsri s retail and consumer loan portfolio, particularly automobile loans.

Credit quality indicator

The following table sets forth credit quality indicators of loans by class as of March 31, 2017 and 2018:

As of March 31, 2017:	Normal	Close Watch	Likely to become Bankrupt or Legally/ Virtually Bankrupt	Total(1)
		(in billions)		
Commercial				
Domestic	¥49,572.4	¥2,162.0	¥ 296.9	¥52,031.3
Manufacturing	10,882.5	821.1	65.1	11,768.7
Construction	753.9	53.3	11.5	818.7
Real estate	11,137.7	352.8	42.3	11,532.8
Services	2,267.2	237.1	31.2	2,535.5
Wholesale and retail	7,403.7	462.6	98.4	7,964.7
Banks and other financial institutions	5,207.8	14.3	0.9	5,223.0
Communication and information services	1,573.5	45.3	15.4	1,634.2
Other industries	8,725.9	125.7	8.1	8,859.7
Consumer	1,620.2	49.8	24.0	1,694.0
Foreign-excluding MUFG Americas Holdings and Krungsri	36,134.4	971.2	189.6	37,295.2
Loans acquired with deteriorated credit quality	16.5	12.6	5.1	34.2
Total	¥85,723.3	¥3,145.8	¥ 491.6	¥89,360.7

	Accrual	Nonaccrual	Total(1)
		(in billions)	
Residential	¥14,256.2	¥ 76.2	¥14,332.4
Card	¥ 531.4	¥ 61.8	¥ 593.2

	Credit Quality Based on the Number of Delinquencies		Credit Quality Based on Internal Credit Ratings			
	Accrual	Nonaccrual	Pass	Special Mention	Classified	Total(1)(2)
			(in billions)			
MUFG Americas Holdings	¥3,837.8	¥ 22.9	¥4,879.2	¥ 133.0	¥ 151.6	¥ 9,024.5

	Normal	Special Mention	Substandard or Doubtful or Doubtful of Loss	Total(1)
			(in billions)	
Krungsri	¥4,672.4	¥ 195.5	¥ 98.3	¥4,966.2

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As of March 31, 2018:	Normal	Close Watch	Likely to become Bankrupt or Legally/ Virtually Bankrupt	Total(1)
		(in billions)		
Commercial				
Domestic	¥49,050.3	¥1,691.0	¥ 271.4	¥51,012.7
Manufacturing	10,215.5	596.7	57.7	10,869.9
Construction	727.9	43.7	9.1	780.7
Real estate	11,379.3	279.9	32.7	11,691.9
Services	2,467.5	175.8	24.1	2,667.4
Wholesale and retail	7,518.4	374.7	77.9	7,971.0
Banks and other financial institutions	4,800.3	10.9	1.1	4,812.3
Communication and information services	1,491.1	48.2	11.9	1,551.2
Other industries	8,780.5	120.5	37.0	8,938.0
Consumer	1,669.8	40.6	19.9	1,730.3
Foreign-excluding MUFG Americas Holdings and Krungsri	36,049.1	569.1	108.3	36,726.5
Loans acquired with deteriorated credit quality	12.0	11.7	3.6	27.3
Total	¥85,111.4	¥2,271.8	¥ 383.3	¥87,766.5

	Accrual	Nonaccrual	Total(1)
		(in billions)	
Residential	¥14,012.9	¥ 67.3	¥14,080.2
Card	¥ 528.1	¥ 61.7	¥ 589.8

	Credit Quality Based on the Number of Delinquencies		Credit Quality Based on Internal Credit Ratings			
	Accrual	Nonaccrual	Pass	Special Mention	Classified	Total(1)(2)
			(in billions)			
MUFG Americas Holdings	¥4,360.5	¥ 14.2	¥4,509.1	¥ 59.9	¥ 116.8	¥ 9,060.5

	Normal	Special Mention	Substandard or Doubtful or Doubtful of Loss	Total(1)
			(in billions)	
Krungsri	¥5,284.1	¥ 198.5	¥ 123.1	¥5,605.7

Notes:

(1) Total loans in the above table do not include loans held for sale, and represent balances without adjustments in relation to unearned income, unamortized premiums and deferred loan fees.
(2) Total loans of MUFG Americas Holdings do not include FDIC covered loans and small business loans which are not individually rated totaling ¥40.5 billion and ¥0.9 billion as of March 31, 2017 and 2018, respectively. We will be reimbursed for a substantial portion of any future losses on FDIC covered loans under the terms of the FDIC loss share agreements.

We classify loans into risk categories based on relevant information about the ability of borrowers to service their debt, including, but not limited to, historical and current financial information, historical and current payment experience, credit documentation, public and non-public information about borrowers and current economic trends as deemed appropriate to each segment.

The primary credit quality indicator for loans within all classes of the Commercial segment is the internal credit rating assigned to each borrower based on our internal borrower ratings of 1 through 15 with the rating of 1 assigned to a borrower with the highest quality of credit. When assigning a credit rating to a borrower, we evaluate the borrower s expected debt-service capability based on various information, including financial and operating information of the borrower as well as information on the industry in which the borrower operates, and the borrower s business profile, management and compliance system. In evaluating a borrower s debt-service capability, we also conduct an assessment of the level of earnings and an analysis of the borrower s net worth. Based on the internal borrower rating, loans within the Commercial segment are categorized as Normal (internal borrower ratings of 1 through 9), Close Watch (internal borrower ratings of 10 through 12), and Likely to become Bankrupt or Legally/Virtually Bankrupt (internal borrower ratings of 13 through 15).

Loans to borrowers categorized as Normal represent those that are not deemed to have collectability issues. Loans to borrowers categorized as Close Watch represent those that require close monitoring as the borrower has begun to exhibit elements of potential concern with respect to its business performance and financial condition, the borrower has begun to exhibit elements of serious concern with respect to its business performance and financial condition, including business problems requiring long-term solutions, or the borrower s loans are TDRs or loans contractually past due 90 days or more for special reasons. Loans to borrowers categorized as Likely to become Bankrupt or Legally/Virtually Bankrupt represent those that have a higher probability of default than those categorized as Close Watch due to serious debt repayment problems with poor progress in achieving restructuring plans, the borrower being considered virtually bankrupt with no prospects for an improvement in business operations, or the borrower being legally bankrupt with no prospects for continued business operations because of non-payment, suspension of business, voluntary liquidation or filing for legal liquidation.

For more information on our credit and borrower ratings, see Item 11. Quantitative and Qualitative Disclosures about Credit, Market and Other Risk Credit Risk Management.

The accrual status is a primary credit quality indicator for loans within the Residential segment, the Card segment, and consumer loans within the MUFG Americas Holdings segment. The accrual status of these loans is determined based on the number of delinquent payments.

Commercial loans within the MUFG Americas Holdings segment are categorized as either pass or criticized based on the internal credit rating assigned to each borrower. Criticized credits are those that are internally risk graded as Special Mention, 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 a further downgrade. Classified credits are those that are internally risk graded as Substandard or Doubtful. 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.

Loans within the Krungsri segment are categorized as Normal, Special Mention, and Substandard, which is further divided into Substandard, Doubtful and Doubtful of Loss, primarily based on their delinquency status. Loans categorized as Special Mention generally represent those that have overdue principal or interest payments for a cumulative period exceeding one month commencing from the contractual due date. Loans categorized as Substandard, Doubtful or Doubtful of Loss generally represent those that have overdue principal or interest payments for a cumulative period exceeding three months, commencing from the contractual due date.

For the Commercial, Residential and Card segments, credit quality indicators are based on information as of March 31. For the MUFG Americas Holdings and Krungsri segments, credit quality indicators are generally based on information as of December 31.

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Allowance for credit losses

The following table shows a summary of the changes in the allowance for credit losses by portfolio segment for the fiscal years ended March 31, 2017 and 2018:

Fiscal year ended March 31, 2017:	**Commercial**	**Residential**	**Card**	**MUFG Americas Holdings**	**Krungsri**	**Total**
			(in billions)			
Allowance for credit losses:						
Balance at beginning of fiscal year	¥ 816.6	¥ 58.6	¥ 31.2	¥ 108.4	¥ 96.3	¥ 1,111.1
Provision for (reversal of) credit losses	177.3	12.2	13.3	(0.1)	51.0	253.7
Charge-offs	108.3	5.3	16.3	32.1	51.8	213.8
Recoveries	21.1	1.8	2.0	2.9	16.1	43.9
Net charge-offs	87.2	3.5	14.3	29.2	35.7	169.9
Others[(1)]	(6.0)			(5.4)	(1.3)	(12.7)
Balance at end of fiscal year	¥ 900.7	¥ 67.3	¥ 30.2	¥ 73.7	¥ 110.3	¥ 1,182.2

Fiscal year ended March 31, 2018:	**Commercial**	**Residential**	**Card**	**MUFG Americas Holdings**	**Krungsri**	**Total**
			(in billions)			
Allowance for credit losses:						
Balance at beginning of fiscal year	¥ 900.7	¥ 67.3	¥ 30.2	¥ 73.7	¥ 110.3	¥ 1,182.2
Provision for (reversal of) credit losses	(297.4)	(22.3)	23.4	(9.3)	64.8	(240.8)
Charge-offs	134.8	3.8	22.7	14.7	56.1	232.1
Recoveries	25.0	1.3	1.2	6.1	17.5	51.1
Net charge-offs	109.8	2.5	21.5	8.6	38.6	181.0
Others[(1)]	(2.4)			(2.0)	8.1	3.7
Balance at end of fiscal year	¥ 491.1	¥ 42.5	¥ 32.1	¥ 53.8	¥ 144.6	¥ 764.1

Note:

(1) Others are principally comprised of gains or losses from foreign exchange translation.

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Allowance for credit losses and recorded investment in loans by portfolio segment as of March 31, 2017 and 2018 are shown below:

As of March 31, 2017:	Commercial	Residential	Card	MUFG Americas Holdings	Krungsri	Total
			(in billions)			
Allowance for credit losses:						
Individually evaluated for impairment	¥ 772.8	¥ 46.5	¥ 20.6	¥ 19.2	¥ 19.0	¥ 878.1
Collectively evaluated for impairment	115.5	19.2	9.6	54.1	91.2	289.6
Loans acquired with deteriorated credit quality	12.4	1.6	0.0	0.4	0.1	14.5
Total	¥ 900.7	¥ 67.3	¥ 30.2	¥ 73.7	¥ 110.3	¥ 1,182.2
Loans:						
Individually evaluated for impairment	¥ 1,349.6	¥ 125.6	¥ 71.9	¥ 93.5	¥ 65.0	¥ 1,705.6
Collectively evaluated for impairment	87,976.9	14,197.0	510.4	8,944.4	4,892.0	116,520.7
Loans acquired with deteriorated credit quality	34.2	9.8	10.9	27.1	9.2	91.2
Total(1)	¥ 89,360.7	¥ 14,332.4	¥ 593.2	¥ 9,065.0	¥ 4,966.2	¥ 118,317.5

As of March 31, 2018:	Commercial	Residential	Card	MUFG Americas Holdings	Krungsri	Total
			(in billions)			
Allowance for credit losses:						
Individually evaluated for impairment	¥ 414.8	¥ 16.6	¥ 21.2	¥ 7.7	¥ 29.4	¥ 489.7
Collectively evaluated for impairment	64.3	24.7	10.9	45.6	115.2	260.7
Loans acquired with deteriorated credit quality	12.0	1.2	0.0	0.5	0.0	13.7
Total	¥ 491.1	¥ 42.5	¥ 32.1	¥ 53.8	¥ 144.6	¥ 764.1
Loans:						
Individually evaluated for impairment	¥ 978.0	¥ 110.2	¥ 66.9	¥ 82.5	¥ 84.1	¥ 1,321.7
Collectively evaluated for impairment	86,761.2	13,961.3	512.5	8,963.7	5,515.4	115,714.1
Loans acquired with deteriorated credit quality	27.3	8.7	10.4	15.2	6.2	67.8
Total(1)	¥ 87,766.5	¥ 14,080.2	¥ 589.8	¥ 9,061.4	¥ 5,605.7	¥ 117,103.6

Note:

(1) Total loans in the above table do not include loans held for sale, and represent balances without adjustments in relation to unearned income, unamortized premiums and deferred loan fees.

We recorded ¥240.8 billion of reversal of credit losses for the fiscal year ended March 31, 2018, compared to ¥253.7 billion of provision for credit losses for the previous fiscal year. Our total allowance for credit losses as of March 31, 2018 was ¥764.1 billion, a decrease of ¥418.1 billion from ¥1,182.2 billion as of March 31, 2017. The total allowance for credit losses represented 0.65% of the total loan balance as of March 31, 2018, compared to 1.00% as of March 31, 2017. Significant trends in each portfolio segment are discussed below.

Commercial segment We recorded ¥297.4 billion of reversal of credit losses for the fiscal year ended March 31, 2018, compared to ¥177.3 billion of provision for credit losses for the previous fiscal year. The reversal reflected the repayment of loans by a large borrower in the domestic electronics manufacturing industry and an improvement in the projected cash flows of another large borrower in the same industry as their financial performance improved. In addition, repayments increased from foreign borrowers particularly in the oil and gas sector that previously experienced deteriorated repayment ability as oil and other commodities prices were on recovering trends. The financial performance of a broader number of small and medium-sized borrowers in the domestic manufacturing industry also improved due to the continued gradual recovery of economic conditions in Japan. As a result, the ratio of loans classified as Close Watch to total loans decreased to 2.59% as of March 31, 2018 from 3.52% as of March 31, 2017, and the ratio of loans classified as Likely to become Bankrupt and Legally/Virtually Bankrupt to total loans decreased to 0.44% as of March 31, 2018 from 0.55% as of March 31, 2017. The total allowance for credit losses for this segment represented 0.56% of the segment s total loan balance as of Mach 31, 2018, compared to 1.01% as of March 31, 2017.

Residential segment We recorded ¥22.3 billion of reversal of credit losses for the fiscal year ended March 31, 2018, compared to ¥12.2 billion of provision for credit losses for the previous fiscal year. The stable domestic corporate environment in recent periods has generally contributed to higher income for borrowers of housing loans. This environment positively affected the credit quality of housing loan borrowers. Repayments increased from that previously experienced deteriorated repayment ability through debt workout programs. As a result, the ratio of loans classified as Nonaccrual to total loans in the segment was 0.48% as of March 31, 2018, compared to 0.53% as of March 31, 2017. The ratio of total allowance for credit losses to the total loan balance in this segment decreased to 0.30% as of March 31, 2018 from 0.47% as of March 31, 2017.

Card segment We recorded ¥23.4 billion of provision for credit losses for the fiscal year ended March 31, 2018, compared to ¥13.3 billion of provision for credit losses for the previous fiscal year. The increase primarily reflected a declining trend in the credit quality of the consumer loan portfolio where delinquencies and bankruptcies were increasing. As a result, charge-offs of loans in this segment also increased. The recent improvement in domestic corporate profits had and is expected to continue to have a disparate impact on consumer loan borrowers. As a result, charge-offs of loans were also increased compared to previous fiscal year. The ratio of loans classified as Nonaccrual to total loans in the segment was 10.46% as of March 31, 2018, compared to 10.42% as of March 31, 2017. The ratio of total allowance for credit losses to the total loan balance in this segment increased to 5.45% as of March 31, 2018 from 5.09% as of March 31, 2017.

MUFG Americas Holdings segment We recorded ¥9.3 billion of reversal of credit losses for the fiscal year ended March 31, 2018, compared to ¥0.1 billion of reversal of credit losses for the previous fiscal year. Recovering oil and gas prices helped the financial conditions of many borrowers in the oil and gas sector stabilize, particularly those which are engaged in the petroleum exploration and production business. This stabilization enabled borrowers to repay their loans that were previously in non-accrual status. As a result of these trends and other factors, the ratio of loans classified as Special Mention or below and Nonaccrual to total loans in the segment decreased to 2.11% as of March 31, 2018 from 3.41% as of March 31, 2017. The ratio of total allowance for credit losses to the total loan balance in this segment decreased to 0.59% as of March 31, 2018 from 0.81% as of March 31, 2017.

Krungsri segment We recorded ¥64.8 billion of provision for credit losses for the fiscal year ended March 31, 2018, compared to ¥51.0 billion of provision for credit losses for the previous fiscal year. The larger provision for credit losses on loans collectively evaluated for impairment was primarily attributable to growth in the retail and consumer loan portfolio, particularly the automobile loan portfolio. The larger provision for credit losses on loans individually evaluated for impairment resulted mainly from the negative impact of stagnant economic conditions in Thailand on the repayment ability of some corporate borrowers. As a result of this negative trend and the offsetting positive impact of the increase in retail and consumer loans that are classified as Normal, the ratio of loans classified as Special Mention or below to total loans in the segment was 5.74% as of March 31, 2018, compared to 5.92% as of March 31, 2017. The ratio of total allowance for credit losses to the total loan balance in this segment increased to 2.58% as of March 31, 2018 from 2.22% as of March 31, 2017.

Allowance policy

We maintain an allowance for credit losses to absorb probable losses inherent in the loan portfolio. We have divided our allowance for loan losses into five portfolio segments Commercial, Residential, Card, MUFG Americas Holdings and Krungsri.

For all portfolio segments, key elements relating to the policies and discipline used in determining the allowance for credit losses are our credit classification and related borrower categorization process, which are closely linked to the risk grading standards set by the Japanese regulatory authorities for asset evaluation and assessment, and are used as a basis for establishing the allowance for credit losses and charge-offs. The categorization is based on conditions that may affect the ability of borrowers to service their debt, such as current financial condition and results of operations, historical payment experience, credit documentation, other public information and current trends.

For more information on our credit and borrower ratings, see Item 11. Quantitative and Qualitative Disclosures about Credit, Market and Other Risk Credit Risk Management.

For the Commercial, MUFG Americas Holdings and Krungsri segments, our allowance for credit losses primarily consists of allocated allowances. The allocated allowances consist of (1) an allowance for loans individually evaluated for impairment, (2) an allowance for large groups of smaller-balance homogeneous loans, and (3) a formula allowance. The allocated allowance within the Commercial segment also includes an allowance for country risk exposure. The allowance for credit losses within the MUFG Americas Holdings segment also includes an unallocated allowance which captures losses that are attributable to economic events in various industry or geographic sectors whose impact on our loan portfolios in these segments have occurred but have yet to be recognized in the allocated allowance. For the Residential and Card segments, the loans are smaller-balance homogeneous loans that are pooled by the risk ratings based on the number of delinquencies.

For more information on our methodologies used to estimate the allowance for each portfolio segment, see Summary of Significant Accounting Policies in Note 1 to our consolidated financial statements included elsewhere in this Annual Report and Critical Accounting Estimates Allowance for Credit Losses above.

During the fiscal year ended March 31, 2018, we did not make any significant changes to the methodologies and policies used to determine our allowance for credit losses.

Allowance for off-balance sheet credit instruments

We maintain an allowance for credit losses on off-balance sheet credit instruments, including commitments to extend credit, guarantees, standby letters of credit and other financial instruments. The allowance is included in other liabilities. We have adopted for such instruments the same methodology as that which is used in determining the allowance for credit losses on loans.

The allowance for credit losses on off-balance sheet credit instruments was ¥81.7 billion as of March 31, 2018, a decrease of ¥96.4 billion from ¥178.1 billion as of March 31, 2017. This decrease primarily reflected a reduction in the commitments and guarantees provided in favor of a large borrower in the domestic electronics manufacturing industry whose financial performance improved.

Nonaccrual loans and troubled debt restructurings

We consider a loan to be a nonaccrual loan when substantial doubt exists as to the full and timely payment of interest on, or repayment of, the principal of the loan, which is a borrower condition that generally corresponds to borrowers in categories 13 and below in our internal rating system (which corresponds to Likely to become Bankrupt, Virtually Bankrupt and Bankrupt or de facto Bankrupt status under Japanese banking

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regulations). Substantially all nonaccrual loans are also impaired loans. Loans are also placed in nonaccrual status when principal or interest is contractually past due one month or more with respect to loans within all classes of the Commercial segment, three months or more with respect to loans within the Card, MUFG Americas Holdings and Krungsri segments, and six months or more with respect to loans within the Residential segment.

We modify certain loans in conjunction with our loss-mitigation activities. Through these modifications, concessions are granted to a borrower who is experiencing financial difficulty, generally in order to minimize economic loss, to avoid foreclosure or repossession of collateral, and to ultimately maximize payments received from the borrower. The concessions granted vary by portfolio segment, by program, and by borrower-specific characteristics, and may include interest rate reductions, term extensions, payment deferrals, and partial principal forgiveness. Loan modifications that represent concessions made to borrowers who are experiencing financial difficulties are identified as troubled debt restructurings, or TDRs. TDRs are also considered impaired loans, and an allowance for credit losses is separately established for each loan.

Generally, accruing loans that are modified in a TDR remain as accruing loans subsequent to the modification, and nonaccrual loans remain as nonaccrual. However, if a nonaccrual loan has been modified as a TDR and the borrower is not delinquent under the modified terms, and demonstrates that its financial condition has improved, we may reclassify the loan to accrual status. This determination is generally performed at least once a year through a detailed internal credit rating review process. Although we have not defined any minimum period to qualify for an upgrade, it is not common for a borrower to be able to demonstrate that its business problems have been resolved or can soon be resolved within a short period of time following a restructuring. If the borrower is upgraded to category 12 or higher in our internal rating system (which corresponds to Normal and Close Watch status under the Japanese banking regulations), a TDR would be reclassified to accrual status. Once a nonaccrual loan is deemed to be a TDR, we will continue to designate the loan as a TDR even if the loan is reclassified to accrual status.

A loan that has been modified into a TDR is considered to be impaired until it matures, is repaid, or is otherwise liquidated, regardless of whether the borrower performs under the modified terms.

For more information on our credit and borrower ratings, see Item 11. Quantitative and Qualitative Disclosures about Credit, Market and Other Risk Credit Risk Management.

For more information on our TDRs, see Note 4 to our consolidated financial statements included elsewhere in this Annual Report.

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Nonaccrual loans

The following table shows information about the nonaccrual status of loans by class as of March 31, 2017 and 2018:

	As of March 31,	
	2017	2018
	(in billions)	
Commercial		
Domestic	¥ 471.1	¥ 333.0
Manufacturing	185.1	77.2
Construction	15.2	10.8
Real estate	44.4	33.3
Services	38.6	30.7
Wholesale and retail	131.2	108.2
Banks and other financial institutions	2.4	1.1
Communication and information services	18.7	13.8
Other industries	10.0	37.6
Consumer	25.5	20.3
Foreign-excluding MUFG Americas Holdings and Krungsri	191.9	109.5
Residential	75.4	69.5
Card	61.4	61.4
MUFG Americas Holdings	82.2	52.3
Krungsri	94.9	121.2
Total(1)	¥ 976.9	¥ 746.9

Note:

(1) The above table does not include loans held for sale of nil and ¥0.1 billion as of March 31, 2017 and 2018, respectively, and loans acquired with deteriorated credit quality of ¥9.7 billion and ¥6.7 billion as of March 31, 2017 and 2018, respectively.

Total nonaccrual loans decreased ¥230.0 billion between March 31, 2017 and March 31, 2018. Significant trends in each portfolio segment are discussed below.

Commercial segment Nonaccrual loans in the domestic commercial category decreased ¥138.1 billion between March 31, 2017 and March 31, 2018. The amount of commercial loans transferred from accrual status to nonaccrual status decreased as economic conditions gradually improved in Japan. In addition, nonaccrual loans outstanding to medium-sized corporate borrowers decreased. Nonaccrual loans in the foreign excluding MUFG Americas Holdings and Krungsri category decreased ¥82.4 billion primarily due to repayments from some borrowers in the oil and gas sector and a large trading company~~,~~ as well as charge-offs of loans to some borrowers in the oil, gas and natural resources sector that were unable to take advantage of the rising trend in commodities prices.

Residential segment Nonaccrual loans in the segment decreased ¥5.9 billion between March 31, 2017 and March 31, 2018 primarily due to the transfer from nonaccrual status to accrual status of loans to borrowers who became current with their interest payments as the stable corporate environment in recent periods has contributed to higher income for borrowers in the segment. In addition, our efforts to work with borrowers on their loan obligations contributed to the reduction in nonaccrual loans.

Card segment Nonaccrual loans in the segment remained at the same level between March 31, 2017 and March 31, 2018. The amount of consumer loans transferred from accrual status to nonaccrual status increased, but the larger amount of charge-offs of nonaccrual consumer loans resulted in the balance of nonaccrual loans in the segment remaining at the same level.

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MUFG Americas Holdings segment Nonaccrual loans in the segment decreased ¥29.9 billion between March 31, 2017 and March 31, 2018 primarily as a result of the repayments, and transfer to accrual status, of loans to some borrowers in the oil and gas sector whose repayment ability improved as they benefited from rising oil and other commodities prices.

Krungsri segment Nonaccrual loans in the segment increased ¥26.3 billion between March 31, 2017 and March 31, 2018, primarily because the credit quality of some local corporate borrowers deteriorated as they were negatively affected by stagnant economic conditions in Thailand.

Troubled debt restructurings

The following table shows information about outstanding recorded investment balances of TDRs by class as of March 31, 2017 and 2018:

	As of March 31,	
	2017	2018
	(in billions)	
Commercial(1)		
Domestic	¥ 592.6	¥ 482.6
Manufacturing	409.4	320.7
Construction	8.9	7.4
Real estate	39.0	33.3
Services	32.9	24.0
Wholesale and retail	83.0	70.1
Banks and other financial institutions	0.0	0.0
Communication and information services	6.1	12.8
Other industries	6.5	9.7
Consumer	6.8	4.6
Foreign-excluding MUFG Americas Holdings and Krungsri	96.2	54.2
Residential(1)	50.2	40.7
Card(2)	72.3	67.3
MUFG Americas Holdings(2)	69.8	65.4
Krungsri(2)	46.7	54.0
Total	¥ 927.8	¥ 764.2

Notes:

(1) TDRs for the Commercial and Residential segments include accruing loans with concessions granted, and do not include nonaccrual loans with concessions granted.

(2) TDRs for the Card, MUFG Americas Holdings and Krungsri segments include accrual and nonaccrual loans. Included in the outstanding recorded investment balances as of March 31, 2017 and 2018 are nonaccrual TDRs as follows: ¥39.7 billion and ¥38.8 billion Card; ¥45.1 billion and ¥26.0 billion MUFG Americas Holdings; and ¥19.0 billion and ¥24.9 billion Krungsri, respectively.

Total TDRs decreased ¥163.6 billion between March 31, 2017 and March 31, 2018. Significant trends in each portfolio segment are discussed below.

Commercial segment TDRs in the domestic commercial category decreased ¥110.0 billion between March 31, 2017 and March 31, 2018. This was mainly due to a ¥88.7 billion decrease in the domestic manufacturing industry primarily resulting from repayment by a large borrower in the domestic electronics manufacturing industry whose financial performance improved. In addition, TDRs in the foreign-excluding MUFG Americas Holdings and Krungsri category decreased ¥42.0 primarily due to the sale of loans outstanding to a large foreign government investment vehicle.

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Residential segment TDRs in the segment decreased ¥9.5 billion between March 31, 2017 and March 31, 2018 primarily as a result of repayments of loans classified as TDRs pursuant to their respective restructured terms.

Card segment TDRs in the segment decreased ¥5.0 billion between March 31, 2017 and March 31, 2018 mainly due to charge-offs resulting from borrowers filing for bankruptcy and repayments of loans classified as TDRs pursuant to their respective restructured terms.

MUFG Americas Holdings segment TDRs in the segment decreased ¥4.4 billion between March 31, 2017 and March 31, 2018. The decrease was mainly due to repayments by borrowers in the oil and gas sector pursuant to their respective restructured loans.

Krungsri segment TDRs in the segment increased ¥7.3 billion between March 31, 2017 and March 31, 2018. The increase was primarily because we provided concessions to some borrowers in the small and medium-sized enterprise loan portfolio, which were adversely affected by stagnant economic conditions in Thailand. The increase also reflected the grown in the retail and consumer portfolio.

In the above table, TDRs for the Commercial and Residential segments include accruing loans with concessions granted, and do not include nonaccrual loans with concessions granted, whereas TDRs for the Card, MUFG Americas Holdings and Krungsri segments include accrual and nonaccrual loans. In the Commercial and Residential segments, once a loan is classified as a nonaccrual loan, a modification would have little likelihood of resulting in the recovery of the loan in view of the severity of the financial difficulty of the borrower. Therefore, even if a nonaccrual loan is modified, the loan continues to be classified as a nonaccrual loan. The vast majority of modifications to nonaccrual loans are temporary extensions of the maturity dates, typically for periods up to 90 days, and continually made as the borrower is unable to repay or refinance the loan at the extended maturity. Accordingly, the impact of such TDRs on the outstanding recorded investment is immaterial, and the vast majority of nonaccrual TDRs have subsequently defaulted.

For the fiscal year ended March 31, 2018, extensions of the stated maturity dates of loans were the primary type of concessions we granted to loans in the Commercial, Residential and Krungsri segments, reductions in the stated rates were the primary type of concessions we granted to loans in the Card segment, and payment deferrals were the primary type of concessions we granted to loans in the MUFG Americas Holdings segment.

Impaired loans and impairment allowance

Impaired loans primarily include nonaccrual loans and TDRs. We consider a loan to be impaired when, based on current information and events, it is probable that we will be unable to collect all of the scheduled payments of interest on, and repayment of, the principal of the loan when due according to the contractual terms of the loan agreement.

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The following tables show information about impaired loans by class as of March 31, 2017 and 2018:

	As of March 31, 2017				
	Recorded Loan Balance				
	Requiring an Allowance for Credit Losses	Not Requiring an Allowance for Credit Losses(1)	Total(2)	Unpaid Principal Balance	Related Allowance for Credit Losses
			(in billions)		
Commercial					
Domestic	¥ 876.0	¥ 187.7	¥ 1,063.7	¥ 1,107.2	¥ 608.1
Manufacturing	555.0	39.6	594.6	602.1	411.8
Construction	15.0	9.1	24.1	24.9	9.1
Real estate	53.0	30.3	83.3	90.8	15.0
Services	48.3	23.2	71.5	78.1	31.1
Wholesale and retail	160.5	53.7	214.2	224.2	115.7
Banks and other financial institutions	1.8	0.6	2.4	2.4	1.7
Communication and information services	14.2	10.6	24.8	26.6	10.5
Other industries	10.7	5.8	16.5	17.4	7.2
Consumer	17.5	14.8	32.3	40.7	6.0
Foreign-excluding MUFG Americas Holdings and Krungsri	262.9	23.0	285.9	310.0	164.7
Loans acquired with deteriorated credit quality	8.0		8.0	11.5	3.6
Residential	120.4	6.6	127.0	154.0	47.0
Card	71.8	0.5	72.3	80.4	20.5
MUFG Americas Holdings	77.2	16.3	93.5	113.4	19.2
Krungsri	44.7	20.8	65.5	71.1	19.1
Total(3)	¥ 1,461.0	¥ 254.9	¥ 1,715.9	¥ 1,847.6	¥ 882.2

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	As of March 31, 2018				
	Recorded Loan Balance				
	Requiring an Allowance for Credit Losses	Not Requiring an Allowance for Credit Losses(1)	Total(2)	Unpaid Principal Balance	Related Allowance for Credit Losses
			(in billions)		
Commercial					
Domestic	¥ 626.5	¥ 189.0	¥ 815.5	¥ 875.8	¥ 331.9
Manufacturing	361.2	36.6	397.8	408.1	166.1
Construction	10.9	7.2	18.1	18.5	7.9
Real estate	43.6	23.1	66.7	71.8	10.7
Services	38.1	16.6	54.7	59.3	25.9
Wholesale and retail	128.7	49.6	178.3	189.4	94.8
Banks and other financial institutions	1.1	0.0	1.1	1.2	1.0
Communication and information services	18.8	7.8	26.6	28.1	16.0
Other industries	13.0	34.3	47.3	67.5	5.4
Consumer	11.1	13.8	24.9	31.9	4.1
Foreign-excluding MUFG Americas Holdings and Krungsri	122.3	40.2	162.5	190.5	82.9
Loans acquired with deteriorated credit quality	7.8		7.8	15.5	4.3
Residential	105.1	6.2	111.3	134.7	16.9
Card	67.0	0.4	67.4	74.8	21.2
MUFG Americas Holdings	48.8	33.7	82.5	94.6	7.7
Krungsri	58.5	25.6	84.1	91.0	29.4
Total(3)	¥ 1,036.0	¥ 295.1	¥ 1,331.1	¥ 1,476.9	¥ 494.3

Notes:

(1) These loans do not require an allowance for credit losses because the recorded loan balance equal, or do not exceed, the present value of expected future cash flows discounted at the loans effective interest rate, loans observable market price, or the fair value of the collateral if the loan is a collateral-dependent loan.

(2) Included in impaired loans as of March 31, 2017 and 2018 are accrual TDRs as follows: ¥688.8 billion and ¥536.8 billion Commercial; ¥50.2 billion and ¥40.7 billion Residential; ¥32.6 billion and ¥28.5 billion Card; ¥24.7 billion and ¥39.4 billion MUFG Americas Holdings; and ¥23.6 billion and ¥24.9 billion Krungsri, respectively.

(3) In addition to impaired loans presented in the above table, there were loans held for sale that were impaired of ¥9.9 billion and ¥0.1 billion as of March 31, 2017 and 2018, respectively.

The following table shows information regarding the average recorded loan balance and recognized interest income on impaired loans for the fiscal years ended March 31, 2017 and 2018:

	Fiscal years ended March 31,			
	2017		2018	
	Average Recorded Loan Balance	Recognized Interest Income	Average Recorded Loan Balance	Recognized Interest Income
	(in billions)			
Commercial				
Domestic	¥ 1,137.5	¥ 14.1	¥ 918.1	¥ 9.4
Manufacturing	601.2	5.8	472.1	3.8
Construction	26.7	0.4	19.5	0.3
Real estate	96.2	1.6	74.0	1.1
Services	82.0	1.2	59.9	0.8
Wholesale and retail	238.8	3.5	186.4	2.3
Banks and other financial institutions	2.3	0.0	1.7	0.0
Communication and information services	27.5	0.6	25.5	0.4
Other industries	24.7	0.4	50.4	0.2
Consumer	38.1	0.6	28.6	0.5
Foreign-excluding MUFG Americas Holdings and Krungsri	291.6	5.1	209.3	4.2
Loans acquired with deteriorated credit quality	10.0	0.4	8.6	0.5
Residential	133.9	1.9	119.4	1.6
Card	75.8	2.5	69.8	2.0
MUFG Americas Holdings	91.7	1.7	83.5	2.0
Krungsri	51.6	2.2	75.4	3.9
Total	¥ 1,792.1	¥ 27.9	¥ 1,484.1	¥ 23.6

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Past due analysis

Aging of past due loans by class as of March 31, 2017 and 2018 are shown below:

As of March 31, 2017:	1-3 months Past Due	Greater Than 3 months	Total Past Due	Current (in billions)	Total Loans(1)(2)	Recorded Investment> 90 Days and Accruing
Commercial						
Domestic	¥ 12.4	¥ 19.4	¥ 31.8	¥ 51,999.5	¥ 52,031.3	¥ 5.8
Manufacturing	1.4	1.7	3.1	11,765.6	11,768.7	0.0
Construction	0.3	0.2	0.5	818.2	818.7	
Real estate	2.7	5.0	7.7	11,525.1	11,532.8	1.5
Services	1.3	3.2	4.5	2,531.0	2,535.5	0.0
Wholesale and retail	1.9	1.9	3.8	7,960.9	7,964.7	0.2
Banks and other financial institutions	0.0	0.0	0.0	5,223.0	5,223.0	
Communication and information services	0.6	0.2	0.8	1,633.4	1,634.2	
Other industries	0.3	0.1	0.4	8,859.3	8,859.7	
Consumer	3.9	7.1	11.0	1,683.0	1,694.0	4.1
Foreign-excluding MUFG Americas Holdings and Krungsri	5.3	50.1	55.4	37,239.8	37,295.2	2.2
Residential	78.2	42.4	120.6	14,202.1	14,322.7	31.4
Card	17.5	31.3	48.8	533.5	582.3	
MUFG Americas Holdings	25.2	14.2	39.4	8,998.0	9,037.4	1.2
Krungsri	103.0	73.3	176.3	4,780.7	4,957.0	
Total	¥ 241.6	¥ 230.7	¥ 472.3	¥ 117,753.6	¥ 118,225.9	¥ 40.6

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As of March 31, 2018:	1-3 months Past Due	Greater Than 3 months	Total Past Due	Current	Total Loans(1)(2)	Recorded Investment> 90 Days and Accruing
				(in billions)		
Commercial						
Domestic	¥ 13.3	¥ 43.9	¥ 57.2	¥ 50,955.5	¥ 51,012.7	¥ 6.4
Manufacturing	1.4	1.4	2.8	10,867.1	10,869.9	
Construction	0.4	0.4	0.8	779.9	780.7	
Real estate	2.1	3.2	5.3	11,686.6	11,691.9	1.6
Services	1.0	0.6	1.6	2,665.8	2,667.4	0.0
Wholesale and retail	3.9	4.2	8.1	7,962.9	7,971.0	1.3
Banks and other financial institutions		0.0	0.0	4,812.3	4,812.3	
Communication and information services	0.7	0.3	1.0	1,550.2	1,551.2	
Other industries	0.3	28.3	28.6	8,909.4	8,938.0	
Consumer	3.5	5.5	9.0	1,721.3	1,730.3	3.5
Foreign-excluding MUFG Americas Holdings and Krungsri	12.5	19.7	32.2	36,694.3	36,726.5	1.1
Residential	78.1	19.4	97.5	13,974.1	14,071.6	10.8
Card	18.9	32.2	51.1	528.2	579.3	
MUFG Americas Holdings	23.1	13.6	36.7	9,009.5	9,046.2	0.8
Krungsri	116.7	99.3	216.0	5,383.5	5,599.5	
Total	¥ 262.6	¥ 228.1	¥ 490.7	¥ 116,545.1	¥ 117,035.8	¥ 19.1

Notes:

(1) Total loans in the above table do not include loans held for sale or loans acquired with deteriorated credit quality and represent balances without adjustments in relation to unearned income, unamortized premiums and deferred loan fees.

(2) Total loans of MUFG Americas Holdings do not include ¥0.4 billion and ¥0.0 billion of FDIC covered loans as of March 31, 2017 and 2018, respectively, which are not subject to the guidance on loans and debt securities acquired with deteriorated credit quality.

Sales of nonperforming loans

The following table presents comparative data relating to the principal amount of nonperforming loans sold and reversal of allowance for credit losses:

	Principal amount of loans(1)	Allowance for credit losses(2)	Loans, net of allowance	Reversal of allowance for credit losses
		(in billions)		

For the fiscal year ended March 31, 2017	¥ 99.0	¥ 24.0	¥ 75.0	¥ (12.9)
For the fiscal year ended March 31, 2018	¥ 117.9	¥ 18.5	¥ 99.4	¥ (6.3)

Notes:

(1) Represents principal amount after the deduction of charge-offs made before the sales of nonperforming loans.
(2) Represents allowance for credit losses at the latest balance-sheet date.

While we originate various types of loans to corporate and individual borrowers in Japan and overseas in the normal course of business, we dispose of nonperforming loans in order to improve our loan quality. Most of these nonperforming loans are disposed of by sales to third parties without any continuing involvement.

Through the sale of nonperforming loans to third parties, gains or losses may arise from factors such as a change in the credit quality of the borrowers or the value of the underlying collateral subsequent to the prior reporting date, and the risk appetite and investment policy of the purchasers.

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The principal amount of non-performing loans sold in the fiscal year ended March 31, 2018 increased compared to the previous fiscal year mainly due to the increased sales by MUFG Bank of nonperforming loans outstanding to borrowers in the domestic manufacturing industry.

In connection with the sale of loans, including performing loans, we recorded net gains of ¥19.4 billion and ¥2.9 billion for the fiscal years ended March 31, 2017 and 2018, respectively.

Investment Portfolio

Our investment securities primarily consist of Japanese government bonds and marketable equity securities. Japanese government bonds are mostly classified as available-for-sale securities. Our investment in Japanese government bonds is a part of our asset and liability management policy with respect to investing the amount of Japanese yen-denominated funds exceeding our net loans. The percentage of our holding of available-for-sale Japanese government bonds to the total investment securities decreased to 56.3% as of March 31, 2018 from 59.7% as of March 31, 2017. We also hold Japanese government bonds that are classified as held-to-maturity securities, which accounted for 2.5% of the total investment securities as of March 31, 2018.

Historically, we have held equity securities of some of our customers primarily for strategic purposes, in particular to maintain long-term relationships with these customers. We continue to focus on reducing our investment in equity securities for such purposes in order to reduce the price fluctuation risk in our equity portfolio from a risk management perspective and to respond to applicable regulatory requirements as well as increasing market expectations for us to reduce our equity portfolio. As of March 31, 2017 and 2018, the aggregate book value of our marketable equity securities under Japanese GAAP satisfied the requirements of the legislation prohibiting banks from holding equity securities in excess of their Tier 1 capital. In November 2015, we announced that we would aim to reduce the balance of equity securities held for strategic purposes valued under Japanese GAAP to approximately 10% of our Tier 1 capital over a five-year period. During the fiscal year ended March 31, 2018, we sold down ¥201 billion of equity securities held in our strategic equity investment portfolio valued under Japanese GAAP. As of March 31, 2018, the balance of such securities valued under Japanese GAAP represented 14.2% of our Tier 1 capital. However, various factors, including market conditions and changes in our Tier 1 capital ratio, may affect the amount of equity securities we should sell and our ability to achieve the target as planned.

Investment securities increased ¥420.6 billion to ¥43,654.2 billion as of March 31, 2018 from ¥43,233.6 billion as of March 31, 2017, primarily due to an increase in net unrealized gains on marketable equity securities, reflecting the rise in equity prices.

Investment securities other than available-for-sale or held-to-maturity securities, which are nonmarketable equity securities presented on our consolidated balance sheets as other investment securities, were primarily carried at cost of ¥566.6 billion as of March 31, 2018 and ¥556.2 billion as of March 31, 2017, respectively, because their fair values were not readily determinable.

For the fiscal year ended March 31, 2018, losses resulting from impairment of investment securities were ¥8.2 billion, an improvement of ¥25.6 billion compared to the fiscal year ended March 31, 2017. This was mainly due to the positive impact of generally rising stock prices in Japan.

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The following table shows information regarding the amortized cost, net unrealized gains (losses), and fair value of our available-for-sale and held-to-maturity securities as of March 31, 2017 and 2018.

	As of March 31,					
	2017			2018		
	Amortized cost	Fair value	Net unrealized gains (losses)	Amortized cost	Fair value	Net unrealized gains (losses)
	(in billions)					
Available-for-sale securities:						
Debt securities:						
Japanese government and Japanese government agency bonds	¥25,435.6	¥25,826.3	¥ 390.7	¥24,272.3	¥ 24,567.9	¥ 295.6
Japanese prefectural and municipal bonds	1,010.3	1,015.5	5.2	1,532.1	1,537.4	5.3
Foreign governments and official institutions bonds	2,162.9	2,149.9	(13.0)	2,207.7	2,171.7	(36.0)
Corporate bonds	1,122.0	1,141.7	19.7	1,104.8	1,119.4	14.6
Mortgage-backed securities	1,284.1	1,269.2	(14.9)	1,727.8	1,712.8	(15.0)
Asset-backed securities	1,374.8	1,378.3	3.5	1,547.0	1,558.3	11.3
Other debt securities	169.2	170.8	1.6	165.0	165.6	0.6
Marketable equity securities	2,737.0	6,138.4	3,401.4	2,789.4	6,671.6	3,882.2
Total available-for-sale securities	¥35,295.9	¥39,090.1	¥ 3,794.2	¥35,346.1	¥ 39,504.7	¥ 4,158.6
Held-to-maturity debt securities[(1)]	¥ 3,587.3	¥ 3,637.8	¥ 50.5	¥ 3,582.9	¥ 3,620.7	¥ 37.8

Note:

(1) See Note 3 to our consolidated financial statements included elsewhere in this Annual Report for more details.

Net unrealized gains on available-for-sale securities increased ¥364.4 billion to ¥4,158.6 billion as of March 31, 2018 from ¥3,794.2 billion as of March 31, 2017. The increase was primarily attributable to a ¥480.8 billion increase in net unrealized gains on marketable equity securities, primarily reflecting higher equity prices as of March 31, 2018 compared to March 31, 2017. The increase was offset in part by a ¥95.1 billion decrease in net unrealized gains on Japanese government and Japanese government agency bonds, reflecting a reduction in our holdings of Japanese government bonds as part of our asset and liability management and interest rate risk management measures.

The amortized cost of held-to-maturity securities decreased ¥4.4 billion to ¥3,582.9 billion as of March 31, 2018 from ¥3,587.3 billion as of March 31, 2017. The decrease was mainly due to a decrease in mortgage-backed securities. Net unrealized gains on held-to-maturity decreased ¥12.7 billion between March 31, 2017 and March 31, 2018, reflecting a reduction in mortgage-backed securities.

The following table shows information relating to our investment securities other than available-for-sale or held-to-maturity securities as of March 31, 2017 and 2018:

	As of March 31, 2017	2018
	(in billions)	
Other investment securities:		
Nonmarketable equity securities:		
Unlisted preferred securities[1]	¥ 391.4	¥ 391.1
Others[2]	138.5	147.1
Investment securities held by investment companies and brokers and dealers[3]	26.3	28.4
Total	¥ 556.2	¥ 566.6

Notes:

(1) These securities are mainly issued by public companies, including preferred stocks issued by Morgan Stanley, preferred securities issued by our non-consolidated funding vehicles, and other unlisted preferred securities issued by several Japanese public companies. Those securities are primarily carried at cost.

(2) These securities are equity securities issued by unlisted companies other than unlisted preferred securities. Those securities are primarily carried at cost.

(3) These investment securities are held by certain subsidiaries subject to specialized industry accounting principles for investment companies and brokers and dealers, and are measured at fair value.

Cash, due from banks and interest-earning deposits in other banks

Cash, due from banks and interest-earning deposits in other banks increased ¥11,848.4 billion to ¥75,858.1 billion as of March 31, 2018 from ¥64,009.7 billion as of March 31, 2017. Cash and due from banks increased ¥6,965.7 billion to ¥32,648.4 billion as of March 31, 2018 from ¥25,682.7 billion as of March 31, 2017. This increase was mainly because our commercial banking and trust banking subsidiaries deposited with the Bank of Japan a larger amount of cash received on sales and redemptions of Japanese government bonds as the subsidiaries continued to reduce their holdings of such bonds. A larger amount of customer deposits in our commercial banking subsidiaries was also deposited with the Bank of Japan as such deposits increased mainly because near-zero interest rates in Japan resulted in a shift in investor preference from investments in money markets to deposits. Interest-earning deposits in other banks also increased ¥4,882.7 billion to ¥43,209.7 billion as of March 31, 2018 from ¥38,327.0 billion as of March 31, 2017. This was mainly due to an increase in such deposits in overseas banks with higher interest rates, particularly in the United States. Cash, due from banks and interest-earning deposits in other banks fluctuate significantly from day to day depending upon financial market conditions.

Trading Account Assets

Trading account assets decreased ¥6,133.3 billion to ¥35,186.7 billion as of March 31, 2018 from ¥41,320.0 billion as of March 31, 2017. Trading account assets consist of trading account securities and trading derivative assets. Trading account securities increased ¥114.6 billion to ¥22,601.5 billion as of March 31, 2018 from ¥22,486.9 billion as of March 31, 2017. This increase was mainly due to growth in our trading foreign government and official institution bond portfolio and trading equity portfolio. Trading derivative assets decreased ¥6,247.9 billion to ¥12,585.2 billion as of March 31, 2018 from ¥18,833.1 billion as of March 31, 2017. This decrease was mainly attributable to the application of new accounting rules for derivative transactions through central counterparty clearing houses.

Investment Securities

Total investment securities increased ¥420.6 billion to ¥43,654.2 billion as of March 31, 2018 from ¥43,233.6 billion as of March 31, 2017. This was mainly due to an increase in our holding of equity securities, reflecting higher equity prices in Japan. Net unrealized gains on available-for-sale securities as of March 31, 2018 were ¥4,158.6 billion, an increase of ¥364.4 billion from ¥3,794.2 billion as of March 31, 2017, mainly due to higher equity prices as of March 31, 2018 compared to March 31, 2017. This increase was partially offset by a decrease in net unrealized gains on Japanese government bonds primarily due to the reduction in our Japanese government bond portfolio.

Deferred Tax Assets and Deferred Tax Liabilities

Deferred tax assets decreased ¥7.8 billion to ¥68.7 billion as of March 31, 2018 from ¥76.5 billion as of March 31, 2017. Deferred tax assets decreased primarily due to a decrease in allowance for credit losses. Deferred tax liabilities increased ¥240.4 billion to ¥654.1 billion as of March 31, 2018 from ¥413.7 billion as of March 31, 2017. This was primarily due to increases in net unrealized gains on trading securities and investment securities.

For more information, see A. Operating Results Results of Operations Income Tax Expense and Note 7 to our consolidated financial statements included elsewhere in this Annual Report.

Total Liabilities

As of March 31, 2018, total liabilities were ¥284,924.5 billion, an increase of ¥2,504.2 billion from ¥282,420.3 billion as of March 31, 2017. This was primarily due to an increase of ¥5,273.0 billion in deposits and an increase of ¥3,062.4 billion in payables under repurchase agreements and securities lending transactions, partially offset by a decrease of ¥6,567.8 billion in trading account liabilities.

Deposits

Deposits are our primary source of funds. The balance of deposits increased ¥5,273.0 billion to ¥195,674.6 billion as of March 31, 2018 from ¥190,401.6 billion as of March 31, 2017. The increase was mainly attributable to an increase in interest-bearing deposits from retail customers in Japan as well as an increase in foreign deposits.

The total average balance of interest-bearing deposits increased ¥8,995.3 billion to ¥164,562.8 billion for the fiscal year ended March 31, 2018 from ¥155,567.5 billion for the fiscal year ended March 31, 2017.

Short-term Borrowings

We use short-term borrowings as a funding source and in our management of interest rate risk. For management of interest rate risk, short-term borrowings are used in asset and liability management operations to match interest rate risk exposure resulting from loans and other interest-earning assets and to manage funding costs of various financial instruments at an appropriate level, based on our forecast of future interest rate levels. Short-term borrowings consist of call money, funds purchased, payables under repurchase agreements, payables under securities lending transactions, due to trust accounts and other short-term borrowings. For changes in presentation of payables under repurchase agreements, see Note 1 to our consolidated financial statements included elsewhere in this Annual Report.

Short-term borrowings increased ¥2,502.5 billion to ¥39,024.6 billion as of March 31, 2018 from ¥36,522.1 billion as of March 31, 2017. This increase was primarily attributable to a ¥2,621.2 billion increase in payables under securities lending transactions and a ¥441.2 billion increase in payables under repurchase agreements. During the fiscal year ended March 31, 2018, investor preference shifted from deposits to investments in the money market, reversing the trend which started following the introduction of the Bank of Japan s quantitative and qualitative monetary easing with negative interest rates policy in February 2016.

Trading Account Liabilities

Trading account liabilities decreased ¥6,567.8 billion to ¥12,222.3 billion as of March 31, 2018 from ¥18,790.1 billion as of March 31, 2017. This decrease was mainly attributable to the application of new accounting rules for derivative transactions through central counterparty clearing houses.

Long-term Debt

Long-term debt increased ¥938.1 billion to ¥27,069.6 billion as of March 31, 2018 from ¥26,131.5 billion as of March 31, 2017. This increase was due to additional issuances of bonds by us to meet TLAC and other Basel III requirements. The average balance of long-term debt for the fiscal year ended March 31, 2018 was ¥27,932.0 billion, an increase of ¥4,969.1 billion from ¥22,962.9 billion for the previous fiscal year.

The senior notes and subordinated bonds that MUFG issued for TLAC and other Basel III compliance purposes are included in long-term debt. See Recent Developments.

Sources of Funding and Liquidity

Our primary source of liquidity is from a large balance of deposits, mainly ordinary deposits, certificates of deposit and time deposits. Time deposits have historically shown a high rollover rate among our corporate customers and individual depositors. The average deposit balance increased to ¥192,741.2 billion for the fiscal year ended March 31, 2018 from ¥181,238.3 billion for the fiscal year ended March 31, 2017. These deposits provide us with a sizable source of stable and low-cost funds. Our average deposits, combined with our average total equity of ¥15,423.1 billion, funded 64.9% of our average total assets of ¥320,589.9 billion during the fiscal year ended March 31, 2018. Our deposits exceeded our loans before allowance for credit losses by ¥78,638.7 billion as of March 31, 2018 compared to ¥72,186.6 billion as of March 31, 2017. As part of our asset and liability management policy, a significant portion of the amount of Japanese yen-denominated funds exceeding our loans has been deposited with the Bank of Japan or invested in Japanese government bonds in recent periods.

The remaining funding was primarily provided by short-term borrowings and long-term senior and subordinated debt. Short-term borrowings consist of call money and funds purchased, payables under repurchase agreements, payables under securities lending transactions, due to trust account, and other short-term borrowings. From time to time, we have issued long-term instruments, including various fixed and floating interest rate senior and subordinated bonds with and without maturities. The balance of our short-term borrowings as of March 31, 2018 was ¥39,024.6 billion, and the average balance of short-term borrowings for the fiscal year ended March 31, 2018 was ¥38,609.1billion. The balance of our long-term debt as of March 31, 2018 was ¥27,069.6 billion, and the average balance of long-term debt for the fiscal year ended March 31, 2018 was ¥27,932.0 billion. Liquidity may also be provided by the sale of financial assets, including available-for-sale securities, trading account securities and loans. Additional liquidity may be provided by the maturity of loans.

We manage liquidity separately at certain of our domestic and foreign banking and non-bank subsidiaries because they are subject to separate regulatory requirements, pursue different business models and have distinctive liquidity risk profiles. We manage our group-wide liquidity on a consolidated basis based on the tests and analyses conducted at the subsidiary level. Liquidity risk management measures at the subsidiary level include the following:

Domestic banking subsidiaries Our major domestic banking subsidiaries, MUFG Bank and Mitsubishi UFJ Trust and Banking, set liquidity and funding limits designed to maintain their respective requirements for funding from market sources below pre-determined levels for certain periods (e.g., one-day, two-week and one-month). The major domestic banking subsidiaries also monitor the balance of buffer assets they respectively hold, including Japanese government bonds and U.S. Treasury bonds, which can be used for cash funding even in periods of stress. In addition, the major domestic banking subsidiaries regularly perform liquidity stress testing designed to evaluate the impact of systemic market stress conditions and institution-specific stress events, including credit rating downgrades, on their liquidity positions;

Foreign banking subsidiaries Our major foreign banking subsidiaries, MUFG Americas Holdings and Krungsri, monitors various liquidity metrics, including total available liquidity, the net non-core funding dependence ratio, and minimum liquidity assets, as a tool to maintain a sufficient amount of liquidity and diversity of funding sources to allow the major foreign banking subsidiaries to meet expected obligations in both stable and adverse conditions. In addition, the major foreign banking subsidiaries regularly conduct stress testing, which incorporates both bank-specific and systemic market scenarios that would adversely affect its liquidity position, to facilitate the identification of appropriate remedial measures to help ensure that it maintains adequate liquidity in adverse conditions;

Securities subsidiaries Our securities subsidiaries implement liquidity and funding limits designed to maintain their requirements for funding from market sources below pre-determined levels for specified periods. In addition, the securities subsidiaries regularly conduct analyses designed to assess the period for which they can continue to meet their respective liquidity requirements by selling or pledging assets they respectively hold under scenarios where they are unable to access any additional sources of financing in the market; and

Non-bank subsidiaries Our non-bank subsidiaries, including Mitsubishi UFJ NICOS, regularly conduct cash flow analyses designed to assess their ability to generate sufficient liquidity for specified periods, considering the cash and cash equivalents as well as deposits they respectively hold, and their respective operating income and expenses under scenarios where they are no longer able to obtain funding from markets through issuance of commercial paper, bonds or other instruments. The non-bank subsidiaries also conduct analyses to ensure sufficient liquidity and funding are available from our bank subsidiaries and other financial institutions outside of our group of companies.

We collect and evaluate the results of the stress tests individually performed by our major subsidiaries to ensure our ability to meet our liquidity requirements on a consolidated basis in stress scenarios.

We manage our funding sources by setting limits on, or targets for, our holdings of buffer assets, primarily Japanese government bonds. As of March 31, 2018, we held ¥24,567.9 billion of Japanese government bonds and government agency bonds as available-for-sale securities. We also regard deposits with the Bank of Japan as buffer assets. In addition, our commercial banking subsidiaries manage their funding sources through liquidity-supplying products such as commitment lines and through a liquidity gap, or the excess of cash inflows over cash outflows.

In November 2017, Standard and Poor s downgraded the long-term credit ratings of MUFG and Mitsubishi UFJ Securities Holdings by one-notch from A to A-, the long-term credit ratings of MUFG Bank and Mitsubishi UFJ Trust and Banking by one-notch from A+ to A and the short-term credit rating of Mitsubishi UFJ Securities Holdings by one-notch from A-1 to A-2. Although these credit rating and outlook changes have not resulted, and are not currently expected to result, in a material adverse impact on us, a further downgrade of the credit ratings assigned to us or our major subsidiaries could increase the cost, or decrease the availability, of our funding, particularly in U.S. dollars and other foreign currencies, adversely affect our liquidity position or net interest margin, trigger additional collateral or funding obligations, and result in losses of depositors, investors and counterparties willing or permitted to transact with us, thereby reducing our ability to generate income and weakening our financial position. See Item 3.D. Key Information Risk Factors Risks Related to Our Business A downgrade of our credit ratings could adversely affect our ability to access and maintain liquidity .

Liquidity Requirements for Banking Institutions in Japan

Starting in June 2015, banks and bank holding companies in Japan are required to disclose their LCRs calculated in accordance with the methodology prescribed in the FSA guidance that has been adopted to implement the relevant Basel III standard. A minimum LCR of 90% is required in the calendar year 2018, and the required minimum ratio is expected to be raised by 10 percentage points to 100% in the calendar year 2019. See Item 4.B. Information on the Company Business Overview Supervision and Regulation Japan Liquidity Coverage Ratio.

Total Equity

The following table presents a summary of our total equity as of March 31, 2017 and 2018:

	March 31, 2017	March 31, 2018
	(in billions, except percentages)	
Capital stock	¥ 2,090.3	¥ 2,090.3
Capital surplus	5,956.6	5,740.2
Retained earnings	4,171.2	5,185.3
Retained earnings appropriated for legal reserve	239.6	239.6
Unappropriated retained earnings	3,931.6	4,945.7
Net unrealized gains on investment securities, net of taxes	2,032.8	2,270.3
Accumulated other comprehensive income, net of taxes, other than net unrealized gains on investment securities	248.6	207.0
Treasury stock, at cost	(514.0)	(522.9)
Total Mitsubishi UFJ Financial Group shareholders equity	¥ 13,985.5	¥ 14,970.2
Noncontrolling interests	779.2	675.6
Total equity	¥ 14,764.7	¥ 15,645.8
Ratio of total equity to total assets	4.97%	5.21%

Mitsubishi UFJ Financial Group shareholders equity as of March 31, 2018 was ¥14,970.2 billion, an increase of ¥984.7 billion from ¥13,985.5 billion as of March 31, 2017.

Capital surplus decreased ¥216.4 billion to ¥5,740.2 billion as of March 31, 2018 from ¥5,956.6 billion as of March 31, 2017. This decrease was mainly due to repurchases of shares of our common stock and cancellation of the repurchased shares.

Retained earnings increased ¥1,014.1 billion to ¥5,185.3 billion as of March 31, 2018 from ¥4,171.2 billion as of March 31, 2017, reflecting the higher net income for the fiscal year ended March 31, 2018. We decided to pay our year-end dividend of ¥10 per share of our common stock for the six months ended March 31, 2018, resulting in an annual dividend of ¥19 per share of our common stock for the fiscal year ended March 31, 2018.

Net unrealized gains on investment securities, net of taxes, increased ¥237.5 billion to ¥2,270.3 billion as of March 31, 2018 from ¥2,032.8 billion as of March 31, 2017. The increase was mainly due to higher equity prices as of March 31, 2018 compared to March 31, 2017.

Accumulated other comprehensive income, net of taxes, other than net unrealized gains on investment securities decreased ¥41.6 billion to ¥207.0 billion as of March 31, 2018 from ¥248.6 billion as of March 31, 2017. The decrease was mainly due to ¥119.7 billion of negative net change in the balance of foreign currency translation adjustments, reflecting the appreciation of the Japanese yen against the U.S. dollar and other major currencies, partially offset by ¥94.5 billion of positive net change in the balance of defined benefit plans.

Treasury stock increased ¥8.9 billion to ¥522.9 billion as of March 31, 2018 from ¥514.0 billion as of March 31, 2017, as a result of the market purchase of shares of our common stock by the trustee of the trust for the second performance-based stock compensation plan. See Item 6.B. Directors, Senior Management and Employees Compensation Performance-based Stock Compensation Plans.

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As a result of the foregoing, total equity increased ¥881.1 billion to ¥15,645.8 billion as of March 31, 2018 from ¥14,764.7 billion as of March 31, 2017. The ratio of total equity to total assets increased 0.24 percentage points to 5.21% as of March 31, 2018 from 4.97% as of March 31, 2017.

Due to our holdings of a large amount of marketable equity securities and the volatility of the equity markets in Japan, changes in the fair value of marketable equity securities, which are classified as available-for-sale investment securities, have significantly affected our total equity in recent years. The following table presents information relating to the accumulated net unrealized gains, net of taxes, in respect of available-for-sale investment securities as of March 31, 2017 and 2018:

	March 31, 2017	March 31, 2018
	(in billions, except percentages)	
Accumulated net unrealized gains on investment securities	¥ 2,032.8	¥ 2,270.3
Accumulated net unrealized gains on investment securities to total equity	13.77%	14.51%

Capital Adequacy

We are subject to various regulatory capital requirements promulgated by the regulatory authorities of the countries in which we operate. Failure to meet minimum capital requirements can result in mandatory actions being taken by regulators that could have a direct material effect on our consolidated financial statements. Moreover, if our capital ratios are perceived to be low, our counterparties may avoid entering into transactions with us, which in turn could negatively affect our business and operations. For further information, see Item 3.D. Key Information Risk Factors Risks Related to Our Business We may not be able to maintain our capital ratios above minimum required levels, which could result in the suspension of some or all of our operations.

We continually monitor our risk-adjusted capital ratio and leverage ratio closely, and manage our operations in consideration of the capital requirements. These ratios are affected not only by fluctuations in the value of our assets, including our credit risk assets such as loans and equity securities, the risk weights of which depend on the borrowers or issuers internal ratings, marketable securities and deferred tax assets, but also by fluctuations in the value of the Japanese yen against the U.S. dollar and other foreign currencies and by general price levels of Japanese equity securities.

Capital Requirements for Banking Institutions in Japan

Under Japanese regulatory capital requirements, our consolidated capital components, including Common Equity Tier 1, Tier 1, and Tier 2 capital and risk-weighted assets, are calculated based on our consolidated financial statements prepared under Japanese GAAP. Each of the consolidated and stand-alone capital components and risk-weighted assets of our banking subsidiaries in Japan is also calculated based on consolidated and non-consolidated financial statements prepared under Japanese GAAP.

Effective March 31, 2016, the FSA s capital conservation buffer, global systematically important bank, or G-SIB, surcharge, and countercyclical buffer requirements became applicable to Japanese banking institutions with international operations conducted through foreign offices, including us. The requirements are currently being phased in and, as of March 31, 2018, we are required to maintain a capital conservation buffer of 1.875%, a G-SIB surcharge of 1.125% and a countercyclical buffer of 0.01% in addition to the 4.5% minimum Common Equity Tier 1 capital ratio. When fully implemented on March 31, 2019, we will be required to maintain a capital conservation buffer of

2.5%, a G-SIB surcharge of 1.5% and a countercyclical buffer of up to 2.5%, assuming we will be in Bucket 2 of the G-SIB list. See Item 4.B. Information on the Company Business Overview Supervision and Regulation Japan Capital adequacy.

We have been granted approval by the FSA to exclude the majority of our investment in Morgan Stanley from being subject to double gearing adjustments. The approval was granted for a 10-year period, but the

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approval amount will be phased out by 20% each year starting from March 31, 2019. As of March 31, 2018, a full application of double gearing adjustments with respect to our investment in Morgan Stanley would have reduced our Common Equity Tier 1 capital ratio by approximately 0.9%.

Leverage Requirements for Banking Institutions in Japan

We are required to disclose our consolidated leverage ratio calculated in accordance with the methodology prescribed in the FSA guidance that has been adopted to implement the relevant Basel III standard. The leverage ratio is designed for monitoring and preventing the build-up of excessive leverage in the banking sector and is expressed as the ratio of Tier 1 capital to total balance sheet assets adjusted in accordance with the FSA guidance. In December 2017, the Group of Central Bank Governors and Heads of Supervision announced final Basel III reforms. The announced reforms include revisions to the measurement of the leverage ratio and a 3% minimum leverage ratio requirement, plus a G-SIB leverage ratio buffer equal to 50% of the applicable G-SIB capital surcharge. The announcement sets forth implementation dates of January 1, 2018 for the minimum leverage ratio requirement and January 1, 2022 for the G-SIB leverage ratio buffer requirement. These requirements are subject to implementation through legislation and regulation in each of the relevant jurisdictions, including Japan.

Capital Ratios and Leverage Ratios of MUFG

The table below presents our consolidated total capital components, risk-weighted assets, risk-adjusted capital ratios and leverage ratios in accordance with Basel III as of March 31, 2017 and 2018. Underlying figures are calculated in accordance with Japanese banking regulations based on information derived from our consolidated financial statements prepared in accordance with Japanese GAAP, as required by the FSA. The figures in the table below are rounded down. For further information, see Note 22 to our consolidated financial statements included elsewhere in this Annual Report.

	As of March 31, 2017	Minimum capital ratios required(1)	As of March 31, 2018	Minimum capital ratios required(1)
	(in billions, except percentages)			
Capital components:				
Common Equity Tier 1	¥ 13,413.8		¥ 14,284.9	
Additional Tier 1	1,818.6		1,966.8	
Tier 1 capital	15,232.4		16,251.7	
Tier 2 capital	2,843.6		2,543.7	
Total capital	¥ 18,076.1		¥ 18,795.4	
Risk-weighted assets	¥113,986.3		¥ 113,463.6	
Capital ratios:				
Common Equity Tier 1 capital	11.76%	6.50%	12.58%	7.51%
Tier 1 capital	13.36	8.00	14.32	9.01
Total capital	15.85	10.00	16.56	11.01