

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:

Table with 2 columns: Title of each class, Name of each exchange on which registered. Rows include Common stock and American depositary shares.

(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 [x] 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 [x]

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 [x] 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 [x] 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 [x] 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 [x] 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 [x]

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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.

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,” “U.S.\$” 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.

## 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 management, to 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.

## 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.

	Fiscal years ended March 31,				
	2014	2015	2016	2017	2018
	(in millions, except per share data and number of shares)				
<b>Statement of income data:</b>					
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
<b>Amounts per share:</b>					
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) <sup>(1)</sup>	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) <sup>(2)</sup>	¥ 115.00	¥ 57.50	—	—	—
	\$ 1.14	\$ 0.57	—	—	—
—Preferred stock (Class 11) <sup>(3)</sup>	¥ 5.30	¥ 2.65	—	—	—
	\$ 0.05	\$ 0.03	—	—	—

	As of March 31,				
	2014	2015	2016	2017	2018
	(in millions)				
<b>Balance sheet data:</b>					
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 <sup>(4)</sup>	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

	Fiscal years ended March 31,				
	2014	2015	2016	2017	2018
	(in millions, except percentages)				
<b>Other financial data:</b>					
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 loans .....	0.15%	0.13%	0.13%	0.14%	0.15%
Average interest rate spread .....	0.89%	0.90%	0.85%	0.91%	0.92%
Risk-adjusted capital ratio calculated under Japanese GAAP <sup>(5)</sup> .....	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."

### 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				
	<u>February</u>	<u>March</u>	<u>April</u>	<u>May</u>	<u>June</u>
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,				
	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
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.



## **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.”

***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 increase 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.”

***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.

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 systemically 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.

***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.

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

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.

***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."

#### **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.

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.

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



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

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.

## **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 .

### **MUFG's Vision ~ Our Corporate Vision Beyond “Re-Imagining” Initiative**

We aim to deliver the best value to all stakeholders through simple, speedy and transparent\* group-integrated operations. Also, we will contribute to the realization of sustainable growth and a better society by promoting solution-oriented business.

- (1) Engage in the needs and issues of customers and society, and provide optimized solutions.
- (2) Redefine ideal legal entities and the group, and develop a sustainable business model unique to MUFG.
- (3) Provide a workplace where each employee can realize his or her talent development.
- (4) Based on the results achieved above, respond to shareholders' expectations and enhance a reliable relationship with them.

\* Transparent: universal, barrier-free open personnel communications between legal entities, and between company branches and the Head Office, regardless of title and position. It also implies an understanding of MUFG corporate vision.

### ***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.

*(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

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.

### ***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.”

### *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

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.

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.”



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.

### ***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 to 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

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.

*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 Suspicious 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 Banking 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.

*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.

## *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

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,



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.* MUFU 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, MUFU 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. MUFU Union Bank, MUFU Bank, Mitsubishi UFJ Trust and Banking, and MUFU 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.

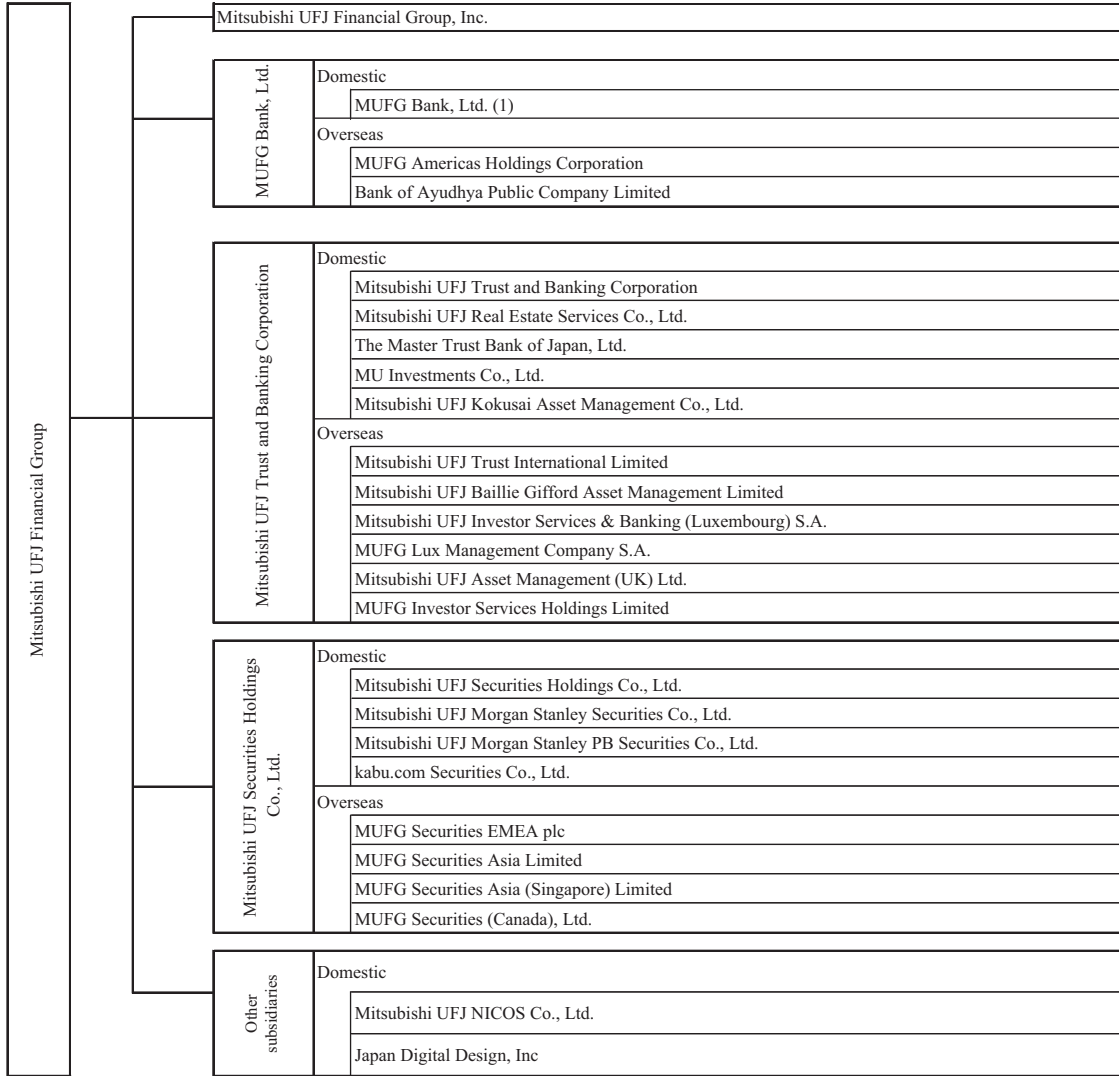
During the fiscal year ended March 31, 2018, one of our non-U.S. subsidiaries engaged in business activities with entities in, or affiliated with, Iran, including counterparties owned or controlled by the Iranian government. Specifically, our non-U.S. banking subsidiary, MUFG Bank, issued letters of 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.

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.

**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.

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



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:

	<u>Book Value</u> <u>(in millions)</u>
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.

**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:

	<b>Fiscal years ended March 31,</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<b>(in billions, except per share data)</b>		
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					Global Markets Business Group	Other	Total
	Retail Banking Business Group	Corporate Banking Business Group <sup>(1)</sup>	Global Business Group <sup>(1)</sup>	Trust Assets Business Group	Total <sup>(1)</sup>			
	(in billions)							
<b>Fiscal year ended March 31, 2017:</b>								
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)	<u>¥ 225.7</u>	<u>¥ 452.5</u>	<u>¥ 482.2</u>	<u>¥ 60.9</u>	<u>¥1,190.4</u>	<u>¥369.7</u>	<u>¥(164.3)</u>	<u>¥1,395.8</u>
<b>Fiscal year ended March 31, 2018:</b>								
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)	<u>¥ 266.1</u>	<u>¥ 422.5</u>	<u>¥ 422.3</u>	<u>¥ 69.8</u>	<u>¥1,151.0</u>	<u>¥254.5</u>	<u>¥(181.4)</u>	<u>¥1,224.1</u>

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.

**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.

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 <sup>(1)</sup>	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 <sup>(1)</sup>	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.

### ***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 between 1.0% 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 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%.

## **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.

### ***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 1,411 million 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.

*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.

## 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			2017			2018		
	Average balance	Interest income (expense)	Average rate	Average balance	Interest income (expense)	Average rate	Average balance	Interest income (expense)	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%

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			Fiscal Year Ended March 31, 2017 versus Fiscal Year Ended March 31, 2018		
	Increase (decrease) due to changes in			Increase (decrease) due to changes in		
	Volume <sup>(1)</sup>	Rate <sup>(1)</sup>	Net change	Volume <sup>(1)</sup>	Rate <sup>(1)</sup>	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	<u>¥(100,279)</u>	<u>¥60,033</u>	<u>¥(40,246)</u>	<u>¥(60,066)</u>	<u>¥ 69,199</u>	<u>¥ 9,133</u>

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.

*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



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:

	<b>Fiscal years ended March 31,</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<b>(in billions)</b>		
<b>Fees and commissions income:</b>			
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)
<b>Trading account profits (losses)—net:</b>			
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)
<b>Investment securities gains—net:</b>			
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 . . . . .	<u>¥2,407.7</u>	<u>¥1,196.7</u>	<u>¥1,935.1</u>

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.

### *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.

- *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:

	<b>Fiscal years ended March 31,</b>	
	<b>2017</b>	<b>2018</b>
	<b>(in billions)</b>	
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 . . . . .	<u>¥(134.9)</u>	<u>¥ (49.6)</u>

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:

	<b>Fiscal years ended March 31,</b>	
	<b>2017</b>	<b>2018</b>
	<b>(in billions)</b>	
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	<u>¥(325.0)</u>	<u>¥(226.8)</u>
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	<u>¥(314.2)</u>	<u>¥ 153.7</u>
Total	<u>¥(639.2)</u>	<u>¥ (73.1)</u>

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

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:

	<b>Fiscal years ended March 31,</b>	
	<b>2016</b>	<b>2017</b>
	<b>(in billions)</b>	
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 . . . . .	<u>(1,058.0)</u>	<u>(407.4)</u>
Total . . . . .	<u>¥ 192.1</u>	<u>¥(134.9)</u>

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:

	<u>Fiscal years ended March 31,</u>	
	<u>2016</u>	<u>2017</u>
	(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	<u>¥ 434.4</u>	<u>¥(325.0)</u>
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	<u>¥(157.7)</u>	<u>¥(314.2)</u>
Total	<u>¥ 276.7</u>	<u>¥(639.2)</u>

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.

### *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 . . . . .	<u>¥3,274.5</u>	<u>¥2,891.6</u>	<u>¥2,744.4</u>

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,



- *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.

*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 . . . . .	<u>31.8%</u>	<u>34.7%</u>	<u>24.5%</u>

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

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					Global Markets Business Group	Other	Total
	Retail Banking Business Group	Corporate Banking Business Group <sup>(1)</sup>	Global Business Group <sup>(1)</sup>	Trust Assets Business Group	Total <sup>(1)</sup>			
	(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 <sup>(2)</sup> : . . . . .	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					Global Markets Business Group	Other	Total
	Retail Banking Business Group	Corporate Banking Business Group <sup>(1)</sup>	Global Business Group <sup>(1)</sup>	Trust Assets Business Group	Total <sup>(1)</sup>			
	(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 <sup>(2)</sup> : . . . . .	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.

Fiscal year ended March 31, 2018	Customer Business				Total <sup>(1)</sup>	Global Markets Business Group	Other	Total
	Retail Banking Business Group	Corporate Banking Business Group <sup>(1)</sup>	Global Business Group <sup>(1)</sup>	Trust Assets Business Group				
	(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 <sup>(2)</sup> : . . . . .	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



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.

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	2018
	(in billions)		
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 <sup>(1)</sup> .....	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 <sup>(1)</sup> .....	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 <sup>(1)</sup> .....	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.

## 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 <sup>(1)</sup> .....	10,748.3	10,111.4
Total foreign .....	<u>105,879.4</u>	<u>104,448.8</u>
Total .....	<u>¥297,185.0</u>	<u>¥300,570.3</u>

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.

## 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 <sup>(1)</sup> . . . . .	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 . . . . .	<u>67,006.5</u>	<u>65,696.4</u>
Foreign:		
Governments and official institutions . . . . .	1,037.8	920.5
Banks and other financial institutions <sup>(1)</sup> . . . . .	13,845.0	12,851.6
Commercial and industrial . . . . .	30,279.6	30,591.2
Other . . . . .	6,334.6	7,270.9
Total foreign . . . . .	<u>51,497.0</u>	<u>51,634.2</u>
Unearned income, unamortized premium—net and deferred loan fees—net . . . . .	(288.5)	(294.7)
Total <sup>(2)</sup> . . . . .	<u>¥118,215.0</u>	<u>¥117,035.9</u>

### 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



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:

<u>As of March 31, 2017:</u>	<u>Normal</u>	<u>Close Watch</u>	<u>Likely to become Bankrupt or Legally/Virtually Bankrupt</u>	<u>Total<sup>(1)</sup></u>		
	(in billions)					
<b>Commercial</b>						
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 .....	<u>¥85,723.3</u>	<u>¥3,145.8</u>	<u>¥491.6</u>	<u>¥89,360.7</u>		
			<u>Accrual</u>	<u>Nonaccrual</u>	<u>Total<sup>(1)</sup></u>	
			(in billions)			
<b>Residential</b> .....			¥14,256.2	¥76.2	¥14,332.4	
<b>Card</b> .....			¥ 531.4	¥61.8	¥ 593.2	
	<u>Credit Quality Based on the Number of Delinquencies</u>		<u>Credit Quality Based on Internal Credit Ratings</u>			
	<u>Accrual</u>	<u>Nonaccrual</u>	<u>Pass</u>	<u>Special Mention</u>	<u>Classified</u>	<u>Total<sup>(1)(2)</sup></u>
	(in billions)					
<b>MUFG Americas Holdings</b> .....	¥3,837.8	¥22.9	¥4,879.2	¥133.0	¥151.6	¥9,024.5
		<u>Normal</u>	<u>Special Mention</u>	<u>Substandard or Doubtful or Doubtful of Loss</u>		<u>Total<sup>(1)</sup></u>
		(in billions)				
<b>Krungsri</b> .....	¥4,672.4	¥195.5	¥98.3		¥4,966.2	

<u>As of March 31, 2018:</u>	<u>Normal</u>	<u>Close Watch</u>	<u>Likely to become Bankrupt or Legally/Virtually Bankrupt</u>	<u>Total<sup>(1)</sup></u>
	(in billions)			
<b>Commercial</b>				
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
<b>Total</b> .....	<u>¥85,111.4</u>	<u>¥2,271.8</u>	<u>¥383.3</u>	<u>¥87,766.5</u>

	<u>Accrual</u>	<u>Nonaccrual</u>	<u>Total<sup>(1)</sup></u>
	(in billions)		
<b>Residential</b> .....	¥14,012.9	¥67.3	¥14,080.2
<b>Card</b> .....	¥ 528.1	¥61.7	¥ 589.8

	<u>Credit Quality Based on the Number of Delinquencies</u>		<u>Credit Quality Based on Internal Credit Ratings</u>			<u>Total<sup>(1)(2)</sup></u>
	<u>Accrual</u>	<u>Nonaccrual</u>	<u>Pass</u>	<u>Special Mention</u>	<u>Classified</u>	
	(in billions)					
<b>MUFG Americas Holdings</b> .....	¥4,360.5	¥14.2	¥4,509.1	¥59.9	¥116.8	¥9,060.5
	<u>Normal</u>	<u>Special Mention</u>	<u>Substandard or Doubtful or Doubtful of Loss</u>		<u>Total<sup>(1)</sup></u>	
	(in billions)					
<b>Krungsri</b> .....	¥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.

*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:

<b><u>Fiscal year ended March 31, 2017:</u></b>	<b><u>Commercial</u></b>	<b><u>Residential</u></b>	<b><u>Card</u></b>	<b><u>MUFG Americas Holdings</u></b>	<b><u>Krungsri</u></b>	<b><u>Total</u></b>
	(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 <sup>(1)</sup> . . . . .	(6.0)	—	—	(5.4)	(1.3)	(12.7)
Balance at end of fiscal year . . . . .	<u>¥ 900.7</u>	<u>¥ 67.3</u>	<u>¥30.2</u>	<u>¥ 73.7</u>	<u>¥110.3</u>	<u>¥1,182.2</u>
<b><u>Fiscal year ended March 31, 2018:</u></b>	<b><u>Commercial</u></b>	<b><u>Residential</u></b>	<b><u>Card</u></b>	<b><u>MUFG Americas Holdings</u></b>	<b><u>Krungsri</u></b>	<b><u>Total</u></b>
	(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 <sup>(1)</sup> . . . . .	(2.4)	—	—	(2.0)	8.1	3.7
Balance at end of fiscal year . . . . .	<u>¥ 491.1</u>	<u>¥ 42.5</u>	<u>¥32.1</u>	<u>¥ 53.8</u>	<u>¥144.6</u>	<u>¥ 764.1</u>

Note:

(1) Others are principally comprised of gains or losses from foreign exchange translation.

Allowance for credit losses and recorded investment in loans by portfolio segment as of March 31, 2017 and 2018 are shown below:

<u>As of March 31, 2017:</u>	<u>Commercial</u>	<u>Residential</u>	<u>Card</u>	<u>MUFG Americas Holdings</u>	<u>Krungsri</u>	<u>Total</u>
	(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
<b>Total . . . . .</b>	<b>¥ 900.7</b>	<b>¥ 67.3</b>	<b>¥ 30.2</b>	<b>¥ 73.7</b>	<b>¥ 110.3</b>	<b>¥ 1,182.2</b>
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
<b>Total<sup>(1)</sup> . . . . .</b>	<b>¥89,360.7</b>	<b>¥14,332.4</b>	<b>¥593.2</b>	<b>¥9,065.0</b>	<b>¥4,966.2</b>	<b>¥118,317.5</b>
<u>As of March 31, 2018:</u>	<u>Commercial</u>	<u>Residential</u>	<u>Card</u>	<u>MUFG Americas Holdings</u>	<u>Krungsri</u>	<u>Total</u>
	(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
<b>Total . . . . .</b>	<b>¥ 491.1</b>	<b>¥ 42.5</b>	<b>¥ 32.1</b>	<b>¥ 53.8</b>	<b>¥ 144.6</b>	<b>¥ 764.1</b>
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
<b>Total<sup>(1)</sup> . . . . .</b>	<b>¥87,766.5</b>	<b>¥14,080.2</b>	<b>¥589.8</b>	<b>¥9,061.4</b>	<b>¥5,605.7</b>	<b>¥117,103.6</b>

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 March 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

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.



### 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)	
<b>Commercial</b>		
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
<b>Residential</b>	75.4	69.5
<b>Card</b>	61.4	61.4
<b>MUFG Americas Holdings</b>	82.2	52.3
<b>Krungsri</b>	94.9	121.2
<b>Total<sup>(1)</sup></b>	<u>¥976.9</u>	<u>¥746.9</u>

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.

*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:

	<u>As of March 31,</u>	
	<u>2017</u>	<u>2018</u>
	(in billions)	
<b>Commercial<sup>(1)</sup></b>		
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
<b>Residential<sup>(1)</sup></b>	50.2	40.7
<b>Card<sup>(2)</sup></b>	72.3	67.3
<b>MUFG Americas Holdings<sup>(2)</sup></b>	69.8	65.4
<b>Krungsri<sup>(2)</sup></b>	46.7	54.0
<b>Total</b>	<u>¥927.8</u>	<u>¥764.2</u>

#### 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 billion primarily due to the sale of loans outstanding to a large foreign government investment vehicle.

*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 growth 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.

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			Unpaid Principal Balance	Related Allowance for Credit Losses
	Requiring an Allowance for Credit Losses	Not Requiring an Allowance for Credit Losses <sup>(1)</sup>	Total <sup>(2)</sup>		
(in billions)					
<b>Commercial</b>					
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
<b>Residential</b> .....	120.4	6.6	127.0	154.0	47.0
<b>Card</b> .....	71.8	0.5	72.3	80.4	20.5
<b>MUFG Americas Holdings</b> .....	77.2	16.3	93.5	113.4	19.2
<b>Krungsri</b> .....	44.7	20.8	65.5	71.1	19.1
<b>Total<sup>(3)</sup></b> .....	<u>¥1,461.0</u>	<u>¥254.9</u>	<u>¥1,715.9</u>	<u>¥1,847.6</u>	<u>¥882.2</u>

As of March 31, 2018

	Recorded Loan Balance			Unpaid Principal Balance	Related Allowance for Credit Losses
	Requiring an Allowance for Credit Losses	Not Requiring an Allowance for Credit Losses <sup>(1)</sup>	Total <sup>(2)</sup>		
	(in billions)				
<b>Commercial</b>					
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
<b>Residential</b> .....	105.1	6.2	111.3	134.7	16.9
<b>Card</b> .....	67.0	0.4	67.4	74.8	21.2
<b>MUFG Americas Holdings</b> .....	48.8	33.7	82.5	94.6	7.7
<b>Krungsri</b> .....	58.5	25.6	84.1	91.0	29.4
<b>Total<sup>(3)</sup></b> .....	<u>¥1,036.0</u>	<u>¥295.1</u>	<u>¥1,331.1</u>	<u>¥1,476.9</u>	<u>¥494.3</u>

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)			
<b>Commercial</b>				
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
<b>Residential</b>	133.9	1.9	119.4	1.6
<b>Card</b>	75.8	2.5	69.8	2.0
<b>MUFG Americas Holdings</b>	91.7	1.7	83.5	2.0
<b>Krungsri</b>	51.6	2.2	75.4	3.9
Total	<u>¥1,792.1</u>	<u>¥27.9</u>	<u>¥1,484.1</u>	<u>¥23.6</u>

Past due analysis

Aging of past due loans by class as of March 31, 2017 and 2018 are shown below:

<u>As of March 31, 2017:</u>	<u>1-3 months Past Due</u>	<u>Greater Than 3 months</u>	<u>Total Past Due</u>	<u>Current</u>	<u>Total Loans<sup>(1)(2)</sup></u>	<u>Recorded Investment &gt; 90 Days and Accruing</u>
	(in billions)					
<b>Commercial</b>						
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
<b>Residential</b> . . . . .	78.2	42.4	120.6	14,202.1	14,322.7	31.4
<b>Card</b> . . . . .	17.5	31.3	48.8	533.5	582.3	—
<b>MUFG Americas Holdings</b> . . . . .	25.2	14.2	39.4	8,998.0	9,037.4	1.2
<b>Krungsri</b> . . . . .	103.0	73.3	176.3	4,780.7	4,957.0	—
<b>Total</b> . . . . .	<u>¥241.6</u>	<u>¥230.7</u>	<u>¥472.3</u>	<u>¥117,753.6</u>	<u>¥118,225.9</u>	<u>¥40.6</u>

<u>As of March 31, 2018:</u>	<u>1-3 months Past Due</u>	<u>Greater Than 3 months</u>	<u>Total Past Due</u>	<u>Current</u>	<u>Total Loans<sup>(1)(2)</sup></u>	<u>Recorded Investment &gt; 90 Days and Accruing</u>
	(in billions)					
<b>Commercial</b>						
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
<b>Residential</b> . . . . .	78.1	19.4	97.5	13,974.1	14,071.6	10.8
<b>Card</b> . . . . .	18.9	32.2	51.1	528.2	579.3	—
<b>MUFG Americas Holdings</b> . . . . .	23.1	13.6	36.7	9,009.5	9,046.2	0.8
<b>Krungsri</b> . . . . .	116.7	99.3	216.0	5,383.5	5,599.5	—
<b>Total</b> . . . . .	<u>¥262.6</u>	<u>¥228.1</u>	<u>¥490.7</u>	<u>¥116,545.1</u>	<u>¥117,035.8</u>	<u>¥19.1</u>

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:

	<u>Principal amount of loans<sup>(1)</sup></u>	<u>Allowance for credit losses<sup>(2)</sup></u>	<u>Loans, net of allowance</u>	<u>Reversal of allowance for credit losses</u>
	(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.



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.

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 . . . . .	<u>¥35,295.9</u>	<u>¥39,090.1</u>	<u>¥3,794.2</u>	<u>¥35,346.1</u>	<u>¥39,504.7</u>	<u>¥4,158.6</u>
Held-to-maturity debt securities <sup>(1)</sup> . . . . .	<u>¥ 3,587.3</u>	<u>¥ 3,637.8</u>	<u>¥ 50.5</u>	<u>¥ 3,582.9</u>	<u>¥ 3,620.7</u>	<u>¥ 37.8</u>

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:

	<u>As of March 31,</u>	
	<u>2017</u>	<u>2018</u>
	(in billions)	
Other investment securities:		
Nonmarketable equity securities:		
Unlisted preferred securities <sup>(1)</sup> .....	¥391.4	¥391.1
Others <sup>(2)</sup> .....	138.5	147.1
Investment securities held by investment companies and brokers and dealers <sup>(3)</sup> .....	26.3	28.4
Total .....	<u>¥556.2</u>	<u>¥566.6</u>

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 ¥38,609.1 billion. 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:

	<u>March 31, 2017</u>	<u>March 31, 2018</u>
	<u>(in billions, except percentages)</u>	
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	<u>(514.0)</u>	<u>(522.9)</u>
Total Mitsubishi UFJ Financial Group shareholders’ equity	¥13,985.5	¥14,970.2
Noncontrolling interests	<u>779.2</u>	<u>675.6</u>
Total equity	<u>¥14,764.7</u>	<u>¥15,645.8</u>
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.”

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:

	<u>March 31, 2017</u>	<u>March 31, 2018</u>
	(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



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.

	<u>As of March 31, 2017</u>	<u>Minimum capital ratios required<sup>(1)</sup></u>	<u>As of March 31, 2018</u>	<u>Minimum capital ratios required<sup>(1)</sup></u>
	(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
Leverage ratio . . . . .	4.81	—	5.01	—

Note:

(1) Effective March 31, 2016, the FSA's capital conservation buffer, G-SIB surcharge and countercyclical buffer requirements became applicable to Japanese banking institutions with international operations conducted through foreign offices. As of March 31, 2017, the minimum capital ratios required included a capital conservation buffer of 1.25% and a G-SIB surcharge of 0.75%. As of the same date, no countercyclical buffer was required. As of March 31, 2018, the minimum capital ratios required included a capital conservation buffer of 1.875%, a G-SIB surcharge of 1.125% and a countercyclical buffer of 0.01%.

Management believes that, as of March 31, 2018, we were in compliance with all capital adequacy requirements to which we were subject.

Our Common Equity Tier 1 capital ratio as of March 31, 2018 was higher compared to the ratio as of March 31, 2017 due to an increase in our Common Equity Tier 1 capital. The increase in our Common Equity

Tier 1 capital was mainly due to increases in retained earnings and other comprehensive income. The lower risk-weighted assets mainly reflected a decrease in credit risk resulting from updates to parameters for the calculation of credit risks and improvements in the quality of our credit portfolio.

**Capital Ratios and Leverage Ratios of Major Banking Subsidiaries in Japan**

The table below presents the risk-adjusted capital ratios and leverage ratios of MUFG Bank and Mitsubishi UFJ Trust and Banking 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 each bank's consolidated and non-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.

	<u>As of March 31, 2017</u>	<u>Minimum capital ratios required</u>	<u>As of March 31, 2018</u>	<u>Minimum capital ratios required</u>
Consolidated:				
MUFG Bank				
Common Equity Tier 1 capital ratio . . . . .	11.14%	4.50%	11.85%	4.50%
Tier 1 capital ratio . . . . .	12.70	6.00	13.59	6.00
Total capital ratio . . . . .	15.28	8.00	15.90	8.00
Leverage ratio . . . . .	4.73	—	4.81	—
Mitsubishi UFJ Trust and Banking				
Common Equity Tier 1 capital ratio . . . . .	15.87	4.50	16.21	4.50
Tier 1 capital ratio . . . . .	16.94	6.00	17.67	6.00
Total capital ratio . . . . .	19.80	8.00	20.03	8.00
Leverage ratio . . . . .	4.52	—	4.71	—
Stand-alone:				
MUFG Bank				
Common Equity Tier 1 capital ratio . . . . .	12.04	4.50	12.54	4.50
Tier 1 capital ratio . . . . .	13.88	6.00	14.51	6.00
Total capital ratio . . . . .	16.70	8.00	16.90	8.00
Mitsubishi UFJ Trust and Banking				
Common Equity Tier 1 capital ratio . . . . .	16.35	4.50	16.18	4.50
Tier 1 capital ratio . . . . .	17.45	6.00	17.55	6.00
Total capital ratio . . . . .	20.48	8.00	19.88	8.00

Management believes that, as of March 31, 2018, our banking subsidiaries were in compliance with all capital adequacy requirements to which they were subject.

### ***Liquidity Coverage Ratios of MUFG and Major Banking Subsidiaries in Japan***

The following table presents the LCRs of MUFG, MUFG Bank and Mitsubishi UFJ Trust and Banking in accordance with Basel III as adopted by the FSA for the three months ended March 31, 2017 and 2018. The figures underlying the ratios were calculated in accordance with Japanese banking regulations. The percentages in the table below are rounded down. The minimum ratios required during the period from January 1 to December 31, 2017 and 2018 were 80% and 90%, respectively.

	Three months ended				
	March 31, 2017 <sup>(1,6)</sup>	June 30, 2017 <sup>(2,6)</sup>	September 30, 2017 <sup>(3,6)</sup>	December 31, 2017 <sup>(4,6)</sup>	March 31, 2018 <sup>(5,6)</sup>
MUFG (consolidated) . . . . .	137.9%	140.9%	145.4%	145.7%	144.8%
MUFG Bank (consolidated) . . . . .	149.3	153.5	160.3	162.6	160.0
MUFG Bank (stand-alone) . . . . .	160.4	164.4	172.0	174.0	170.4
Mitsubishi UFJ Trust and Banking (consolidated) . .	115.6	114.8	114.2	111.3	113.8
Mitsubishi UFJ Trust and Banking (stand-alone) . . .	129.5	127.8	128.0	123.8	127.7

Notes:

- (1) Each of the ratios is calculated as the average balance of High-Quality Liquid Assets on the business days between January 3, 2017 and March 31 2017 divided by the average amount of net cash outflows for the same sixty-one business days.
- (2) Each of the ratios is calculated as the average balance of High-Quality Liquid Assets on the business days between April 3, 2017 and June 30, 2017 divided by the average amount of net cash outflows for the same sixty-two business days.
- (3) Each of the ratios is calculated as the average balance of High-Quality Liquid Assets on the business days between July 3, 2017 and September 29, 2017 divided by the average amount of net cash outflows for the same sixty-two business days.
- (4) Each of the ratios is calculated as the average balance of High-Quality Liquid Assets on the business days between October 2, 2017 and December 29, 2017 divided by the average amount of net cash outflows for the same sixty-two business days.
- (5) Each of the ratios is calculated as the average balance of High-Quality Liquid Assets on the business days between January 4, 2018 and March 30, 2018 divided by the average amount of net cash outflows for the same fifty-nine business days.
- (6) The LCR is to be calculated as an average based on daily values in accordance with the Japanese banking regulations.

See “—B. Liquidity and Capital Resources—Sources of Funding and Liquidity.”

### ***Capital Requirements for Banking Institutions in the United States***

In the United States, MUFG Americas Holdings and MUFG Union Bank are subject to various regulatory capital requirements administered by the U.S. Federal banking agencies. Failure to meet the applicable minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a material effect on MUFG Americas Holdings’ consolidated financial statements.

For a more detailed discussion of the applicable capital requirements, see “Item 4.B. Information on the Company—Business Overview—Supervision and Regulation—United States.” See also Note 22 to our consolidated financial statements included elsewhere in this Annual Report.

In addition, as foreign banking organizations that have U.S. branches and agencies and also as entities that are controlled by MUFG, MUFG Bank and Mitsubishi UFJ Trust and Banking are subject to the FRB’s requirements.

### ***Capital Ratios of Banking Subsidiaries in the United States***

The table below presents the risk-adjusted capital ratios of MUFG Americas Holdings and MUFG Union Bank, both subsidiaries of MUFG Bank, calculated in accordance with applicable U.S. banking regulations as of December 31, 2016 and 2017:

	As of December 31, 2016	Minimum capital ratios required as of December 31, 2016 <sup>(1)</sup>	As of December 31, 2017	Minimum capital ratios required as of December 31, 2017 <sup>(2)</sup>	Ratio OCC requires to be "well capitalized" as of December 2017
<b>MUFG Americas Holdings:</b>					
Tier I capital (to risk-weighted assets) . . . . .	14.77%	6.625%	16.31%	7.250%	—
Tier I capital (to quarterly average assets) <sup>(3)</sup> . . . . .	9.92	4.000	10.06	4.000	—
Total capital (to risk-weighted assets) . . . . .	16.45	8.625	17.76	9.250	—
<b>Common Equity Tier I Capital (to risk-weighted assets) . . . . .</b>					
	14.77	5.125	16.31	5.750	—
<b>MUFG Union Bank:</b>					
Tier I capital (to risk-weighted assets) . . . . .	14.61%	6.625%	16.17%	7.250%	8.0%
Tier I capital (to quarterly average assets) <sup>(3)</sup> . . . . .	11.46	4.000	11.78	4.000	5.0
Total capital (to risk-weighted assets) . . . . .	16.29	8.625	17.68	9.250	10.0
<b>Common Equity Tier I Capital (to risk-weighted assets) . . . . .</b>					
	14.61	5.125	16.17	5.750	6.5

Notes:

- (1) Beginning January 1, 2016, the minimum capital requirement includes a capital conservation buffer of 0.625%.
- (2) Beginning January 1, 2017, the minimum capital requirement includes a capital conservation buffer of 1.250%.
- (3) Excludes certain deductions.

Management believes that, as of December 31, 2017, MUFG Americas Holdings and MUFG Union Bank were in compliance with all capital adequacy requirements to which they were subject.

As of December 31, 2016 and 2017, the OCC categorized MUFG Union Bank as "well-capitalized." To be categorized as "well-capitalized," MUFG Union Bank must maintain minimum ratios of Total and Tier I capital to risk-weighted assets and of Tier I capital to quarterly average assets (leverage ratio) as set forth in the table. There have been no conditions or events since December 31, 2017 that would cause management to believe that MUFG Union Bank's category has changed.

For further information, see Note 22 to our consolidated financial statements included elsewhere in this Annual Report.

### ***Capital Requirements for Securities Firms in Japan and Overseas***

We have securities subsidiaries in Japan and overseas, which are also subject to regulatory capital requirements. In Japan, the Financial Instruments and Exchange Act of Japan and related ordinances require financial instruments firms to maintain a minimum capital ratio of 120% calculated as a percentage of capital accounts less certain fixed assets, as determined in accordance with Japanese GAAP, against amounts equivalent

to market, counterparty credit and operations risks. Specific guidelines are issued as a ministerial ordinance which details the definition of essential components of the capital ratios, including capital, deductible fixed asset items and risks, and related measures. Failure to maintain a minimum capital ratio will trigger mandatory regulatory actions. A capital ratio of less than 140% will call for additional regulatory reporting, a capital ratio of less than 120% may result in an order to change the method of business, and a capital ratio of less than 100% may lead to a suspension of all or part of the business for a period of time and cancellation of a registration. Overseas securities subsidiaries are subject to the relevant regulatory capital requirements of the countries or jurisdictions in which they operate.

### ***Capital Ratio of Mitsubishi UFJ Morgan Stanley Securities***

As of March 31, 2018, Mitsubishi UFJ Morgan Stanley Securities' capital accounts less certain fixed assets of ¥446.5 billion on a stand-alone basis represented 291.2% of the total amounts equivalent to market, counterparty credit and operations risks. As of the same date, Mitsubishi UFJ Morgan Stanley Securities' capital accounts less certain fixed assets of ¥473.3 billion on a consolidated basis represented 293.2% of the total amounts equivalent to market, counterparty credit and operations risks. As of March 31, 2017, Mitsubishi UFJ Morgan Stanley Securities' capital accounts less certain fixed assets of ¥426.1 billion on a stand-alone basis represented 323.0% of the total amounts equivalent to market, counterparty credit and operations risks. As of the same date, Mitsubishi UFJ Morgan Stanley Securities' capital accounts less certain fixed assets of ¥451.2 billion on a consolidated basis represented 324.7% of the total amounts equivalent to market, counterparty credit and operations risks. These figures are calculated in accordance with Japanese GAAP, pursuant to the Financial Instruments and Exchange Act of Japan.

For further information, see Note 22 to our consolidated financial statements included elsewhere in this Annual Report.

### **Non-exchange Traded Contracts Accounted for at Fair Value**

The use of non-exchange traded or over-the-counter contracts provides us with the ability to adapt to the varied requirements of a wide customer base while mitigating market risks. Non-exchange traded contracts are accounted for at fair value, which is generally based on pricing models or quoted prices for instruments with similar characteristics. Gains or losses on non-exchange traded contracts are included in "Trading account profits (losses)—net" in our consolidated statements of income included elsewhere in this Annual Report. The following table summarizes the changes in the fair value of non-exchange traded contracts for the fiscal years ended March 31, 2017 and 2018:

	<b>Fiscal years ended March 31,</b>	
	<b>2017</b>	<b>2018</b>
	<b>(in millions)</b>	
Net fair value of contracts outstanding at beginning of fiscal year . . . . .	¥ 4,790	¥ 4,373
Changes attributable to contracts realized or otherwise settled during the fiscal year . . . . .	920	(2,126)
Fair value of new contracts entered into during the fiscal year . . . . .	—	—
Other changes in fair value, principally revaluation at end of fiscal year . . . . .	(1,337)	(435)
Net fair value of contracts outstanding at end of fiscal year . . . . .	<u>¥ 4,373</u>	<u>¥ 1,812</u>

The following table summarizes the maturities of non-exchange traded contracts as of March 31, 2018:

	Net fair value of contracts—unrealized gains	
	Prices provided by other external sources	Prices based on models and other valuation methods
	(in millions)	
Maturity less than 1 year . . . . .	¥1,001	¥(40)
Maturity less than 3 years . . . . .	835	9
Maturity less than 5 years . . . . .	7	—
Maturity 5 years or more . . . . .	—	—
Total fair value . . . . .	<u>¥1,843</u>	<u>¥(31)</u>

**C. Research and Development, Patents and Licenses, etc.**

Not applicable.

**D. Trend Information**

See the discussions in “—Business Environment,” “—Recent Developments,” “—A. Operating Results” and “—B. Liquidity and Capital Resources.”

**E. Off-Balance Sheet Arrangements**

In the normal course of business, we engage in several types of off-balance sheet arrangements to meet the financing needs of customers, including various types of guarantees, credit commitments and commercial letters of credit. The following table summarizes these commitments as of March 31, 2018:

	Amount of commitment by expiration period			
	1 year or less	1-5 years	Over 5 years	Total
	(in billions)			
Guarantees:				
Standby letters of credit and financial guarantees . . . . .	¥ 3,115	¥ 850	¥ 346	¥ 4,311
Performance guarantees . . . . .	2,144	801	106	3,051
Derivative instruments . . . . .	15,230	18,314	6,969	40,513
Liabilities of trust accounts . . . . .	6,017	558	2,869	9,444
Others . . . . .	2	4	16	22
Total guarantees . . . . .	<u>26,508</u>	<u>20,527</u>	<u>10,306</u>	<u>57,341</u>
Other off-balance sheet instruments:				
Commitments to extend credit . . . . .	52,722	25,038	2,330	80,090
Commercial letters of credit . . . . .	955	235	1	1,191
Commitments to make investments . . . . .	13	69	101	183
Others . . . . .	—	13	—	13
Total other off-balance sheet instruments . . . . .	<u>¥53,690</u>	<u>¥25,355</u>	<u>¥ 2,432</u>	<u>¥81,477</u>

See Note 25 to our consolidated financial statements included elsewhere in this Annual Report for a description of the nature of our guarantees and other off-balance sheet instruments.

The contractual amounts of these guarantees and other off-balance sheet instruments represent the amounts at risk if the contracts were to be fully drawn upon as a result of a subsequent default by our customer and a decline in the value of the underlying collateral. Since many of these commitments expire without being drawn

upon, the total contractual or notional amounts of these commitments do not necessarily represent our future cash requirements. As of March 31, 2018, approximately 58% of these commitments have an expiration date within one year, 33% have an expiration date from one year to five years, and 9% have an expiration date after five years. Risks relating to off-balance sheet instruments are monitored and managed as a part of our risk management system as set forth in “Item 11. Quantitative and Qualitative Disclosures about Credit, Market and Other Risk.” We evaluate off-balance sheet arrangements in the manner described in Note 1 to our consolidated financial statements included elsewhere in this Annual Report.

The fees generated specifically from off-balance sheet arrangements are not a dominant source of our overall fees and commissions.

Some of our off-balance sheet arrangements are related to activities of special purpose entities, most of which are VIEs. For further information, see Note 26 to our consolidated financial statements included elsewhere in this Annual Report.

## F. Tabular Disclosure of Contractual Obligations

The following table shows a summary of our contractual obligations outstanding as of March 31, 2018:

	Payments due by period				Total
	Less than 1 year	1-3 years	3-5 years	Over 5 years	
	(in billions)				
Contractual obligations:					
Time deposit obligations	¥56,885	¥ 8,885	¥1,478	¥ 871	¥68,119
Estimated interest expense on time deposit obligations <sup>(1)</sup>	151	21	5	0	177
Long-term debt obligations	2,997	12,135	4,271	7,662	27,065
Capital lease obligations	5	7	4	3	19
Operating lease obligations	93	150	116	311	670
Purchase obligations	154	59	76	54	343
<b>Total<sup>(2)(3)</sup></b>	<b>¥60,285</b>	<b>¥21,257</b>	<b>¥5,950</b>	<b>¥8,901</b>	<b>¥96,393</b>

### Notes:

- (1) Contractual obligations related to estimated interest expense on time deposit obligations are calculated by applying the March 31, 2018 weighted-average interest rate on outstanding time deposits.
- (2) The total amount of expected future pension payments is not included in the above table or the total amount of commitments outstanding as of March 31, 2018. We expect to contribute approximately ¥78.3 billion for pension and other benefits for our employees for the fiscal year ending March 31, 2019. For further information, see Note 13 to our consolidated financial statements included elsewhere in this Annual Report.
- (3) The above table does not include unrecognized tax benefits and interest and penalties related to income tax associated with the guidance on accounting for uncertainty in income taxes as we cannot estimate reasonably the timing of cash settlement of the liabilities for unrecognized tax benefits. The total amount of the liabilities for unrecognized tax benefits is ¥12.9 billion as of March 31, 2018. Among the liabilities for unrecognized tax benefits, it is reasonably possible that the unrecognized tax benefits will decrease by approximately ¥4.0 billion during the next twelve months. For further information, see Note 7 to our consolidated financial statements included elsewhere in this Annual Report.

Purchase obligations include any legally binding contractual obligations that require us to spend more than ¥100 million annually under the contract. Purchase obligations in the table primarily include commitments to make investments into corporate recovery or private equity investment funds.

## G. Safe Harbor

See the discussion under “Forward-Looking Statements.”

**Item 6. Directors, Senior Management and Employees.**

**A. Directors and Senior Management**

**Members of the Board of Directors**

The following table sets forth the members of our board of directors as of July 1, 2018, together with their respective dates of birth, positions and experience:

<b>Name (Date of Birth)</b>	<b>Position in MUFG</b>	<b>Business Experience</b>	
Hiroshi Kawakami (May 3, 1949)	Member of the Board of Directors (Outside Director)	April 1972	Joined Toyota Motor Corporation
		June 2003	Managing Officer of TOYOTA MOTOR CORPORATION (TOYOTA)
		June 2007	Senior Managing Director of TOYOTA
		June 2008	Vice President of Toyota Tsusho Corporation
		June 2009	President & CEO of Central Japan International Airport Co., Ltd.
		June 2015	Senior Advisor of Central Japan International Airport Co., Ltd.
			Member of the Board of Directors (Outside director) of MUFG (incumbent)
		June 2016	Outside director of AT-Group Co., Ltd (incumbent)
		June 2017	Advisor of Central Japan International Airport Co., Ltd. (incumbent)
Yuko Kawamoto (May 31, 1958)	Member of the Board of Directors (Outside Director)	April 1982	Joined The Bank of Tokyo, Ltd.
		April 1986	Resigned from The Bank of Tokyo, Ltd.
		September 1988	Joined McKinsey & Company, Inc.
		July 2001	Senior Expert of McKinsey & Company, Inc., Tokyo office
		March 2004	Resigned from McKinsey & Company, Inc.
		April 2004	Professor at Waseda Graduate School of Finance, Accounting and Law (current Business and Finance) (incumbent)
		June 2004	Outside director of Osaka Exchange, Inc. (current Japan Exchange Group, Inc.)
		June 2006	Outside Audit & Supervisory Board member of Tokio Marine Holdings, Inc.
		January 2013	Outside director of Japan Exchange Group, Inc.
		June 2013	Member of the Board of Directors of MUFG
		June 2014	Retired from outside director of Japan Exchange Group, Inc.
		December 2014	Member of National Public Safety Commission (incumbent)
		June 2016	Member of the Board of Directors (Outside director) of MUFG (incumbent)
June 2018	Retired from Outside Audit & Supervisory Board Member of Tokio Marine Holdings, Inc.		



<b>Name (Date of Birth)</b>	<b>Position in MUFG</b>	<b>Business Experience</b>	
Haruka Matsuyama (August 22, 1967)	Member of the Board of Directors (Outside Director)	April 1995	Assistant Judge, Tokyo District Court
		July 2000	Registered as an attorney at law, member of the Daini Tokyo Bar Association
		January 2002	Joined Hibiya Park Law Offices
		June 2012	Partner of Hibiya Park Law Offices (incumbent)
		June 2013	Outside Corporate Auditor of Vitec Co., Ltd.
		June 2014	Outside director of T&D Holdings, Inc. (incumbent)
		June 2015	External Audit & Supervisory Board member of MITSUI & CO., LTD. (incumbent)
Toby S. Myerson (July 20, 1949)	Member of the Board of Directors (Outside Director)	September 1977	Registered as an attorney at law, admitted in States of California and New York in the United States
		October 1981	Joined Paul, Weiss, Rifkind, Wharton & Garrison LLP
		June 1983	Partner of Paul, Weiss, Rifkind, Wharton & Garrison LLP
		April 1989	Managing Director of Wesserstein Perella & Co. Inc.
		November 1990	Partner of Paul, Weiss, Rifkind, Wharton & Garrison LLP
		June 2014	Outside director of BK(US) (incumbent)
		December 2016	Retired from Paul, Weiss, Rifkind, Wharton & Garrison LLP
		January 2017	Chairman & CEO of Longsight Strategic Advisors LLC (incumbent)
		February 2017	Outside director of MUAH (incumbent)
		June 2017	Member of the Board of Directors (Outside director) of MUFG (incumbent)
Tsutomu Okuda (October 14, 1939)	Member of the Board of Directors (Outside Director)	April 1964	Joined The Daimaru, Inc.
		September 1991	Managing Director of Daimaru Australia Pty. Ltd.
		May 1995	Director of The Daimaru, Inc.
		May 1996	Managing Director of The Daimaru, Inc.
		March 1997	President of The Daimaru, Inc.
		May 2003	Chairman & CEO of The Daimaru, Inc.
		September 2007	Chairman of The Daimaru, Inc.
			President & CEO of J. Front Retailing Co., Ltd.
		March 2010	Chairman & CEO of J. Front Retailing Co., Ltd.
		April 2013	Director and Senior Advisor of J. Front Retailing Co., Ltd.
		May 2014	Senior Advisor of J. Front Retailing Co., Ltd.
June 2014	Member of the Board of Directors (Outside director) of MUFG (incumbent)		
May 2018	Special Advisor of J. Front Retailing Co., Ltd. (incumbent)		

<b>Name (Date of Birth)</b>	<b>Position in MUFG</b>	<b>Business Experience</b>	
Yasushi Shingai (January 11, 1956)	Member of the Board of Directors (Outside Director)	April 1980	Joined Japan Tobacco and Salt Public Corporation (current Japan Tobacco Inc.)
		July 2001	Vice President of Financial Planning Division of Japan Tobacco Inc.
		June 2004	Senior Vice President, Head of Finance Group of Japan Tobacco Inc.
		July 2004	Senior Vice President, Chief Financial Officer of Japan Tobacco Inc.
		June 2005	Member of the Board, Senior Vice President, and Chief Financial Officer of Japan Tobacco Inc.
		June 2006	Member of the Board of Japan Tobacco Inc., Executive Vice President and Deputy CEO of JT International S.A.
		June 2011	Representative Director and Executive Vice President of Japan Tobacco Inc.
		June 2014	External Board Director of Recruit Holdings Co., Ltd.
		January 2018	Member of the Board of Japan Tobacco Inc.
		March 2018	Outside director of Asahi Group Holdings, Ltd. (incumbent)
Tarisa Watanagase (November 30, 1949)	Member of the Board of Directors (Outside Director)	June 1975	Joined the Bank of Thailand
		January 1988	Economist, International Monetary Fund (on secondment)
		October 2002	Deputy Governor of the Bank of Thailand
		November 2006	Governor of the Bank of Thailand
		September 2010	Retired from the Bank of Thailand
		March 2013	Outside director of the Siam Cement Public Company Limited (incumbent)
		June 2017	Member of the Board of Directors (Outside director) of MUFG (incumbent)
Akira Yamate (November 23, 1952)	Member of the Board of Directors (Outside Director)	November 1977	Joined Price, Waterhouse & Co. Japan
		March 1983	Registered as Certified Public Accountant in Japan
		July 1991	Representative Partner of Aoyama Audit Corporation
		April 2000	Partner of Price Waterhouse
			Representative Partner of Chuo Aoyama Audit Corporation
		September 2006	Partner of PricewaterhouseCoopers
			Representative Partner of PricewaterhouseCoopers Aarata
		June 2013	Resigned from PricewaterhouseCoopers Aarata External Audit & Supervisory Board member of Nomura Real Estate Holdings, Inc. External Audit & Supervisory Board member of Nomura Real Estate Development, Co., Ltd.

<b>Name (Date of Birth)</b>	<b>Position in MUFG</b>		<b>Business Experience</b>
		June 2015	Retired from External Audit & Supervisory Board member of Nomura Real Estate Development, Co., Ltd. Member of the Board of Directors (Outside director) of MUFG (incumbent) External director of Nomura Real Estate Holdings, Inc. (incumbent) External member of Board of Statutory Auditors, Prudential Holdings of Japan, Inc. (incumbent)
Tadashi Kuroda (June 7, 1958)	Member of the Board of Directors	April 1981	Joined The Sanwa Bank, Limited
		April 2008	Executive Officer of BK
		June 2011	Senior Managing Executive Officer of Mitsubishi UFJ Research and Consulting Co., Ltd. (MURC)
			Director and Senior Managing Executive Officer of MURC
		May 2013	Managing Executive Officer of BK
		May 2014	Managing Executive Officer of MUFG
		June 2014	Director of TB Member of the Board of Directors, Managing Executive Officer of MUFG
		May 2015	Member of the Board of Directors, Senior Managing Executive Officer of MUFG
		June 2015	Member of the Board of Directors, Senior Managing Executive Officer of BK Member of the Board of Directors, Senior Managing Corporate Executive of MUFG
		May 2018	Member of the Board of Directors of MUFG (incumbent)
Junichi Okamoto (November 9, 1957)	Member of the Board of Directors	April 1980	Joined The Toyo Trust and Banking Company, Limited
		June 2008	Executive Officer of TB
		June 2010	Managing Executive Officer of TB Executive Officer of MUFG
		June 2012	Senior Managing Executive Officer of TB
		June 2013	Director, Deputy President and Executive Officer of TB Member of the Board of Directors of MUFG
		June 2015	Senior Managing Corporate Executive of MUFG
		June 2017	Director of TB Member of the Board of Directors of MUFG (incumbent)

<b>Name (Date of Birth)</b>	<b>Position in MUFG</b>	<b>Business Experience</b>	
Kiyoshi Sono (April 18, 1953)	Member of the Board of Directors Chairman (Representative Corporate Executive)	April 1976	Joined The Sanwa Bank, Limited
		May 2004	Executive Officer of UFJ Bank Limited
		January 2006	Executive Officer of BK
		May 2006	Managing Executive Officer of BK
		May 2010	Senior Managing Executive Officer of BK
		May 2012	Managing Executive Officer of MUFG
		June 2012	Member of the Board of Directors, Deputy President of BK
		May 2014	Deputy Chairman of the Board of Directors of BK (incumbent)
		June 2014	Chairman of the Board of Directors of MUFG Director of Mitsubishi UFJ NICOS (incumbent)
June 2015	Member of the Board of Directors, Chairman of MUFG (incumbent)		
Mikio Ikegaya (July 6, 1958)	Member of the Board of Directors Deputy Chairman (Representative Corporate Executive)	April 1981	Joined The Mitsubishi Trust and Banking Corporation (MTB)
		June 2008	Executive Officer of TB Executive Officer of MUFG
		June 2011	Director and Managing Executive Office of TB Managing Executive Officer of MUFG
		June 2012	Managing Executive Officer of TB Executive Officer of MUFG
		June 2013	Senior Managing Executive Officer of TB
		June 2015	Director and Senior Managing Executive Officer of TB Managing Executive Officer of MUFG
		April 2016	President & CEO of TB (incumbent) Deputy Chairman of MUFG
		June 2016	Member of the Board of Directors, Deputy Chairman of MUFG (incumbent)
		June 2016	Member of the Board of Directors, Deputy Chairman of MUFG (incumbent)
Kanetsugu Mike (November 4, 1956)	Member of the Board of Directors Deputy Chairman (Representative Corporate Executive)	April 1979	Joined The Mitsubishi Bank, Limited
		June 2005	Executive Officer of The Bank of Tokyo- Mitsubishi, Ltd. (BTM)
			Executive Officer of Mitsubishi Tokyo Financial Group, Inc. (MTFG)
		May 2009	Managing Executive Officer of BK
		May 2011	Managing Executive Officer of MUFG
		June 2011	Member of the Board of Directors, Managing Executive Officer of BK
		May 2013	Senior Managing Executive Officer of BK
		October 2015	Executive Chairman of MUAH Executive Chairman of BK(US)
		May 2016	Deputy President and Executive Officer of BK Senior Managing Corporate Executive of MUFG
		June 2016	Member of the Board of Directors, Deputy President of BK
		June 2017	President & CEO of BK (incumbent) Member of the Board of Directors, Deputy Chairman of MUFG (incumbent)

<b>Name (Date of Birth)</b>	<b>Position in MUFG</b>		<b>Business Experience</b>
Saburo Araki (August 6, 1957)	Member of the Board of Directors Deputy Chairman (Representative Corporate Executive)	April 1981	Joined The Mitsubishi Bank, Limited
		June 2007	Executive Officer of BK
		May 2009	Executive Officer of MUFG
		May 2011	Managing Executive Officer of BK
			Managing Executive Officer of MUFG
		June 2012	Member of the Board of Directors, Managing Executive Officer of BK
			Member of the Board of Directors of MUFG
		June 2014	Managing Executive Officer of MUFG
		May 2015	Member of the Board of Directors, Senior Managing Executive Officer of BK
		June 2015	Senior Managing Corporate Executive of MUFG
May 2016	Member of the Board of Directors, Deputy President of BK		
April 2018	President & CEO of SCHD (incumbent) President & CEO of MUMSS (incumbent) Deputy Chairman of MUFG		
June 2018	Member of the Board of Directors, Deputy Chairman of MUFG(incumbent)		
Nobuyuki Hirano (October 23, 1951)	Member of the Board of Directors President & Group CEO (Representative Corporate Executive)	April 1974	Joined The Mitsubishi Bank, Limited
		June 2001	Executive Officer of BTM
		July 2004	Executive Officer of MTFG
		May 2005	Managing Executive Officer of BTM
		June 2005	Member of the Board of Directors, Managing Executive Officer of BTM
			Member of the Board of Directors of MTFG
		January 2006	Member of the Board of Directors, Managing Executive Officer of BK
		October 2008	Member of the Board of Directors, Senior Managing Executive Officer of BK
		June 2009	Member of the Board of Directors, Deputy President of BK
			Managing Executive Officer of MUFG
		June 2010	Member of the Board of Directors of MUFG
		October 2010	Member of the Board of Directors, Deputy President of MUFG
April 2012	President & CEO of BK		
	Member of the Board of Directors of MUFG		
April 2013	President & CEO of MUFG		
June 2015	Member of the Board of Directors, President & Group CEO of MUFG (incumbent)		
November 2015	Director of Morgan Stanley (incumbent)		
April 2016	Chairman of BK (incumbent)		

Note: The following abbreviations are used in the table above:

“BK” refers to MUFG Bank, Ltd. or its former name The Bank of Tokyo-Mitsubishi UFJ, Ltd.

“TB” refers to Mitsubishi UFJ Trust and Banking Corporation.

“SCHD” refers to Mitsubishi UFJ Securities Holdings Co., Ltd.

“BK(US)” refers to MUFG Union Bank, N.A.

“MUAH” refers to MUFG Americas Holdings Corporation.

## Corporate Executives

The following table sets forth our corporate executives as of July 1, 2018, together with their respective dates of birth, positions and experience:

Name (Date of Birth)	Position in MUFG	Business Experience	
Kiyoshi Sono (April 18, 1953)	See “Members of the Board of Directors” under this Item 6.A.	See “Members of the Board of Directors” under this Item 6.A.	
Mikio Ikegaya (July 6, 1958)	See “Members of the Board of Directors” under this Item 6.A.	See “Members of the Board of Directors” under this Item 6.A.	
Kanetsugu Mike (November 4, 1956)	See “Members of the Board of Directors” under this Item 6.A.	See “Members of the Board of Directors” under this Item 6.A.	
Saburo Araki (August 6, 1957)	See “Members of the Board of Directors” under this Item 6.A.	See “Members of the Board of Directors” under this Item 6.A.	
Nobuyuki Hirano (October 23, 1951)	See “Members of the Board of Directors” under this Item 6.A.	See “Members of the Board of Directors” under this Item 6.A.	
Muneaki Tokunari (March 6, 1960)	Senior Managing Corporate Executive (Group CFO)	April 1982 June 2009  June 2011 April 2012 June 2012  June 2013 June 2014 June 2015  May 2016   June 2018	Joined MTB Executive Officer of TB Executive Officer of MUFG Managing Executive Officer of TB Managing Director of TB Member of the Board of Directors of MUFG Senior Managing Director of TB Managing Officer of MUFG Managing Director of BK Member of the Board of Directors, Managing Corporate Executive of MUFG Senior Managing Director of BK (incumbent) Member of the Board of Directors, Senior Managing Corporate Executive of MUFG Senior Managing Corporate Executive of MUFG (incumbent)

<b>Name (Date of Birth)</b>	<b>Position in MUFG</b>		<b>Business Experience</b>
Eiichi Yoshikawa (July 14, 1956)	Senior Managing Corporate Executive	April 1981	Joined The Bank of Tokyo, Ltd.
	(Group Head, Global Commercial Banking Business Group, Group Chief Operating Officer International, or COO-I)	June 2007 May 2012 May 2014 May 2015 May 2016	Executive Officer of BK Managing Executive Officer of BK Managing Executive Officer of MUFG Senior Managing Executive Officer of BK Senior Managing Corporate Executive of MUFG (incumbent)
		June 2016	Member of the Board of Directors, Senior Managing Executive Officer of BK
		May 2017	Member of the Board of Directors, Deputy President of BK (incumbent)
		July 2018	Senior Managing Executive Officer of SCHD (incumbent)
Shigeru Asai (June 8, 1960)	Senior Managing Corporate Executive (Group Head, Global Markets Business Group)	April 1983 June 2009 May 2013 April 2014	Joined The Sanwa Bank, Limited Executive Officer of BK Executive Officer of MUFG Managing Executive Officer of BK Advisor of MUMSS Managing Executive Officer of SCHD
		May 2014	Member of the Board of Directors, Deputy President of MUMSS (incumbent)
		May 2017	Managing Executive Officer of MUFG Senior Managing Corporate Executive of MUFG (incumbent)
		June 2018	Senior Managing Executive Officer of SCHD (incumbent)
Akira Hamamoto (May 19, 1960)	Senior Managing Corporate Executive (Group CCO & Group CLO)	April 1983 June 2010 May 2011 May 2013 May 2015 June 2015	Joined The Tokai Bank, Ltd Executive Officer of MUFG Executive Officer of BK Managing Executive Officer of BK Managing Executive Officer of MUFG
		June 2015	Member of the Board of Directors, Managing Executive Officer of BK Managing Corporate Executive of MUFG
		May 2017	Member of the Board of Directors, Senior Managing Executive Officer of BK (incumbent) Senior Managing Corporate Executive of MUFG (incumbent)

<b>Name (Date of Birth)</b>	<b>Position in MUFG</b>		<b>Business Experience</b>
Masamichi Yasuda (August 22, 1960)	Senior Managing Corporate Executive (Group CRO)	April 1983	Joined The Bank of Tokyo, Ltd
		June 2009	Executive Officer of BK, seconded to Union Bank
		May 2011	Executive Officer of MUFG
		May 2014	Managing Executive Officer of BK
		May 2015	Managing Executive Officer of MUFG
		June 2015	Member of the Board of Directors, Managing Executive Officer of BK
		May 2017	Member of the Board of Directors of SCHD Member of the Board of Directors, Managing Corporate Executive of MUFG
Kenji Yabuta (April 27, 1960)	Senior Managing Corporate Executive (Group Head, Japanese Corporate & Investment Banking Business Group)	April 1983	Joined The Mitsubishi Bank, Limited
		June 2009	Executive Officer of BK Executive Officer of MUFG
		May 2013	Managing Executive Officer of BK
		May 2017	Senior Managing Executive Officer of BK
		April 2018	Senior Managing Corporate Executive of MUFG (incumbent)
		May 2018	Deputy President of BK
June 2018	Member of the Board of Directors, Deputy President of BK (incumbent)		
Naoki Hori (January 27, 1961)	Senior Managing Corporate Executive (Group Head, Retail & Commercial Banking Business Group)	April 1983	Joined The Sanwa Bank, Limited
		June 2010	Executive Officer of BK Executive Officer of MUFG
		May 2013	Managing Executive Officer of BK
		May 2016	Managing Corporate Executive of MUFG
		June 2016	Member of the Board of Directors, Managing Executive Officer of BK
		June 2017	Member of the Board of Directors, Senior Managing Executive Officer of BK (incumbent)
May 2018	Senior Managing Corporate Executive of MUFG (incumbent)		



<b>Name (Date of Birth)</b>	<b>Position in MUFG</b>		<b>Business Experience</b>
Hironori Kamezawa (November 18, 1961)	Senior Managing Corporate Executive (Group Chief Information Officer, or CIO & Group Chief Digital Transformation Officer, or CDTO)	April 1986	Joined The Mitsubishi Bank, Limited
		June 2010	Executive Officer of BK
		May 2014	Executive Officer of MUFG
		July 2014	Managing Executive Officer of BK
		May 2017	Managing Executive Officer of MUFG
		June 2017	Deputy CEO of Americas at BK(US)
		May 2018	Managing Corporate Executive of MUFG (incumbent)
Hiroshi Naruse (December 4, 1958)	Senior Managing Corporate Executive (Group Chief Human Resource Officer, or CHRO)	April 1981	Member of the Board of Directors, Managing Executive Officer of BK (incumbent)
		June 2008	Member of the Board of Directors, Senior Managing Executive Officer of BK (incumbent)
		June 2010	Senior Managing Corporate Executive of MUFG (incumbent)
		April 2011	Joined MTB
		June 2011	Executive Officer of TB
		June 2013	President & CEO of the Mitsubishi UFJ Global Custody S.A.
		June 2014	Executive Officer of MUFG
		June 2016	President & CEO of Mitsubishi UFJ Trust Systems Co., Ltd.
		May 2018	Director and Managing Executive Officer of TB
			Director and Senior Managing Executive Officer of TB
Masato Miyachi (June 14, 1960)	Senior Managing Corporate Executive (Group Head, Global Corporate & Investment Banking Business Group)	April 1987	Managing Executive Officer of MUFG
		June 2010	President & CEO of MU Trust Apple Planning Company, Ltd. (incumbent)
		May 2014	Director, Deputy President and Executive Officer of TB (incumbent)
		October 2014	Senior Managing Corporate Executive of MUFG (incumbent)
		May 2017	Joined The Bank of Tokyo, Ltd.
		May 2018	Executive Officer of BK
		June 2018	Managing Executive Officer of BK
July 2018	Managing Executive Officer of MUFG		
	Chairman of MUAH		
	Chairman of BK(US)		
May 2018	Senior Managing Executive Officer of BK		
June 2018	Member of the Board of Directors, Senior Managing Executive Officer of BK (incumbent)		
July 2018	Senior Managing Corporate Executive of MUFG (incumbent)		

<b>Name (Date of Birth)</b>	<b>Position in MUFG</b>		<b>Business Experience</b>
Shigeru Yoshifuji (June 29, 1962)	Managing Corporate Executive (Group Chief Audit Officer, or CAO) Managing Director, Head of Internal Audit Division	April 1987	Joined The Mitsubishi Bank, Limited
		May 2010	Managing Director, Head of Credit Portfolio Management Division of BK
		May 2012	Managing Director, Head of Corporate Risk Management Division of BK
		June 2012	Managing Director, Head of Corporate Risk Management Division of MUFG
		May 2016	Executive Officer of BK Executive Officer of MUFG Managing Corporate Executive of MUFG (incumbent)
Sunao Yokokawa (December 10, 1963)	Managing Corporate Executive (Group Head, Asset Management & Investor Services Business)	April 1986	Joined MTB
		June 2012	Executive Officer of TB
		May 2014	Executive Officer of MUFG
		June 2015	Managing Executive Officer of TB
		June 2017	Director and Managing Executive Officer of TB (incumbent) Managing Corporate Executive of MUFG (incumbent)
Naomi Hayashi (March 16, 1965)	Managing Corporate Executive (Group CSO in charge of Corporate Planning Division (excluding Budget & Resources Management and Global Business), Corporate Administration Division and Corporate Communications Division and sub-charge of Digital Transformation Division)	April 1987	Joined The Mitsubishi Bank, Limited
		June 2013	Executive Officer of BK Executive Officer of MUFG
		January 2017	Managing Executive Officer of BK
		May 2018	Managing Corporate Executive of MUFG (incumbent)
		June 2018	Member of the Board of Directors, Managing Executive Officer of BK (incumbent)

Note: The following abbreviations are used in the table above:

“BK” refers to MUFG Bank, Ltd. or its former name The Bank of Tokyo-Mitsubishi UFJ, Ltd.

“TB” refers to Mitsubishi UFJ Trust and Banking Corporation.

“SCHD” refers to Mitsubishi UFJ Securities Holdings Co., Ltd.

“BK(US)” refers to MUFG Union Bank, N.A.

“MUAH” refers to MUFG Americas Holdings Corporation.

The board of directors and corporate executives may be contacted through our headquarters at Mitsubishi UFJ Financial Group, Inc., 7-1, Marunouchi 2-chome, Chiyoda-ku, Tokyo 100-8330, Japan.

No family relationship exists among any of our directors or corporate executives.

## B. Compensation

The aggregate amount of compensation paid, including benefits in kind granted and any contingent and deferred compensation, by MUFG and its subsidiaries during the fiscal year ended March 31, 2018 to our directors (excluding outside directors), to corporate executives and to outside directors, was ¥181 million, ¥1,726 million and ¥184 million, respectively.

The compensation paid by MUFG and its subsidiaries during the fiscal year ended March 31, 2018 to our directors and corporate executives consisted of annual base salaries, performance-based stock compensation, bonuses and other benefits. MUFG's compensation committee determines the compensation paid to our directors and corporate executives.

The following table sets forth details of the aggregate compensation paid by MUFG and its subsidiaries during the fiscal year ended March 31, 2018 to our directors (excluding outside directors) and corporate executives:

Number of Directors and Corporate Executives <sup>(1)</sup>	Aggregate Compensation	Non-Adjustable Compensation		Adjustable Compensation			
		Annual Base Salary	Performance- based Stock Compensation	Cash Bonuses	Performance- based Stock Compensation	Retirement Allowances <sup>(2)</sup>	Other
22 . . . . .	¥1,906	¥1,092	¥314	¥303	¥186	¥11	¥0

Notes:

- (1) Includes the current directors and corporate executives as well as those who retired during the fiscal year ended March 31, 2018 but excludes the outside directors.
- (2) Represents the aggregate amount of retirement allowances paid in cash during the fiscal year ended March 31, 2018, pursuant to a one-time shareholders' approval in June 2007 for the retirement allowances to be paid to the directors and corporate auditors who were elected prior to that date at the time of their retirement. A reserve in the total amount of such retirement allowances was set aside as of September 30, 2007. For more information, see "—Retirement Allowances" below.

The following table sets forth the details of individual compensation paid, including benefits in kind granted but excluding retirement allowances paid, by MUFG and its subsidiaries in an amount equal to or exceeding ¥100 million during the fiscal year ended March 31, 2018:

Directors	Aggregate amount	Paid by	Compensation paid		
			Annual Base Salary	Performance-based Stock Compensation	Bonus
			(in millions)		
Kiyoshi Sono	¥145	MUFG	¥48	¥21	¥14
		BK	32	21	9
Tadashi Nagaoka	¥106	MUFG	¥25	¥12	¥15
		SCHD	13	6	8
		MUMSS	13	6	8
Mikio Ikegaya	¥123	MUFG	¥35	¥15	¥10
		TB	35	19	9
Kanetsugu Mike	¥169	MUFG	¥45	¥16	¥13
		BK	32	40	9
		BK(US)	11	—	3
Nobuyuki Hirano	¥151	MUFG	¥50	¥24	¥15
		BK	32	23	7
Saburo Araki	¥117	MUFG	¥39	¥16	¥12
		BK	26	16	8
Eiichi Yoshikawa	¥116	MUFG	¥38	¥15	¥12
		BK	25	18	8
Akira Hamamoto	¥109	MUFG	¥31	¥12	¥10
		BK	21	27	6
		kabu.com	2	—	
Masamichi Yasuda	¥109	MUFG	¥26	¥13	¥10
		BK	17	27	6
		SCHD	10	—	

Note: The following abbreviations are used in the table above:

“BK” refers to MUFG Bank, Ltd. (or its former name The Bank of Tokyo-Mitsubishi UFJ, Ltd.)

“TB” refers to Mitsubishi UFJ Trust and Banking Corporation.

“SCHD” refers to Mitsubishi UFJ Securities Holdings Co., Ltd.

“BK(US)” refers to MUFG Union Bank, N.A.

#### *Annual Base Salary*

Annual base salaries were paid to our directors (including outside directors) and corporate executives in the form of monthly cash installment payments. The aggregate annual base salary paid to our directors (excluding outside directors) and corporate executives for the fiscal year ended March 31, 2018 was ¥1,092 million. The aggregate annual base salary paid to our outside directors for the same period was ¥184 million.

#### *Performance-based Stock Compensation Plans*

Under our performance-based stock compensation plans, qualified directors (excluding outside directors and directors serving as audit committee members), corporate executives and others of MUFG and its major domestic subsidiaries are assigned, on a monthly basis, (1) points based on their job responsibilities, or non-adjustable points, and (2) additional points based on their job responsibilities which are adjusted at the end of each fiscal year and at the end of each plan period to reflect the extent to which a financial performance target determined by the compensation committee is attained, or adjustable points. Each plan period corresponds to the period covered by the three-year medium-term business plan of MUFG. Each accumulated point represents a right to receive one share of MUFG common stock from a trust established in Japan to administer the plan grants as determined by the compensation committee.

The right to receive shares of MUFG common stock in exchange for non-adjustable points becomes vested and nonforfeitable, and the shares are delivered, upon the grantee's departure from his or her job responsibilities based on which the right was granted. The right to receive shares of MUFG common stock in exchange for adjustable points becomes vested and nonforfeitable, and the shares are delivered, at the end of each plan period. The vesting in either case is subject to conditions imposed by the compensation committee, including non-engagement in misconduct. A portion of the shares subject to a grantee's vested right may be delivered in cash.

The grantees are entitled to "dividend equivalent credits" on their granted but unvested rights under the plan when MUFG pays dividends to its shareholders. The credit is equal to the dividends that the grantees would have received on the shares had the shares been issued to the grantees in exchange for their granted but unvested rights under the plan, less expenses relating to the administration of the plan. Accumulated dividend equivalents are paid to grantees at the time of the delivery of the shares.

The shares to be delivered to grantees are purchased on the open market by the trustee of the trust pursuant to a trust agreement among MUFG, the trustee and the independent caretaker of the trust. Each plan is funded in cash up to a maximum aggregate amount determined by our compensation committee.

The initial performance-based stock compensation plan commenced on July 1, 2016. The grants under the plan were tied to MUFG's previous medium-term business plan for the three-year period ended March 31, 2018. The trust for the plan was funded with ¥9.8 billion in cash, and 18,785,400 shares of MUFG common stock were purchased by the trustee of the plan trust in May 2016. The plan was adopted after our compensation committee decided in May 2016 to cease to provide any additional stock acquisition rights under our previous stock-based compensation structure and to introduce the performance-based stock compensation plan.

The second performance-based stock compensation plan commenced on December 1, 2016. The trust for the plan was funded with 8.8 billion in cash, and an aggregate of 13,004,300 shares of MUFG common stock were purchased by the trustee of the plan trust in November 2016 and May 2017. The plan was adopted to replace the outstanding stock acquisition rights under our previous stock-based compensation structure. Upon the adoption of the plan, the stock acquisition rights that had been allotted to grantees but remained unexercised under the then-outstanding stock-based compensation plans were exchanged for points under the performance-based stock compensation plan, and the rights to receive shares of MUFG common stock represented by these points were vested.

On May 15, 2018, the compensation committee approved new grants under the initial performance-based stock compensation plan, which was amended in connection with the launch of MUFG's current medium-term business plan for the three-year period ending March 31, 2021. The trust period of the plan trust was extended until August 31, 2021, and the maximum amount of funds to be contributed to the plan trust was reset at ¥26.3 billion. The formula for determining adjustable points under the plan was also revised. In May 2018, the plan trust was funded with ¥9.6 billion in cash, and 13,049,600 shares of MUFG common stock were purchased by the trustee of the plan trust.

For more information on the Performance-based Stock Compensation Plans, see Note 33 to our consolidated financial statements included elsewhere in this Annual Report. See also "Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers."

#### *Stock-based Compensation Plans*

We previously issued stock acquisition rights to further motivate our directors (excluding outside directors) and certain of our officers to contribute to the improvement of our stock prices and profits. The number of stock acquisition rights granted to each director and officer was determined by comprehensively taking into account each grantee's seniority of the position held at MUFG or its subsidiaries, experience and contribution to our

performance throughout the period of the grantee's service. On June 27, 2013, our shareholders approved modifications to the previous shareholder authorization for granting stock acquisition rights to our directors, corporate auditors and certain of our officers so that no outside directors or corporate auditors (including outside corporate auditors) would be eligible for any stock-based compensation plan adopted by the board of directors on or after that date.

In June 2015, our previous governance framework with the board of directors and a separate board of corporate auditors was replaced with our current governance framework with the board of directors and board committees. Under our previous governance framework, the maximum aggregate amount of each type of compensation for our directors and corporate auditors was approved at a general meeting of our shareholders. The amount and allocation of compensation for each director were then proposed to, and voted upon by, the board of directors. The amount and allocation of compensation for each corporate auditor were determined through discussions and agreement among the corporate auditors. The nomination and compensation committee deliberated and made proposals to the board of directors regarding matters relating to, among other things, the compensation of our directors. For information regarding our governance framework, see “—C. Board Practices.”

As part of our compensation structure, on June 29, 2010, the board of directors adopted another stock-based compensation plan entitled “Fourth Series of Stock Acquisition Rights of Mitsubishi UFJ Financial Group, Inc.” for our directors, corporate auditors and certain of our officers. Under the stock-based compensation plan, on July 16, 2010, we allotted an aggregate of 8,014 stock acquisition rights to our directors and an aggregate of 1,149 stock acquisition rights to our corporate auditors for their respective services to MUFG and its subsidiaries. Each stock acquisition right represents a right to purchase 100 shares of MUFG common stock at ¥1 per share of common stock. The stock acquisition rights are subject to a one-year vesting period. The rights are exercisable until July 15, 2040, but only after the date on which a grantee's service as a director and an officer or as a corporate auditor of each of MUFG and the relevant subsidiaries terminates. The fair value of each stock acquisition right was ¥36,600.

As part of our compensation structure, on June 29, 2011, the board of directors adopted another stock-based compensation plan entitled “Fifth Series of Stock Acquisition Rights of Mitsubishi UFJ Financial Group, Inc.” for our directors, corporate auditors and certain of our officers. Under the stock-based compensation plan, on July 20, 2011, we allotted an aggregate of 7,740 stock acquisition rights to our directors and an aggregate of 1,160 stock acquisition rights to our corporate auditors for their respective services to MUFG and its subsidiaries. Each stock acquisition right represents a right to purchase 100 shares of MUFG common stock at ¥1 per share of common stock. The stock acquisition rights are subject to a one-year vesting period. The rights are exercisable until July 19, 2041, but only after the date on which a grantee's service as a director and an officer or as a corporate auditor of each of MUFG and the relevant subsidiaries terminates. The fair value of each stock acquisition right was ¥33,700.

As part of our compensation structure, on June 28, 2012, the board of directors adopted another stock-based compensation plan entitled “Sixth Series of Stock Acquisition Rights of Mitsubishi UFJ Financial Group, Inc.” for our directors, corporate auditors and certain of our officers. Under the stock-based compensation plan, on July 18, 2012, we allotted an aggregate of 10,002 stock acquisition rights to our directors and an aggregate of 1,161 stock acquisition rights to our corporate auditors for their respective services to MUFG and its subsidiaries. Each stock acquisition right represents a right to purchase 100 shares of MUFG common stock at ¥1 per share of common stock. The stock acquisition rights are subject to a one-year vesting period. The rights are exercisable until July 17, 2042, but only after the date on which a grantee's service as a director and an officer or as a corporate auditor of each of MUFG and the relevant subsidiaries terminates. The fair value of each stock acquisition right was ¥33,100.

As part of our compensation structure, on June 27, 2013, the board of directors adopted a stock-based compensation plan entitled “Seventh Series of Stock Acquisition Rights of Mitsubishi UFJ Financial Group,

Inc.” for our directors (excluding outside directors) and certain of our officers. Under the stock-based compensation plan, on July 17, 2013, we allotted an aggregate of 4,103 stock acquisition rights to our directors (excluding outside directors) for their respective services to MUFG and its subsidiaries. Each stock acquisition right represents a right to purchase 100 shares of MUFG common stock at ¥1 per share of common stock. The stock acquisition rights are subject to a one-year vesting period. The rights are exercisable until July 16, 2043, but only after the date on which a grantee’s service as a director and an officer of each of MUFG and the relevant subsidiaries terminates. The fair value of each stock acquisition right was ¥61,100.

As part of our compensation structure, on June 27, 2014, the board of directors adopted a stock-based compensation plan entitled “Eighth Series of Stock Acquisition Rights of Mitsubishi UFJ Financial Group, Inc.” for our directors (excluding outside directors) and certain of our officers. Under the stock-based compensation plan, on July 15, 2014, we allotted an aggregate of 3,315 stock acquisition rights to our directors (excluding outside directors) for their respective services to MUFG and its subsidiaries. Each stock acquisition right represents a right to purchase 100 shares of MUFG common stock at ¥1 per share of common stock. The stock acquisition rights are subject to a one-year vesting period. The rights are exercisable until July 14, 2044, but only after the date on which a grantee’s service as a director and an officer of each of MUFG and the relevant subsidiaries terminates. The fair value of each stock acquisition right was ¥53,900.

As part of our compensation structure, on June 25, 2015, the board of directors adopted a stock-based compensation plan entitled “Ninth Series of Stock Acquisition Rights of Mitsubishi UFJ Financial Group, Inc.” for our directors (excluding outside directors) and certain of our officers. Under the stock-based compensation plan, on July 14, 2015, we allotted an aggregate of 3,096 stock acquisition rights to our directors (excluding outside directors) and our corporate executive officers for their respective services to MUFG and its subsidiaries. Each stock acquisition right represents a right to purchase 100 shares of MUFG common stock at ¥1 per share of common stock. The stock acquisition rights are subject to a one-year vesting period. The rights are exercisable until July 13, 2045, but only after the date on which a grantee’s service as a director and an officer of each of MUFG and the relevant subsidiaries terminates. The fair value of each stock acquisition right was ¥80,200.

For more information on the Performance-based Stock Compensation Plans, see Note 33 to our consolidated financial statements included elsewhere in this Annual Report.

#### *Bonuses*

We from time to time paid cash bonuses to our directors and corporate executives to further motivate them to contribute to the improvement of our stock prices and profits if such bonuses were deemed appropriate based on a balanced scorecard approach taking into account the results of operations of the MUFG Group and each director’s or corporate executive’s individual performance of his or her duties as a director or corporate executive in light of both quantitative and qualitative criteria, including our medium-term strategy for improving our corporate value. None of the outside directors is eligible to receive a cash bonus. The compensation committee determines the cash bonus for each director and corporate executive based on our financial results and his or her job performance for the preceding fiscal year as well as his or her seniority and experience. The aggregate cash bonus paid to our directors and corporate executives for the fiscal year ended March 31, 2018 was ¥303 million.

#### *Retirement Allowances*

Prior to June 28, 2007, in accordance with customary Japanese practice, when a director or corporate auditor retired, a proposal to pay a retirement allowance was submitted at the annual ordinary general meeting of shareholders for approval. The retirement allowance consisted of a one-time payment of a portion of the allowance paid at the time of retirement and periodic payments of the remaining amount for a prescribed number of years. After the shareholders’ approval was obtained, the retirement allowance for a director or corporate auditor was fixed by the board of directors or by consultation among the corporate auditors in accordance with our internal regulations and practice and generally reflected the position of the director or corporate auditor at the

time of retirement, the length of his service as a director or corporate auditor and his contribution to our performance. Historically, MUFU did not set aside reserves for any retirement payments for directors and corporate auditors made under this practice.

Pursuant to a one-time shareholders' approval in June 2007, retirement allowances are paid in cash to the directors and corporate auditors who were elected prior to that date at the time of their retirement. A reserve in the total amount of such retirement allowances was set aside as of September 30, 2007. The aggregate amount of retirement allowances paid in cash by MUFU and its subsidiaries pursuant to the one-time shareholder approval during the fiscal year ended March 31, 2018 to our directors (excluding outside directors), to corporate auditors (excluding outside corporate auditors) and to outside directors and corporate auditors, who have retired from their respective positions held at MUFU or, if such directors and corporate auditors concurrently held positions at MUFU's subsidiaries, who have retired from such positions, was ¥11 million, nil and nil, respectively.

### **MUFU Americas Holdings Corporation Stock Bonus Plan**

Upon the integration of the U.S. branch banking operations of MUFU Bank with MUFU Union Bank's operations on July 1, 2014, MUFU Americas Holdings assumed the obligations under the Bank of Tokyo-Mitsubishi UFJ, Ltd. Headquarters for the Americas Stock Bonus Plan described below. Effective June 8, 2015, MUFU Americas Holdings amended and restated this plan as the MUFU Americas Holdings Corporation Stock Bonus Plan.

Under the amended plan, qualified key employees of MUFU Americas Holdings are granted Restricted Share Units, or RSUs, representing a right to receive American Depositary Receipts, or ADRs, evidencing ADSs, each exchangeable for one share of MUFU common stock, from an independent trust established to administer the plan grants, upon the satisfaction of vesting conditions, to be determined pursuant to the plan as well as a Restricted Share Unit Agreement between MUFU Americas Holdings and the grantees.

Unless otherwise provided in the relevant Restricted Share Unit Agreement, RSUs become vested and nonforfeitable as follows: one-third (33 1/3%) of a grantee's RSUs vests on each one year anniversary of the date of the grant such that all of the RSUs become fully vested after three years from the grant date so long as the grantee satisfies the specified continuous service requirements and any other conditions under the applicable plan documents, subject to certain clawback and notice period provisions.

Under the plan, the grantees are entitled to "dividend equivalent credits" on their granted but unvested RSUs when MUFU pays dividends to its shareholders. The credit is equal to the dividends that the grantees would have received on the shares had the shares been issued to the grantees in exchange for their granted but unvested RSUs. Accumulated dividend equivalents are paid to grantees in whole shares on an annual basis. Any fractional share will be paid to the participants in cash.

Grants made under the plan are not entitled to any dividend rights, voting rights, or other stockholder rights unless and until RSUs are vested and ADSs are delivered to grantees.

The ADSs to be delivered to grantees will be purchased on the open market by the trustee of the independent trust pursuant to a trust agreement between MUFU Americas Holdings and the trustee. As of July 10, 2018, 58,618,274 RSUs have been granted under the plan, of which 31,344,381 RSUs were outstanding as of July 10, 2018.

For more information on the plan, see Note 33 to our consolidated financial statements included elsewhere in this Annual Report. See also "Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers."



### **Bank of Tokyo-Mitsubishi UFJ, Ltd. Headquarters for the Americas Stock Bonus Plan**

As described above, the Bank of Tokyo-Mitsubishi UFJ, Ltd. Headquarters for the Americas Stock Bonus Plan was amended and restated as the MUFG Americas Holdings Corporation Stock Bonus Plan as of June 8, 2015.

Under the original plan, qualified key employees of Bank of Tokyo-Mitsubishi UFJ's Headquarters for the Americas were granted RSUs, representing a right to receive ADRs, evidencing ADSs, each exchangeable for one share of MUFG common stock, from an independent trust established to administer the plan grants, upon the satisfaction of vesting conditions. The RSUs vested pro-rata on each anniversary of the grant date and became fully vested three years from the grant date so long as the grantee satisfied the specified continuous service requirements and any other conditions under the plan documents as well as a Restricted Share Unit Agreement between Bank of Tokyo-Mitsubishi UFJ's Headquarters for the Americas and the grantees.

Grants previously made under the original plan were not entitled to any dividend rights, voting rights, or other stockholder rights unless and until RSUs are vested and ADSs are delivered to grantees.

The ADSs to be delivered to grantees are purchased on the open market by the trustee of the independent trust pursuant to a trust agreement between Bank of Tokyo-Mitsubishi UFJ's Headquarters for the Americas and the trustee. Through June 7, 2015, 5,367,466 RSUs were granted under the original plan, of which no RSUs were outstanding as of July 10, 2018. No further RSUs have since June 7, 2015 been, or will be, granted under the original plan.

For more information on the Bank of Tokyo-Mitsubishi UFJ, Ltd. Headquarters for the Americas Stock Bonus Plan, see Note 33 to our consolidated financial statements included elsewhere in this Annual Report. See also "Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers."

### **Share Ownership**

As of July 1, 2018, our directors and corporate executives held the following numbers of shares of our common stock:

<u>Directors</u>	<u>Number of Shares Registered</u>
Hiroshi Kawakami .....	—
Yuko Kawamoto .....	25,600
Haruka Matsuyama .....	2,400
Toby S. Myerson .....	—
Tsutomu Okuda .....	16,800
Yasushi Shingai .....	—
Tarisa Watanagase .....	—
Akira Yamate .....	—
Tadashi Kuroda .....	94,900
Junichi Okamoto .....	172,300

<u>Corporate Executives</u>	<u>Number of Shares Registered</u>
Kiyoshi Sono	57,920
Mikio Ikegaya	42,630
Kanetsugu Mike	31,455
Saburo Araki	185,080
Nobuyuki Hirano	42,400
Muneaki Tokunari	236,400
Eiichi Yoshikawa	18,700
Shigeru Asai	175,300
Akira Hamamoto	86,400
Masamichi Yasuda	15,600
Kenji Yabuta	21,000
Naoki Hori	25,300
Hironori Kamezawa	11,400
Hiroshi Naruse	23,200
Masato Miyachi	6,300
Shigeru Yoshifuji	100,400
Sunao Yokokawa	7,500
Naomi Hayashi	1,210

None of the shares of our common stock held by our directors and corporate executives have voting rights that are different from shares of our common stock held by any other shareholder.

For information on the performance-based stock compensation and stock-based compensation plans for our directors and corporate executives, see “—Performance-based Stock Compensation Plans” and “—Stock-based Compensation Plans.”

### C. Board Practices

Our articles of incorporation provide for a board of directors with statutorily mandated nominating and governance committee, audit committee and compensation committee, each consisting of members of the board of directors. We have also elected, though not statutorily mandated under the Companies Act of Japan, to establish a risk committee consisting of directors and outside professionals. In May 2016, we established a U.S. risk committee pursuant to the U.S. enhanced prudential standards for foreign banking organizations. Our corporate executives are responsible for executing and managing our business operations based on a delegation of authority by the board of directors, and our directors set our key management policies and oversee the execution of duties by these corporate executives.

In June 2015, our shareholders approved an amendment to our articles of incorporation to adopt our current governance framework with a board of directors and board committees. We previously had a governance framework with a board of directors and a board of corporate auditors. The Companies Act permits three types of governance system for large companies such as MUFG: (1) a company with a nominating committee, an audit committee and a compensation committee, (2) a company with a board of corporate auditors, and (3) a company with an audit and supervisory committee. Our previous governance framework was based on the second system, and our newly adopted governance system is based on the first system.

With respect to companies adopting the first system, including MUFG, each of the nominating, audit and compensation committees must consist of members of the board of directors, and the majority of each committee must be outside directors as defined by the Companies Act. In addition, the board of directors must appoint corporate executives (*shikkoyaku*) to execute and manage the business operations of the company under the authority delegated by the board of directors. Based on this system, our current governance framework is designed to facilitate more flexible and swifter decision-making and increase transparency in our management processes.

An “outside director” is defined by the Companies Act as a person who meets all of the following conditions:

- the person is not currently, and has not been in the ten years prior to his or her assumption of office as outside director, an executive director, who is a director concurrently performing an executive role (*gyomu shikko torishimariyaku*), a corporate executive, a manager (*shihainin*), or any other type of employee of the company or any of its subsidiaries;
- if the person has been a non-executive director, a corporate auditor, or an accounting adviser (*kaikei sanyo*) of the company or any of its subsidiaries within the ten years prior to his or her assumption of office as outside director, the person was not an executive director, a corporate executive, a manager or any other type of employee of the company or any of its subsidiary in the ten years prior to his or her assumption of office as such;
- the person is not a director, a corporate executive officer, a manager or any other type of employee of the company’s parent company, or a person who controls the company;
- the person is not an executive director, a corporate executive officer, a manager or any other type of employee of another subsidiary of the company’s parent company; and
- the person is not the spouse or a family member within the second degree of kinship of a director, a corporate executive, a manager, or any other type of important employee of the company or a person who controls the company.

### **Board of Directors**

Our board of directors consists of directors who are elected at a general meeting of shareholders. Under our articles of incorporation, the number of directors may not exceed 20. We currently have 15 directors, eight of whom are outside directors and two of whom are internal non-executive directors.

The regular term of office of a director is one year from the date of election, and directors may serve their terms until the close of the annual general meeting of shareholders held for the following year after their election. Directors may serve any number of consecutive terms.

Under the Companies Act, the board of directors has the authority to determine our basic management policy, make decisions on the execution and management of our business operations, and oversee the execution by the corporate executives of their duties. The board of directors may delegate, to the extent permitted by the Companies Act, the authority to make decisions on the execution and management of our business operations. Our board of directors has delegated most of this authority to the corporate executives.

The board of directors elects the Chairman and the Deputy Chairman from among its members and appoints key management members based on recommendations submitted to it by the nominating committee.

Under the Companies Act, a resolution of the board of directors is required if any director wishes to engage in any business that is in competition with us or any transaction with us. Additionally, no director may vote on a proposal, arrangement or contract in which that director is deemed to be particularly interested.

Neither the Companies Act nor our articles of incorporation contain special provisions as to the borrowing power exercisable by a director, the retirement age of our directors, or a requirement of our directors to hold any shares of our capital stock.

Under the Companies Act and our articles of incorporation, we may exempt, by resolution of the board of directors, our directors from liabilities to MUFG arising in connection with their failure to execute their duties in good faith and without gross negligence within the limits stipulated by applicable laws and regulations. In

addition, we have entered into a liability limitation agreement with each outside director and non-executive director which limits the maximum amount of their liability to MUFG arising in connection with a failure to execute their duties in good faith and without gross negligence to the greater of either ¥10 million or the aggregate sum of the amounts prescribed in Paragraph 1 of Article 425 of the Companies Act and Articles 113 and 114 of the Companies Act Enforcement Regulations.

None of our directors is party to a service contract with MUFG or any of its subsidiaries that provides for benefits upon end of their director term.

### **Nominating Committee**

Our nominating committee, which we call the nominating and governance committee, determines the contents of proposals regarding the election and removal of director candidates to be submitted to general meetings of shareholders. The committee also considers and makes recommendations to the board of directors regarding the appointment and removal of the Chairman and the Deputy Chairman of the board of directors and the President & Group CEO of MUFG as well as the chairman and the deputy chairman of the board of directors, the president and others of each of our major subsidiaries. In addition, the committee discusses and makes recommendations to the board of directors on matters pertaining to our governance policy and framework.

Under the Companies Act, the nominating committee must consist of at least three directors, and the majority of its members must be outside directors. Our nominating and governance committee currently consists of five directors. The chairman of the committee is Tsutomu Okuda, an outside director. The other members of this committee are Hiroshi Kawakami, Yuko Kawamoto and Haruka Matsuyama, who are outside directors, and Nobuyuki Hirano, Director, President & Group CEO. Between April 2017 and March 2018, the nominating and governance committee met 14 times.

### **Audit Committee**

The audit committee determines the contents of proposals pertaining to the election, termination and non-appointment of our independent auditor to be submitted to general meetings of shareholders. The committee also monitors and audits the execution by the directors and the corporate executives of their duties and prepares audit reports to the board of directors. In order to effectively perform its duties, the committee reviews, inspects and investigates, as necessary, the management of the operations of MUFG and its subsidiaries, including financial reporting and internal controls. In addition, the committee has the power to consent to decisions on the compensation to be paid to our independent auditor.

Under the Companies Act, the audit committee must consist of at least three non-executive directors, and the majority of its members must be outside directors. Our committee currently has five members. The chairman of the committee is Akira Yamate, an outside director. The other members of the committee are Hiroshi Kawakami and Yasushi Shingai, who are outside directors, and Tadashi Kuroda and Junichi Okamoto, who are non-executive directors. Between April 2017 and March 2018, the audit committee met 16 times.

### **Compensation Committee**

The compensation committee establishes our policy regarding the determination of the compensation of MUFG's directors, corporate executives, executive officers (*shikko yakuin*) and others and also determines the details of individual compensation based on the policy. The committee discusses and makes recommendations to the board of directors regarding the establishment, revision and abolition of compensation systems for the chairman, the deputy chairman, the president and others of each of our major subsidiaries.

Under the Companies Act, the compensation committee must consist of at least three directors, and the majority of its members must be outside directors. Our compensation committee currently consist of five

directors. The chairman of the committee is Haruka Matsuyama, an outside director. The other members of this committee are Yuko Kawamoto, Tsutomu Okuda and Hiroshi Kawakami, who are outside directors, and Nobuyuki Hirano, Director, President & Group CEO. Between April 2017 and March 2018, the compensation committee met 10 times.

### **Risk Committee**

In addition to the foregoing three committees, which are mandated by the Companies Act, we have a risk committee, which was initially established under our previous governance framework and which we continue to have under our current governance framework on a voluntary basis. The risk committee deliberates and makes recommendations to the board of directors on matters regarding group-wide risk management as well as top risk matters.

MUFG Corporate Governance Policies provide that the committee shall consist of directors and outside professionals. Outside professionals are professionals with no prior employment relationship with any of the MUFG group companies. The committee currently has five members. The chairperson of the committee is Yuko Kawamoto, an outside director. The other members of this committee are Tsutomu Okuda, an outside director, Tadashi Kuroda, Director, Senior Managing Executive Officer and Group CSO & Group CHRO, and Akira Ariyoshi and Kenzo Yamamoto, who are outside professionals. Between April 2017 and March 2018, the risk committee met five times.

### **U.S. Risk Committee**

The U.S. risk committee oversees the risk management function for our combined U.S. operations. Its oversight role includes, but is not limited to, all roles and responsibilities required under the FRB's final rules for Enhanced Prudential Standards for foreign banking organizations. The committee monitors liquidity and all other types of risk exposures, reviews the risk management policies and procedures, and oversees compliance with such policies and procedures for our combined U.S. operations. The committee is a subcommittee of the board of directors of MUFG, and reports and makes recommendations to MUFG's board of directors and MUFG's risk committee.

The members of the U.S. risk committee are appointed by MUFG's board of directors after consideration of member candidates reviewed and recommended by MUFG's risk committee and nominating and governance committee. The committee shall consist of members of the MUFG Americas Holdings Risk Committee, delegates from MUFG, the Chairman of the MUFG Americas Holdings Board and MUFG Americas Holdings' CEO, with the chairperson of the committee being an outside director of MUFG Americas Holdings. The committee currently has eight members. The chairperson of the committee is Christine Garvey, an outside director of MUFG Americas Holdings. The other members of this committee are Dean A. Yoost, Ann F. Jaedicke, Suneel Kamrani and Toby Myerson, who are outside directors of MUFG Americas Holdings, Masato Miyachi, the Chairman of the MUFG Americas Holdings Board, Masamichi Yasuda, Senior Managing Executive Officer and Group CRO of MUFG, and Stephen Cummings, MUFG Americas Holdings' CEO.

### **Corporate Executives**

Our corporate executives are responsible for executing and managing our business operations within the scope of the authority delegated to them by the board of directors.

Under the Companies Act, at least one corporate executive must be appointed by a resolution of the board of directors. We currently have 18 corporate executives. Under our articles of incorporation, the board of directors shall appoint a president and a deputy president, who, as representative corporate executives, may represent us severally. The term of office of each corporate executive expires at the conclusion of the first meeting of the board of directors convened after the ordinary general meeting of shareholders for the last fiscal year that ends within one year following the corporate executive's assumption of office.

Under the Companies Act of Japan, a resolution of the board of directors is required if any corporate executive wishes to engage in any business that is in competition with us or any transaction with us.

Under the Companies Act and our articles of incorporation, we may exempt, by resolution of the board of directors, our corporate executives from liabilities to MUFG arising in connection with their failure to execute their duties in good faith and without gross negligence within the limits stipulated by applicable laws and regulations. We, however, currently have no such arrangements with any of our corporate executives.

#### D. Employees

As of March 31, 2018, we had approximately 111,100 employees, an increase of approximately 1,900 employees compared with the number of employees as of March 31, 2017. In addition, as of March 31, 2018, we had approximately 32,900 part-time and temporary employees. The following tables show the percentages of our employees across our different business units and in different locations as of March 31, 2018:

##### **Business unit**

##### **MUFG Bank:**

Retail Banking Business Unit . . . . .	14%
Corporate Banking Business Unit . . . . .	8
Global Business Unit . . . . .	46
Global Markets Unit . . . . .	1
Corporate Services . . . . .	7
Corporate Center/Independent Divisions . . . . .	1

##### **Mitsubishi UFJ Trust and Banking:**

Trust-Banking . . . . .	4
Trust Assets . . . . .	4
Real Estate . . . . .	1
Global Markets . . . . .	1
Administration and subsidiaries . . . . .	2

##### **Mitsubishi UFJ Securities Holdings:**

Sales Marketing Business Unit . . . . .	3
Global Investment Banking Business Unit . . . . .	1
Global Markets Business Unit . . . . .	0
International Business Unit . . . . .	1
Corporate Center and Others . . . . .	2

##### **Mitsubishi UFJ NICOS:**

Business Marketing Division . . . . .	1
Credit Risk Management & Risk Assets Administration Division . . . . .	1
Operations Division . . . . .	0
Systems Division . . . . .	0
Corporate Division . . . . .	0

<b>Others</b> . . . . .	<u>2</u>
	<u>100%</u>

**Location**

**MUFG Bank:**

Japan .....	31%
United States .....	12
Europe .....	2
Asia/Oceania excluding Japan .....	32
Other areas .....	1

**Mitsubishi UFJ Trust and Banking:**

Japan .....	9
United States .....	1
Europe .....	1
Asia/Oceania excluding Japan .....	0

**Mitsubishi UFJ Securities Holdings:**

Japan .....	5
United States .....	0
Europe .....	1
Asia/Oceania excluding Japan .....	0

**Mitsubishi UFJ NICOS:**

Japan .....	3
United States .....	0
Europe .....	0
Asia/Oceania excluding Japan .....	0

<b>Others</b> .....	<u>2</u>
	<u>100%</u>

Most of our employees are members of an employees' union, which negotiates on behalf of employees in relation to remuneration and working conditions. We believe our labor relations to be good.

**E. Share Ownership**

The information required by this item is set forth in “—B. Compensation.”

## Item 7. Major Shareholders and Related Party Transactions.

### A. Major Shareholders

#### Common Stock

As of March 31, 2018, we had 685,265 registered shareholders of our common stock. The ten largest holders of our common stock appearing on the register of shareholders as of March 31, 2018, and the number and the percentage of such shares held by each of them, were as follows:

<u>Name</u>	<u>Number of shares held</u>	<u>Percentage of total shares in issue<sup>(3)</sup></u>
Japan Trustee Services Bank, Ltd. (Trust account) <sup>(1)</sup> . . . . .	705,689,100	5.07%
The Master Trust Bank of Japan, Ltd. (Trust account) <sup>(1)</sup> . . . . .	630,254,300	4.53
State Street Bank and Trust Company . . . . .	275,802,635	1.98
Japan Trustee Services Bank, Ltd. (Trust account 5) <sup>(1)</sup> . . . . .	263,842,100	1.89
State Street Bank West Client-Treaty 505234 . . . . .	223,807,890	1.61
Japan Trustee Services Bank, Ltd. (Trust account 9) <sup>(1)</sup> . . . . .	215,930,100	1.55
Japan Trustee Services Bank, Ltd. (Trust account 1) <sup>(1)</sup> . . . . .	196,032,300	1.41
Japan Trustee Services Bank, Ltd. (Trust account 2) <sup>(1)</sup> . . . . .	193,550,600	1.39
The Bank of New York Mellon as Depository Bank for DR Holders <sup>(2)</sup> . . . . .	179,260,880	1.28
The Master Trust Bank of Japan, Ltd. (Meiji Yasuda Life Insurance Company retirement benefit trust account) . . . . .	175,000,000	1.25
Total . . . . .	<u>3,059,169,905</u>	<u>22.00%</u>

#### Notes:

- (1) Includes the shares held in trust accounts, which do not disclose the names of beneficiaries.
- (2) An owner of record for our ADSs.
- (3) Numbers are truncated after two decimal points.

As of March 31, 2018, 1,858,625 shares, representing approximately 0.01% of our outstanding common stock, were held by our directors and corporate executives.

As of March 31, 2018, 2,165,460,168 shares, representing 15.57% of our outstanding common stock, were owned by 396 U.S. shareholders of record who are resident in the United States, one of whom is the ADR depository's nominee holding 179,260,880 shares, or 1.28%, of our total issued shares of common stock.

Our major shareholders do not have different voting rights.

### B. Related Party Transactions

As of March 31, 2018, we held 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. We also have 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 April 2018, we entered into a sales plan with Morgan Stanley and Morgan Stanley & Co. LLC, pursuant to which we will sell portions of the shares of Morgan Stanley common stock that we hold to Morgan Stanley through Morgan Stanley & Co. LLC acting as agent for Morgan Stanley to the extent necessary to ensure that our beneficial ownership will remain below 24.9%.

We and Morgan Stanley have two securities joint venture companies, namely, Mitsubishi UFJ Morgan Stanley Securities and Morgan Stanley MUFG Securities, in Japan. 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.

We and Morgan Stanley continue to pursue a variety of business opportunities in Japan and abroad in accordance with the global strategic alliance. For a detailed discussion of our global alliance with Morgan Stanley, see “Item 4.B. Information on the Company—Business Overview—Global Strategic Alliance with Morgan Stanley.”

We and our banking subsidiaries had, and expect to have in the future, banking transactions and other transactions in the ordinary course of business with our related parties. Although for the fiscal year ended March 31, 2018, such transactions included, but were not limited to, call money, loans, electronic data processing, leases and management of properties, those transactions were immaterial and were made at prevailing market rates, terms and conditions and do not involve more than the normal risk of collectability or present other unfavorable features.

None of our directors or corporate executives, nor any of the close members of their respective families, has had any transactions or has any presently proposed transactions that are material or any transactions that are unusual in their nature or conditions, involving goods, services or tangible or intangible assets, to which we were, are or will be a party.

No loans have been made to our directors or corporate executives other than in the normal course of business, on normal commercial terms and conditions, involving the normal risk of collectability, and presenting normal features. In addition, no loans have been made to our directors or corporate executives other than as permitted under Section 13(k) of the U.S. Securities Exchange Act and Rule 13k-1 promulgated thereunder.

No family relationship exists among any of our directors or corporate executives. No arrangement or understanding exists between any of our directors or corporate executives and any other person pursuant to which any director or corporate executive was elected to their position at MUFG.

As part of our compensation structure, we have granted performance-based stock compensation rights and stock acquisition rights to our directors and corporate executives. For a detailed discussion of the stock acquisition rights, see “Item 6.B. Directors, Senior Management and Employees—Compensation.”

### **C. Interests of Experts and Counsel**

Not applicable.

## **Item 8. Financial Information.**

### **A. Consolidated Statements and Other Financial Information**

The information required by this item is set forth in our consolidated financial statements starting on page F-1 of this Annual Report and in “Selected Statistical Data” starting on page A-1 of this Annual Report.

### **Legal Proceedings**

From time to time, we are involved in various litigation matters and other legal proceedings, including regulatory actions. Although the final resolution of any such matters and proceedings could have a material effect on our consolidated operating results for a particular reporting period, based on our current knowledge and consultation with legal counsel, we believe the current litigation matters and other legal proceedings, when ultimately determined, will not materially affect our results of operations or financial position.

On November 8, 2017, MUFG Bank filed suit against the Superintendent of DFS in the U.S. District Court for the Southern District of New York, seeking declaratory and injunctive relief to prevent DFS from exercising further authority over MUFG Bank's New York Branch and to confirm the validity of the New York Branch's federal banking license issued by the OCC, effective November 7, 2017. On January 31, 2018, DFS filed an answer denying MUFG Bank's allegations and asserting defenses to MUFG's requests for relief, together with counterclaims seeking monetary penalties against MUFG Bank based on purported violations of law alleged to have occurred prior to the federal license conversion. On March 19, 2018, MUFG Bank moved to dismiss all of DFS's counterclaims as preempted by federal law and for failure to state a claim under New York law. The litigation is in its early stages, and the outcome is not knowable at this time.

For more information, see "Item 3.D. Key Information—Risk Factors—Risks Related to Our Business—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." and Note 27 to our consolidated financial statements included elsewhere in this Annual Report.

### **Distributions**

Our board of directors submits a recommendation for a year-end dividend for our shareholders' approval at the ordinary general meeting of shareholders customarily held in June of each year. The year-end dividend is usually distributed immediately following shareholders' approval to holders of record at the end of the preceding fiscal year. In addition to year-end dividends, we may make cash distributions by way of interim dividends to shareholders of record as of September 30 of each year as distribution of surplus by resolution of our board of directors. Year-end dividends in the amount of ¥10 per share of our common stock (in addition to interim dividends of ¥9 per share of our common stock) for the fiscal year ended March 31, 2018 were approved by shareholders at the ordinary general meeting of shareholders held on June 28, 2018.

See "Item 10.B. Additional Information—Memorandum and Articles of Association" for additional information on our dividends policy.

Under the Japanese foreign exchange regulations currently in effect, dividends paid on shares held by non-residents of Japan may be converted into any foreign currency and repatriated abroad. Under the terms of the deposit agreement pursuant to which ADSs are issued, the depository is required, to the extent that in its judgment it can convert Japanese yen on a reasonable basis into U.S. dollars and transfer the resulting U.S. dollars to the United States, to convert all cash dividends that it receives in respect of deposited shares into U.S. dollars and to distribute the amount received, after deduction of any applicable withholding taxes, to the holders of ADSs. See "Item 10.D. Additional Information—Exchange Controls" and "Item 12.D. Description of Securities Other than Equity Securities—American Depositary Shares."

### **B. Significant Changes**

Other than as described in this Annual Report, no significant changes have occurred since the date of our consolidated financial statements included in this Annual Report.

## Item 9. The Offer and Listing.

### A. Offer and Listing Details

#### Market Price Information

The following table shows, for the periods indicated, the reported intra-day high and low trade prices for shares of our common stock on the Tokyo Stock Exchange, or the TSE, and of the ADSs on the New York Stock Exchange, or the NYSE:

	Price per share on the TSE		Price per ADS on the NYSE	
	High	Low	High	Low
	(yen)		(U.S.\$)	
Fiscal year ended March 31, 2013 .....	592	328	6.10	4.16
Fiscal year ended March 31, 2014 .....	755	515	7.31	5.19
Fiscal year ended March 31, 2015 .....	811	523	6.72	5.13
Fiscal year ended March 31, 2016 .....	936.8	446.2	7.62	3.9
Fiscal year ending March 31, 2017 .....				
First quarter .....	581.6	448.7	5.29	4.33
Second quarter .....	575.5	428.7	5.64	4.28
Third quarter .....	768.1	501.4	6.67	4.87
Fourth quarter .....	774.1	699.7	6.92	6.23
Fiscal year ended March 31, 2018 .....				
First quarter .....	755.2	650.2	6.75	5.96
Second quarter .....	766.2	653.6	6.81	5.97
Third quarter .....	845.9	716.5	7.44	6.36
Fourth quarter .....	889.3	685.6	8.07	6.45
January .....	889.3	820.8	8.07	7.35
February .....	857.0	759.1	7.83	7.08
March .....	746.4	685.6	6.98	6.45
Fiscal year ending March 31, 2019 .....				
April .....	750.3	686.6	6.82	6.45
May .....	737.1	655.8	6.67	6.01
June .....	682.5	623.1	6.26	5.57

### B. Plan of Distribution

Not applicable.

### C. Markets

The primary market for our common stock is the TSE. Our common stock is also listed on the Nagoya Stock Exchange in Japan. ADSs, each representing one share of common stock, are quoted on the NYSE under the symbol, "MUFG." This ticker symbol replaced the previous symbol, "MTU," on April 2, 2018.

### D. Selling Shareholders

Not applicable.

### E. Dilution

Not applicable.

### F. Expenses of the Issue

Not applicable.

## **Item 10. Additional Information.**

### **A. Share Capital**

Not applicable.

### **B. Memorandum and Articles of Association**

#### **Our Corporate Purpose**

Article 2 of our Articles of Incorporation provides that our corporate purpose is to carry on the following businesses:

- administration of management of banks, trust banks, specialized securities companies, insurance companies or other companies which we may own as our subsidiaries under the Banking Law;
- any businesses incidental to the foregoing businesses mentioned in the preceding item; and
- any other businesses in which bank holding companies are permitted to engage under the Banking Law in addition to the foregoing businesses mentioned in the preceding two items.

#### **Board of Directors**

For discussion of the provisions of our Articles of Incorporation as they apply to our directors, see “Item 6.C. Directors, Senior Management and Employees—Board Practices.”

#### **Common Stock**

We summarize below the material provisions of our Articles of Incorporation, our share handling regulations and the Companies Act as they relate to a type of joint stock company known as *kabushiki kaisha*, within which we fall. Because it is a summary, this discussion should be read together with our Articles of Incorporation and share handling regulations, which have been filed as exhibits to this Annual Report.

#### **General**

A joint stock company is a legal entity incorporated under the Companies Act. The investment and rights of the shareholders of a joint stock company are represented by shares of stock in the company and shareholders’ liability is limited to the amount of the subscription for the shares.

As of June 28, 2018, our authorized common share capital was comprised of 33,000,000,000 shares of common stock with no par value.

As of March 31, 2018, a total of 13,900,028,020 shares of common stock (including 737,772,882 shares of common stock held by us and our consolidated subsidiaries as treasury stock) had been issued. Each of the shares issued and outstanding was fully paid and non-assessable.

We are also authorized to issue several classes of preferred stock. See “—Preferred Stock.”

We may issue shares from our authorized but unissued share capital following a resolution to that effect by our board of directors. An increase in our authorized share capital is only possible by amendment of our Articles of Incorporation, which generally requires shareholders’ special approval.

In order to assert shareholder rights against us, a shareholder must have its name and address registered on our register of shareholders, in accordance with the Companies Act and our share handling regulations. The registered holder of deposited shares underlying the ADSs is the depositary for the ADSs, or its nominee. Accordingly, holders of ADSs will not be able to assert shareholder rights other than as provided in the agreement among us, the depositary and the holders of the ADSs.

Under the Act on Book-Entry Transfer of Company Bonds, Shares, etc., the shares of all Japanese companies listed on any Japanese stock exchange, including our shares, are traded without share certificates through entry in the books maintained under a central clearing system.

### *Dividends*

Dividends are distributed in proportion to the number of shares owned by each shareholder on the record date for the dividend. Dividends for each financial period may be distributed following shareholders' approval at a general meeting of shareholders.

Payment of dividends on common stock is subject to the preferential dividend rights of holders of preferred stock.

Under the Banking Law and our Articles of Incorporation, our financial accounts are closed on March 31 of each year, and dividends, if any, are paid to shareholders of record as of March 31 following shareholders' approval at a general meeting of shareholders. In addition to year-end dividends, our board of directors may by resolution declare an interim cash dividend to shareholders of record as of September 30 of each year. Under the Companies Act, distribution of dividends will take the form of distribution of surplus (as defined below). We will be permitted to make distributions of surplus to our shareholders any number of times per fiscal year pursuant to resolutions of our general meetings of shareholders, subject to certain limitations described below. Distributions of surplus are in principle required to be authorized by a resolution of a general meeting of shareholders. Distributions of surplus would, however, be permitted to be made pursuant to a resolution of our board of directors if:

- (a) our Articles of Incorporation so provide (our Articles of Incorporation currently contain no such provisions);
- (b) the normal term of office of our directors is one year; and
- (c) certain conditions concerning our non-consolidated annual financial statements and certain documents for the latest fiscal year as required by an ordinance of the Ministry of Justice are satisfied.

In an exception to the above rule, even if the requirements described in (a) through (c) are not met, we are permitted to make distributions of surplus in cash to our shareholders by resolutions of the board of directors once per fiscal year as mentioned above concerning interim cash dividend.

Under the Companies Act, distributions of surplus may be made in cash or in kind in proportion to the number of shares of common stock held by each shareholder. A resolution of a general meeting of shareholders or our board of directors authorizing a distribution of surplus must specify the kind and aggregate book value of the assets to be distributed, the manner of allocation of such assets to shareholders, and the effective date of the distribution. If a distribution of surplus is to be made in kind, we may, pursuant to a resolution of a general meeting of shareholders or (as the case may be) our board of directors, grant to our shareholders the right to require us to make such distribution in cash instead of in kind. If no such right is granted to shareholders, the relevant distribution of surplus must be approved by a special resolution of a general meeting of shareholders. See “—B. Memorandum and Articles of Association—Common Stock—Voting Rights.”

Under the Companies Act, we may make distributions of surplus to the extent that the aggregate book value of the assets to be distributed to shareholders does not exceed the distributable amount (as defined below) as of the effective date of such distributions of surplus. The amount of surplus (the “surplus”) at any given time shall be the amount of our assets and the book value of our treasury stock after subtracting the amounts of items (1) through (5) below as they appear on our non-consolidated balance sheet as of the end of our last fiscal year, and after reflecting the changes in our surplus after the end of our last fiscal year, by adding the amounts of items (6), (7) and (8) below and/or subtracting the amounts of items (9), (10) and (11) below:

- (1) our liabilities;

- (2) our stated capital;
- (3) our additional paid-in capital;
- (4) our accumulated legal reserve;
- (5) other amounts as are set out in an ordinance of the Ministry of Justice;
- (6) (if we transferred our treasury stock after the end of the last fiscal year) the transfer price of our treasury stock after subtracting the book value thereof;
- (7) (if we decreased our stated capital after the end of the last fiscal year) the amount of decrease in our stated capital (excluding the amount transferred to additional paid-in capital or legal reserve);
- (8) (if we decreased our additional paid-in capital or legal reserve after the end of the last fiscal year) the amount of decrease in our additional paid-in capital or legal reserve (excluding the amount transferred to stated capital);
- (9) (if we cancelled our treasury stock after the end of the last fiscal year) the book value of the cancelled treasury stock;
- (10) (if we distributed surplus to shareholders after the end of the last fiscal year) the amount of the assets distributed to shareholders by way of such distribution of surplus; and
- (11) other amounts as are set out in an ordinance of the Ministry of Justice.

A distributable amount (the “distributable amount”) at any given time shall be the aggregate amount of (a) the surplus, (b) the amount of profit as recorded for the period after the end of our last fiscal year until the date of an extraordinary settlement of account (if any) as is set out in an ordinance of the Ministry of Justice and (c) the transfer price of our treasury stock in the same period, after subtracting the amounts of the following items:

- (1) the book value of our treasury stock;
- (2) (if we transferred our treasury stock after the end of the last fiscal year) the transfer price of our treasury stock;
- (3) the losses recorded for the period after the end of our last fiscal year until the date of an extraordinary settlement of account (if any) as set out in an ordinance of the Ministry of Justice; and
- (4) other amounts as set out in an ordinance of the Ministry of Justice.

In Japan, the “ex-dividend” date and the record date for any dividends precede the date of determination of the amount of the dividend to be paid. The market price of shares generally becomes ex-dividend on the third business day prior to the record date. Under our Articles of Incorporation, we are not obligated to pay any dividends which are left unclaimed for a period of five years after the date on which they first became payable.

### ***Capital and Reserves***

Under the Companies Act, we may reduce our additional paid-in capital or legal reserve (without limitation as to the amount of such reduction) as mentioned previously, generally by resolution of a general meeting of shareholders and, if so resolved in the same resolution, may account for the whole or any part of the amount of such reduction as stated capital. We may also reduce our stated capital generally by special resolution of a general meeting of shareholders and, if so resolved in the same resolution, such reduction may account for the whole or any part of the amount of such reduction as additional paid-in capital or legal reserve. Conversely, we may reduce our surplus and increase either (i) stated capital or (ii) additional paid-in capital and/or legal reserve by the same amount, in either case by resolution of a general meeting of shareholders.

### ***Stock Splits***

Stock splits of our outstanding stock may be effected at any time by resolution of the board of directors. When a stock split is to be effected, we may increase the authorized share capital to cover the number of shares to be increased by the stock split by amending our Articles of Incorporation by resolution of the board of directors without approval by special resolution of the general meeting of shareholders, unless more than one class of stock is issued and outstanding. We must give public notice of the stock split, specifying a record date at least two weeks prior to the record date.

### ***Unit Share (tan-gen kabu) System***

We have adopted a unit share system, where 100 shares of either common or preferred stock shall each constitute a unit.

Under the unit share system, each unit is entitled to one voting right. A holder of less than one unit has no voting right. Our Articles of Incorporation provide that the holders of shares constituting less than a full unit will not have shareholder rights except for those specified in the Companies Act or an ordinance of the Ministry of Justice, including rights (i) to receive dividends, (ii) to receive cash or other assets in case of consolidation or split of shares, stock-for-stock exchange or stock-for-stock transfer, corporate split or merger or (iii) to be allotted rights to subscribe for free for new shares and stock acquisition rights when such rights are granted to shareholders. Shareholders may require us to purchase shares constituting less than a unit at the current market price. In addition, holders of shares constituting less than a unit may require us to sell them such number of shares, which, when combined with the number of shares already held by such holder, shall constitute a whole unit of share; provided that we will be obliged to comply with such request only when we own a sufficient number of shares to accommodate the desired sale and purchase. The board of directors may reduce the number of shares constituting a unit or cease to use the unit share system by amendments to the Articles of Incorporation without shareholders' approval even though amendments to the Articles of Incorporation generally require a special resolution of the general meeting of shareholders.

### ***General Meeting of Shareholders***

The ordinary general meeting of our shareholders is usually held in June of each year in Tokyo. In addition, we may hold an extraordinary general meeting of shareholders whenever necessary by giving at least two weeks' advance notice to shareholders who are entitled to vote at the relevant general meeting of shareholders. The record date for ordinary general meetings of our shareholders is March 31.

Any shareholder holding at least 300 voting rights or 1% of the total number of voting rights for six consecutive months or longer may propose a matter to be considered at a general meeting of shareholders by submitting a written request to a director at least eight weeks prior to the date of the meeting. The number of minimum voting rights, minimum percentage and time period necessary for exercising the minority shareholder rights described above may be decreased or shortened if our Articles of Incorporation so provide. Our Articles of Incorporation currently contain no such provisions.

### ***Voting Rights***

A holder of shares of our common stock is generally entitled to one voting right for each unit of common stock held. The following shares of common stock are not entitled to voting rights even when such shares constitute a whole unit, and such shares of common stock are not considered when determining whether a quorum exists for a shareholders' meeting:

- treasury stock;
- shares held by a company in which we and/or our subsidiaries own 25% or more of the total voting rights; and

- shares issued after the record date as a result of conversion of convertible stock, exercise of stock acquisition rights, and fractional shareholders becoming a shareholder of a whole unit share.

On the other hand, holders of certain class of preferred stock shall be entitled to a voting right for each unit of preferred stock held under certain conditions provided for by relevant laws or regulations and our Articles of Incorporation, for example, when a proposal to pay the full amount of preferential dividends on any class of preferred stock in compliance with the terms of such preferred stock is not included in the agenda of the relevant shareholders meeting. See “—Preferred Stock.”

Under our Articles of Incorporation, except as otherwise provided by law or by other provisions of our Articles of Incorporation, a resolution can be adopted at a shareholders’ meeting by the holders of a majority of the voting rights represented at the meeting. The Companies Act and our Articles of Incorporation require a quorum of not less than one-third of the total number of voting rights for election of our directors.

The Companies Act and our Articles of Incorporation provide that a quorum of not less than one-third of outstanding voting rights, excluding those owned by our subsidiaries and affiliates of which we own, directly or indirectly, 25 percent or more, must be present at a shareholders’ meeting to approve specified corporate actions, such as:

- the amendment of our Articles of Incorporation, except in some limited cases;
- the repurchase of our own stock from a specific shareholder other than our subsidiary;
- the consolidation of shares;
- the offering to persons other than shareholders of stock at a specially favorable price, or of stock acquisition rights or bonds or notes with stock acquisition rights with specially favorable conditions;
- the exemption from liability of a director or corporate auditor, with certain exceptions;
- a reduction in stated capital with certain exceptions in which a shareholders’ resolution is not required;
- a distribution of in-kind dividends which meets certain requirements;
- the transfer of the whole or an important part of our business, except in some limited circumstances;
- the acquisition of the whole business of another company, except in some limited circumstances;
- a dissolution, merger or consolidation, except for certain types of mergers;
- a stock-for-stock exchange (*kabushiki-kokan*) or stock-for-stock transfer (*kabushiki-iten*), except in some limited circumstances; and
- a corporate split, except in some limited circumstances.

A special resolution representing at least two-thirds of the voting rights represented at the meeting is required to approve these actions.

Our Articles of Incorporation do not include any provision that grants shareholders cumulative voting rights at elections of directors.

### ***Subscription Rights***

Holders of our shares have no preemptive rights under our Articles of Incorporation. Under the Companies Act, however, our board of directors may determine that shareholders be given subscription rights in connection with a particular issue of new shares. In this case, these subscription rights must be given on uniform terms to all shareholders, and if a specified record date is set, it must be announced in a public notice at least two weeks prior to the record date. A notification to each individual shareholder must also be given at least two weeks prior to the subscription date.



Under the Companies Act, rights to subscribe for new shares may not be transferred; however, we may allot stock acquisition rights to shareholders without consideration, and such rights will be transferable.

### ***Stock Acquisition Rights***

We may issue stock acquisition rights (*shinkabu yoyakuken*), which in the United States are often in the form of warrants, or bonds with stock acquisition rights that cannot be detached (*shinkabu yoyakuken-tsuki shasai*), which in the United States are often in the form of convertible bonds or bonds with non-detachable warrants. Except where the issuance would be on “specially favorable” conditions, the issuance of stock acquisition rights or bonds with stock acquisition rights may be authorized by a resolution of our board of directors. Upon exercise of the stock acquisition rights, the holder of such rights may acquire shares by paying the applicable exercise price or, if so determined by a resolution of our board of directors, by making a substitute payment, such as having the convertible bonds redeemed for no cash in lieu of the exercise price.

### ***Liquidation Rights***

Upon our liquidation, the assets remaining after payment of all debts, liquidation expenses, taxes and preferred distributions to holders of shares of our preferred stock will be distributed among the holders of shares of our common stock in proportion to the number of shares they own.

### ***Transfer Agent***

Mitsubishi UFJ Trust and Banking is the transfer agent for our common stock. The office of Mitsubishi UFJ Trust and Banking for this purpose is located at 4-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-8212, Japan. Mitsubishi UFJ Trust and Banking maintains our register of shareholders.

### ***Reports to Shareholders***

We furnish to our shareholders notices, in Japanese, of shareholders’ meetings, annual business reports, including our financial statements, and notices of resolutions adopted at our shareholders’ meetings.

### ***Record Dates***

As stated above, March 31 is the record date for the payment of annual dividends (if any), the determination of shareholders entitled to vote at ordinary general meetings of our shareholders, and the determination of class shareholders entitled to vote at meetings of our class shareholders if any matter to be resolved at an ordinary general meeting of our shareholders requires a resolution by our class shareholders in addition to a resolution by our shareholders. September 30 is the record date for the payment of interim dividends, if any. In addition, by a resolution of our board of directors and after giving at least two weeks’ prior public notice, we may at any time set a record date in order to determine the shareholders who are entitled to the rights pertaining to our shares.

### ***Repurchase of Our Shares***

We may repurchase our own shares:

- through the Tokyo Stock Exchange or other stock exchanges on which our shares are listed, if authorized by a resolution of a general meeting of shareholders or our board of directors;
- by way of a tender offer, if authorized by a resolution of a general meeting of shareholders or our board of directors;
- from a specific party, if authorized by a special resolution of a general meeting of shareholders and we give notice thereof to shareholders prior to such general meeting, in general;

- from all shareholders of a specific class of shares offering to sell their shares, if authorized by a resolution of a general meeting of shareholders or our board of directors and we give a public notice or notice thereof to all of the shareholders (if we repurchase any class of preferred stock, notices to all shareholders of the relevant class of preferred stock); or
- from our subsidiaries, if authorized by a resolution of the board of directors.

When the repurchase is made by us from a specific party, as authorized by a special resolution of a general meeting of shareholders, any shareholder may make a demand to a director, five days or more prior to the relevant shareholders' meeting, that we also repurchase the shares held by that shareholder. However, no such right will be available if the shares have a market price, and if the purchase price does not exceed the then market price calculated in a manner set forth in an ordinance of the Ministry of Justice.

Repurchase of our own shares described above must satisfy various specified requirements. In general, the same restrictions on the distributable amount as described in the seventh paragraph under “—Common Stock—Dividends.” are applicable to the repurchase of our own shares, so the total amount of the repurchase price may not exceed the distributable amount.

We may hold our own shares so repurchased without restrictions. In addition, we may cancel or dispose of our repurchased shares by a resolution of our board of directors. As of March 31, 2018, we (excluding our subsidiaries) owned 706,588,098 shares of treasury stock.

## **Preferred Stock**

The following is a summary of information concerning the shares of our preferred stock, including brief summaries of the relevant provisions of our Articles of Incorporation, the share handling regulations and the Companies Act as currently in effect. The detailed rights of our preferred stock are set out in our Articles of Incorporation and the resolutions of our board of directors relating to the issuance of the relevant stock.

### ***General***

As of June 28, 2018, we were authorized under our Articles of Incorporation to issue four classes of preferred stock totaling 800,000,000 shares of preferred stock, including 400,000,000 shares of each of the second to fourth series of class 5 preferred stock (provided the aggregate number of shares authorized to be issued with respect to the three series of class 5 preferred stock does not exceed 400,000,000 shares), 200,000,000 shares of each of the first to fourth series of class 6 preferred stock (provided the aggregate number of shares authorized to be issued with respect to the four series of class 6 preferred stock does not exceed 200,000,000 shares), and 200,000,000 shares of each of the first to fourth series of class 7 preferred stock (provided the aggregate number of shares authorized to be issued with respect to the four series of class 7 preferred stock does not exceed 200,000,000 shares). We currently have no shares of preferred stock issued.

Our preferred stock has equal preference over our shares of common stock with respect to dividend entitlements and distribution of assets upon our liquidation. However, holders of shares of our preferred stock are not entitled to vote at general meetings of shareholders, subject to the exceptions provided under our Articles of Incorporation.

We may acquire shares of second to fourth series of class 5 and first to fourth series of class 6 preferred stock at our discretion pursuant to the terms and conditions provided by our Articles of Incorporation and the resolution of our board of directors. The provisions for acquisition of shares of second to fourth series of class 5 and first to fourth series of class 6 preferred stock will be determined by the board of directors at the time of issuance of such preferred stock. When issued, any holder of shares of first to fourth series of class 6 preferred stock or first to fourth series of class 7 preferred stock may request acquisition of shares of such preferred stock

in exchange for shares of our common stock during the period determined by resolution of the board of directors adopted at the time of issuance of such shares of preferred stock. Any shares of first to fourth series of class 6 preferred stock or first to fourth series of class 7 preferred stock for which no request for acquisition in exchange for shares of our common stock is made during such period will be mandatorily acquired on the day immediately following the last day of such period (the “Mandatory Acquisition Date”) in the number obtained by dividing an amount equivalent to the subscription price per each relevant share of preferred stock by the average daily closing price of our common stock as reported by the Tokyo Stock Exchange for the 30 trading days commencing on the 45th trading day prior to the Mandatory Acquisition Date.

Additionally, in order to enable the relevant preferred stock to meet the criteria for Additional Tier 1 capital under Basel III requirements as adopted by the FSA in March, 2013, the terms of the second to fourth series of class 5 as well as all the series of class 6 and class 7 preferred stock have mandatory acquisition provisions. When newly issuing these preferred stock, the board of directors will determine events that will require us to acquire the relevant preferred stock pursuant to the capital adequacy requirements applicable to us. Upon the occurrence of such events, we will acquire all the relevant preferred stock on an acquisition date, which is a date determined by the board of directors either at the time of the issuance or after the occurrence of such event. We shall acquire the relevant preferred stock in exchange for common stock or for no consideration as determined by the board of directors at the time of the issuance, considering certain factors including the market conditions. The formula to be used in exchanging the preferred stock for common stock will also be determined by the board of directors at the time of the issuance. For more information, see “Item 4.B. Information on the Company—Business Overview—Supervision and Regulation—Japan—Capital adequacy.”

### ***Preferred Dividends***

In priority to the payment of dividends to holders of our common stock, the amount of preferred dividends payable each fiscal year for each class of our preferred stock is set forth below:

- second to fourth series of class 5 preferred stock: to be set by resolution of our board of directors at the time of issuance, up to a maximum of ¥250.00 per share;
- first to fourth series of class 6 preferred stock: to be set by resolution of our board of directors at the time of issuance, up to a maximum of ¥125.00 per share; and
- first to fourth series of class 7 preferred stock: to be set by resolution of our board of directors at the time of issuance, up to a maximum of ¥125.00 per share.

In the event that our board of directors decides to pay an interim dividend to holders of record of our common stock as of September 30 of any year, we will, in priority to the payment of that interim dividend, pay a preferred interim dividend in the amount specified in our Articles of Incorporation to holders of record of our preferred stock as of September 30 of the same year. The amount of any preferred interim dividend will be deducted from the preferred dividend payable on the relevant class of our preferred stock for the same fiscal year.

No preferred dividend will be paid on any of our preferred stock converted into our common stock for the period from the date following the record date for the preferred dividend or preferred interim dividend last preceding the relevant conversion date to the relevant conversion date, but the common stock issued upon conversion will be entitled to receive any dividend payable to holders of record of common stock upon the next succeeding record date for common stock dividends.

No payment of dividends on our preferred stock or any other shares can be made unless we have a sufficient distributable amount and a resolution to distribute such distributable amount is obtained at the relevant ordinary general meeting of shareholders, in the case of annual preferred dividends, or at the board of directors, in the case of preferred interim dividends.

Dividends on our preferred stock are non-cumulative. If the full amount of any dividend is not declared on our preferred stock in respect of any fiscal year, holders of our preferred stock do not have any right to receive

dividends in respect of the deficiency in any subsequent fiscal year, and we will have no obligation to pay the deficiency or to pay any interest regardless of whether or not dividends are paid in respect of any subsequent fiscal year. The holders of our preferred stock are not entitled to any further dividends or other participation in or distribution of our profits.

### ***Liquidation Rights***

In the event of our voluntary or involuntary liquidation, record holders of our preferred stock are entitled, equally in rank as among themselves, to receive before any distribution out of our residual assets is made to holders of our common stock, a distribution out of our residual assets of:

- ¥2,500 per share of second to fourth series of class 5 preferred stock;
- ¥2,500 per share of first to fourth series of class 6 preferred stock; and
- ¥2,500 per share of first to fourth series of class 7 preferred stock.

The holders of our preferred stock are not entitled to any further dividends or other participation in or distribution of our residual assets upon our liquidation.

### ***Voting Rights***

No holder of our preferred stock has the right to receive notice of, or to vote at, a general meeting of shareholders, except as otherwise specifically provided under our Articles of Incorporation or other applicable law. Under our Articles of Incorporation, holders of our preferred stock will be entitled to receive notice of, and have one voting right per unit of preferred stock at, our general meetings of shareholders:

- from the commencement of our ordinary general meeting of shareholders if an agenda for approval to declare a preferred dividend is not submitted to such meeting; or
- from the close of any ordinary general meeting of shareholders if a proposed resolution to declare a preferred dividend is not approved at such meeting.

In each case, holders of our preferred stock will be entitled to receive notice of and vote at the relevant general meetings of shareholders unless and until such time as a resolution of an ordinary general meeting of shareholders declaring a preferred dividend is passed.

### **American Depositary Shares**

The Bank of New York Mellon will issue ADRs. Each ADR will represent ownership interests in ADSs. Each ADS represents one share of our common stock. Each ADS is held by MUFG Bank, acting as custodian, at its principal office in Tokyo, on behalf of The Bank of New York Mellon, acting as depositary. Each ADS will also represent securities, cash or other property deposited with The Bank of New York Mellon but not distributed to ADS holders. The Bank of New York Mellon's corporate trust office is located at 101 Barclay Street, New York, New York 10286 and its principal executive office is located at 225 Liberty Street, New York, New York 10286.

You may hold ADSs either directly or indirectly through your broker or other financial institution. If you hold ADSs directly, you are an ADS holder. This description assumes you hold your ADSs directly. If you hold the ADSs indirectly, you must rely on the procedures of your broker or other financial institution to assert the rights of ADS holders described in this section. You should consult with your broker or financial institution to find out what those procedures are.

The Bank of New York Mellon will actually be the registered holder of the common stock, so you will have to rely on it to exercise your rights as a shareholder. Our obligations and the obligations of The Bank of New York Mellon are set out in a deposit agreement among us, The Bank of New York Mellon and you, as an ADS holder. The deposit agreement and the ADSs are governed by New York law.

The following is a summary of the material terms of the deposit agreement. Because it is a summary, it does not contain all the information that may be important to you. For more complete information, you should read the entire deposit agreement and the form of ADR.

### ***Share Dividends and Other Distributions***

The Bank of New York Mellon has agreed to pay to you the cash dividends or other distributions it or the custodian receives on shares of common stock or other deposited securities, after deducting its fees and expenses. You will receive these distributions in proportion to the number of shares your ADSs represent.

*Cash.* The Bank of New York Mellon will convert any cash dividend or other cash distribution we pay on our common stock into U.S. dollars, if it can do so on a reasonable basis and can transfer the U.S. dollars to the United States. If that is not possible or if any approval from the Japanese government is needed and cannot be obtained, the deposit agreement allows The Bank of New York Mellon to distribute the Japanese yen only to those ADS holders to whom it is possible to do so. The Bank of New York Mellon will hold the Japanese yen it cannot convert for the account of the ADS holders who have not been paid. It will not invest the Japanese yen and it will not be liable for any interest.

Before making a distribution, any withholding taxes that must be paid under Japanese law will be deducted. See “—E. Taxation—Japanese Taxation.” The Bank of New York Mellon will distribute only whole U.S. dollars and cents and will round fractional cents to the nearest whole cent. If the relevant exchange rates fluctuate during a time when The Bank of New York Mellon cannot convert the Japanese currency, you may lose some or all of the value of the distribution.

*Shares.* The Bank of New York Mellon may distribute new ADSs representing any shares we may distribute as a dividend or free distribution, if we furnish The Bank of New York Mellon promptly with satisfactory evidence that it is legal to do so. The Bank of New York Mellon will only distribute whole ADSs. It will sell shares which would require it to issue a fractional ADS and distribute the net proceeds in the same way as it distributes cash dividends. If The Bank of New York Mellon does not distribute additional ADSs, each ADS will also represent the new shares.

*Rights to receive additional shares.* If we offer holders of our common stock any rights to subscribe for additional shares of common stock or any other rights, The Bank of New York Mellon may, after consultation with us, make those rights available to you. We must first instruct The Bank of New York Mellon to do so and furnish it with satisfactory evidence that it is legal to do so. If we do not furnish this evidence and/or do not give these instructions, and The Bank of New York Mellon decides that it is practical to sell the rights, The Bank of New York Mellon will sell the rights and distribute the proceeds in the same way as it distributes cash dividends. The Bank of New York Mellon may allow rights that are not distributed or sold to lapse. In that case, you will receive no value for them.

If The Bank of New York Mellon makes rights available to you, upon instruction from you it will exercise the rights and purchase the shares on your behalf. The Bank of New York Mellon will then deposit the shares and issue ADSs to you. It will only exercise the rights if you pay it the exercise price and any other charges the rights require you to pay.

U.S. securities laws may restrict the sale, deposit, cancellation and transfer of the ADSs issued after the exercise of the rights. For example, you may not be able to trade the ADSs freely in the United States. In this case, The Bank of New York Mellon may issue the ADSs under a separate restricted deposit agreement which will contain the same provisions as the deposit agreement, except for changes needed to put the restrictions in place. The Bank of New York Mellon will not offer you rights unless those rights and the securities to which the rights relate are either exempt from registration or have been registered under the U.S. Securities Act with respect to a distribution to you. We will have no obligation to register under the Securities Act those rights or the securities to which they relate.

*Other distributions.* The Bank of New York Mellon will send to you anything else we distribute on deposited securities by any means it thinks is legal, fair and practical. If it cannot make the distribution in that way, The Bank of New York Mellon has a choice. It may decide to sell what we distributed and distribute the net proceeds, in the same way as it does with cash. Or, it may decide to hold what we distributed, in which case ADSs will also represent the newly distributed property.

The Bank of New York Mellon is not responsible if it decides that it is unlawful or impractical to make a distribution available to any ADS holders. We have no obligation to register ADSs, shares, rights or other securities under the Securities Act. We also have no obligation to take any other action to permit the distribution of ADSs, shares, rights or anything else to ADS holders. This means that you may not receive the distributions we make on our shares or any value for them if it is illegal or impractical for us or The Bank of New York Mellon to make them available to you.

### ***Deposit, Withdrawal and Cancellation***

The Bank of New York Mellon will issue ADSs if you or your broker deposits shares or evidence of rights to receive shares with the custodian. Upon payment of its fees and expenses and of any taxes or charges, such as stamp taxes or stock transfer taxes or fees, The Bank of New York Mellon will register the appropriate number of ADSs in the names you request and will deliver the ADSs at its corporate trust office to the persons you request.

In certain circumstances, subject to the provisions of the deposit agreement, The Bank of New York Mellon may issue ADSs before the deposit of the underlying shares. This is called a pre-release of ADSs. A pre-release is closed out as soon as the underlying shares are delivered to the depository. The depository may receive ADSs instead of the shares to close out a pre-release. The depository may pre-release ADSs only under the following conditions:

- Before or at the time of the pre-release, the person to whom the pre-release is made must represent to the depository in writing that it or its customer, as the case may be, owns the shares to be deposited;
- The pre-release must be fully collateralized with cash or collateral that the depository considers appropriate; and
- The depository must be able to close out the pre-release on not more than five business days' notice.

The pre-release will be subject to whatever indemnities and credit regulations that the depository considers appropriate. In addition, the depository will limit the number of ADSs that may be outstanding at any time as a result of a pre-release.

You may turn in your ADSs at the Corporate Trust Office of The Bank of New York Mellon's office. Upon payment of its fees and expenses and of any taxes or charges, such as stamp taxes or stock transfer taxes or fees, The Bank of New York Mellon will deliver (1) the underlying shares to an account designated by you and (2) any other deposited securities underlying the ADS at the office of the custodian. Or, at your request, risk and expense, The Bank of New York Mellon will deliver the deposited securities at its Corporate Trust Office.

The ADSs may only be presented for cancellation and release of the underlying shares of common stock or other deposited securities in multiples of 100 ADSs. Holders of ADRs evidencing less than 100 ADSs are not entitled to delivery of any underlying shares or other deposited securities unless ADRs, together with other ADRs presented by the same holder at the same time, represent in the aggregate at least 100 ADSs. If any ADSs are surrendered but not cancelled pursuant to the preceding sentence, The Bank of New York Mellon will execute and deliver an ADR or ADRs evidencing the balance of ADSs not so cancelled to the person or persons surrendering the same.

### ***Voting Rights***

If you are an ADS holder on a record date fixed by The Bank of New York Mellon, you may instruct The Bank of New York Mellon to vote the shares underlying your ADSs at a meeting of our shareholders in accordance with the procedures set forth in the deposit agreement.

The Bank of New York Mellon will notify you of the upcoming meeting and arrange to deliver our voting materials to you. The notice shall contain (a) such information as is contained in such notice of meeting, (b) a statement that as of the close of business on a specified record date you will be entitled, subject to any applicable provision of Japanese law and our Articles of Incorporation, to instruct The Bank of New York Mellon as to the exercise of the voting rights, if any, pertaining to the amount of shares or other deposited securities represented by your ADSs, and (c) a brief statement as to the manner in which such instructions may be given, including an express indication that instructions may be given to The Bank of New York Mellon to give a discretionary proxy to a person designated by us. Upon your written request, received on or before the date established by The Bank of New York Mellon for such purpose, The Bank of New York Mellon shall endeavor in so far as practicable to vote or cause to be voted the amount of shares or other deposited securities represented by your ADSs in accordance with the instructions set forth in your request. So long as Japanese law provides that votes may only be cast with respect to one or more whole shares or other deposited securities, The Bank of New York Mellon will aggregate voting instructions to the extent such instructions are the same and vote such whole shares or other deposited securities in accordance with your instructions. If, after aggregation of all instructions to vote received by The Bank of New York Mellon, any portion of the aggregated instructions constitutes instructions with respect to less than a whole share or other deposited securities, The Bank of New York Mellon will not vote or cause to be voted the shares or other deposited securities to which such portion of the instructions apply. The Bank of New York Mellon will not vote or attempt to exercise the right to vote that attaches to the shares or other deposited securities, other than in accordance with the instructions of the ADS holders. If no instructions are received by The Bank of New York Mellon from you with respect to any of the deposited securities represented by your ADSs on or before the date established by The Bank of New York Mellon for such purpose, The Bank of New York Mellon shall deem you to have instructed The Bank of New York Mellon to give a discretionary proxy to a person designated by us with respect to such deposited securities and The Bank of New York Mellon shall give a discretionary proxy to a person designated by us to vote such deposited securities, provided that no such instruction shall be given with respect to any matter as to which we inform The Bank of New York Mellon (and we have agreed to provide such information as promptly as practicable in writing) that (1) we do not wish such proxy given, (2) substantial opposition exists or (3) such matter materially and adversely affects the rights of holders of shares.

We cannot assure you that you will receive the voting materials in time to ensure that you can instruct The Bank of New York Mellon to vote your shares. In addition, The Bank of New York Mellon is not responsible for failing to carry out voting instructions or for the manner of carrying out voting instructions as long as it has acted in good faith. This means that you may not be able to exercise your right to vote and there may be nothing you can do if your shares are not voted as you requested.

### ***Fees and Expenses***

See “Item 12.D. Description of Securities Other than Equity Securities—American Depositary Shares.”

### ***Payment of Taxes***

You will be responsible for any taxes or other governmental charges payable on your ADSs or on the deposited securities underlying your ADSs. The Bank of New York Mellon may refuse to transfer your ADSs or allow you to withdraw the deposited securities underlying your ADSs until those taxes or other charges are paid. It may apply payments owed to you or sell deposited securities underlying your ADSs to pay any taxes owed and you will remain liable for any deficiency. If it sells deposited securities, it will, if appropriate, reduce the number of ADSs to reflect the sale and pay to you any property remaining after it has paid the taxes.

### ***Reclassifications, Recapitalizations and Mergers***

If we:

- reclassify, split up or consolidate any of our shares or the deposited securities;
- recapitalize, reorganize, merge, liquidate, consolidate or sell all or substantially all of our assets or take any similar action; or
- distribute securities on the shares that are not distributed to you, then,
  - (1) the cash, shares or other securities received by The Bank of New York Mellon will become deposited securities and each ADS will automatically represent its equal share of the new deposited securities unless additional ADSs are issued; and
  - (2) The Bank of New York Mellon may, and will if we request, issue new ADSs or ask you to surrender your outstanding ADSs in exchange for new ADSs, identifying the new deposited securities.

### ***Amendment and Termination***

We may agree with The Bank of New York Mellon to amend the deposit agreement and the ADSs without your consent for any reason. If the amendment adds or increases fees or charges, except for taxes and other governmental charges, registration fees, cable, telex or facsimile transmission costs, delivery costs or other such expenses, or prejudices an important right of ADS holders, it will only become effective three months after The Bank of New York Mellon notifies you of the amendment. At the time an amendment becomes effective, you are considered, by continuing to hold your ADS, to agree to the amendment and to be bound by the ADSs and the deposit agreement as amended. However, no amendment will impair your right to receive the deposited securities in exchange for your ADSs.

The Bank of New York Mellon will terminate the deposit agreement if we ask it to do so, in which case it must notify you at least 30 days before termination. The Bank of New York Mellon may also terminate the deposit agreement if The Bank of New York Mellon has told us that it would like to resign and we have not appointed a new depository bank within 60 days.

If any ADSs remain outstanding after termination, The Bank of New York Mellon will stop registering the transfers of ADSs, will stop distributing dividends to ADS holders and will not give any further notices or do anything else under the deposit agreement other than:

- (1) collect dividends and distributions on the deposited securities;
- (2) sell rights and other property offered to holders of deposited securities; and
- (3) deliver shares and other deposited securities in exchange for ADSs surrendered to The Bank of New York Mellon.

At any time after one year following termination, The Bank of New York Mellon may sell any remaining deposited securities. After that, The Bank of New York Mellon will hold the money it received on the sale, as well as any other cash it is holding under the deposit agreement for the pro rata benefit of the ADS holders that have not surrendered their ADSs. It will not invest the money and has no liability for interest. The Bank of New York Mellon's only obligations will be to account for the money and other cash and with respect to indemnification and to retain depository documents. After termination, our only obligations will be with respect to indemnification and to pay certain amounts to The Bank of New York Mellon.



### ***Limitations on Obligations and Liability to ADS Holders***

The deposit agreement expressly limits our obligations and the obligations of The Bank of New York Mellon. It also limits our liability and the liability of The Bank of New York Mellon. We and The Bank of New York Mellon:

- are only obligated to take the actions specifically set forth in the deposit agreement without negligence or bad faith;
- are not liable if either is prevented or delayed by law, any provision of our Articles of Incorporation or circumstances beyond their control from performing their obligations under the deposit agreement;
- are not liable if either exercises or fails to exercise discretion permitted under the deposit agreement;
- have no obligation to become involved in a lawsuit or other proceeding related to the ADSs or the deposit agreement on your behalf or on behalf of any other party unless indemnified to their satisfaction; and
- may rely upon any advice of or information from legal counsel, accountants, any person depositing shares, any ADS holder or any other person believed in good faith to be competent to give them that advice or information.

In the deposit agreement, we and The Bank of New York Mellon agree to indemnify each other for liabilities arising out of acts performed or omitted by the other party in accordance with the deposit agreement.

### ***Requirements for Depositary Actions***

Before The Bank of New York Mellon will issue or register transfer of an ADS, make a distribution on an ADS, or permit withdrawal of shares, it may require:

- payment of stock transfer or other taxes or other governmental charges and transfer or registration fees charged by third parties for the transfer of any shares or other deposited securities;
- production of satisfactory proof of the identity and genuineness of any signature or other information it deems necessary; and
- compliance with regulations it may establish, from time to time, consistent with the deposit agreement, including presentation of transfer documents.

The Bank of New York Mellon may refuse to deliver, transfer, or register transfers of ADSs generally when its transfer books are closed, when our transfer books are closed or at any time if it or we think it advisable to do so.

You have the right to cancel your ADSs and withdraw the underlying shares at any time except:

- when temporary delays arise because: (1) The Bank of New York Mellon has closed its transfer books or we have closed our transfer books; (2) the transfer of shares is blocked to permit voting at a shareholders' meeting; or (3) we are paying a dividend on the shares;
- when you or other ADS holders seeking to withdraw shares owe money to pay fees, taxes and similar charges; or
- when it is necessary to prohibit withdrawals in order to comply with any laws or governmental regulations that apply to ADSs or to the withdrawal of shares or other deposited securities.

This right of withdrawal may not be limited by any other provision of the deposit agreement.

### ***Reports and Other Communications***

The Bank of New York Mellon will make available for your inspection at its corporate trust office any reports and communications, including any proxy soliciting material, that it receives from us, if those reports and communications are both (a) received by The Bank of New York Mellon as the holder of the deposited securities and (b) made generally available by us to the holders of the deposited securities. If we ask it to, The Bank of New York Mellon will also send you copies of those reports it receives from us.

### ***Inspection of Transfer Books***

The Bank of New York Mellon will keep books for the registration and transfer of ADSs, which will be open for your inspection at all reasonable times. You will only have the right to inspect those books if the inspection is for the purpose of communicating with other owners of ADSs in connection with our business or a matter related to the deposit agreement or the ADSs.

### **C. Material Contracts**

Except as described elsewhere in this Annual Report, all material contracts entered into by us in the past two years preceding the filing of this Annual Report were entered into in the ordinary course of business.

### **D. Exchange Controls**

#### **Foreign Exchange and Foreign Trade Law**

The Foreign Exchange and Foreign Trade Law of Japan and the cabinet orders and ministerial ordinances incidental thereto, collectively known as the Foreign Exchange Law, set forth, among other matters, regulations relating to the receipt by non-residents of Japan of payment with respect to shares to be issued by us and the acquisition and holding of shares by non-residents of Japan and foreign investors, both as defined below. It also applies in some cases to the acquisition and holding of ADSs representing such shares acquired and held by non-residents of Japan and foreign investors. Generally, the Foreign Exchange Law currently in effect does not affect the right of a non-resident of Japan to purchase or sell an ADS outside Japan for non-Japanese currency.

“Non-residents of Japan” are defined as individuals who are not resident in Japan and corporations whose principal offices are located outside Japan. Generally, the branches and offices of non-resident corporations which are located in Japan are regarded as residents of Japan while the branches and offices of Japanese corporations located outside Japan are regarded as non-residents of Japan.

“Foreign investors” are defined as:

- natural persons who are non-resident of Japan;
- corporations which are organized under the laws of foreign countries or whose principal offices are located outside Japan;
- corporations of which 50% or more of the shares are directly or indirectly held by individuals not resident of Japan and corporations which are organized under the laws of foreign countries or whose principal offices are located outside Japan; and
- corporations, a majority of officers (or a majority of officers having the power of representation) of which are non-resident individuals.

### **Dividends and Proceeds of Sales**

Under the Foreign Exchange Law, dividends paid on, and the proceeds of sales in Japan of, shares held by non-residents of Japan may in general be converted into any foreign currency and repatriated abroad. The acquisition of our shares by non-residents of Japan by way of a stock split is not subject to any notification or reporting requirements.

## **Acquisition of Shares**

In general, a non-resident of Japan who acquires shares from a resident of Japan is not subject to any prior filing requirement, although the Foreign Exchange Law empowers the Minister of Finance of Japan to require a prior approval for any such acquisition in certain limited circumstances.

If a foreign investor acquires our shares, and, together with parties who have a special relationship with that foreign investor, holds 10% or more of our issued shares as a result of such acquisition, the foreign investor must file a report of such acquisition with the Minister of Finance and any other competent Minister by the fifteenth day of the month immediately following the month to which the date of such acquisition belongs. In certain limited circumstances, however, a prior notification of such acquisition must be filed with the Minister of Finance and any other competent Minister, who may modify or prohibit the proposed acquisition.

## **Deposit and Withdrawal under American Depositary Facility**

The deposit of shares with us, in our capacity as custodian and agent for the depositary, in Tokyo, the issuance of ADSs by the depositary to a non-resident of Japan in respect of the deposit and the withdrawal of the underlying shares upon the surrender of the ADSs are not subject to any of the formalities or restrictions referred to above. However, where as a result of a deposit or withdrawal the aggregate number of shares held by the depositary, including shares deposited with us as custodian for the depositary, or the holder surrendering ADSs, as the case may be, would be 10% or more of the total outstanding shares, a report will be required, and in specified circumstances, a prior notification may be required, as noted above.

## **Reporting of Substantial Shareholdings**

The Financial Instruments and Exchange Act of Japan requires any person who has become, beneficially and solely or jointly, a holder of more than 5% of the total issued shares of capital stock of a company listed on any Japanese financial instruments exchange or whose shares are traded on the over-the-counter market in Japan to file with the director of a competent finance bureau within five business days a report concerning such shareholdings.

A similar report must also be filed in respect of any subsequent change of 1% or more in any such holding ratio or any change in material matters set out in reports previously filed, with certain exceptions. For this purpose, shares issuable to such person upon exchange of exchangeable securities, conversion of convertible securities or exercise of share subscription warrants or stock acquisition rights (including those incorporated in bonds with stock acquisition rights) are taken into account in determining both the number of shares held by such holder and the issuer's total issued shares of capital stock.

## **E. Taxation**

### **Japanese Taxation**

The following sets forth the material Japanese tax consequences to owners of shares of our common stock or ADSs who are non-resident individuals or non-Japanese corporations without a permanent establishment in Japan to which the relevant income is attributable, which we refer to as "non-resident holders" in this section. The statements regarding Japanese tax laws below are based on the laws in force and as interpreted by the Japanese taxation authorities as at the date of this Annual Report and are subject to changes in the applicable Japanese laws, double taxation treaties, conventions or agreements or interpretations thereof occurring after that date. This summary is not exhaustive of all possible tax considerations that may apply to a particular investor, and potential investors are advised to satisfy themselves as to the overall tax consequences of the acquisition, ownership and disposition of shares of our common stock or ADSs, including specifically the tax consequences under Japanese law, the laws of the jurisdiction of which they are resident and any tax treaty between Japan and their country of residence, by consulting their own tax advisers.

For the purpose of Japanese tax law and the Convention between the Government of the United States of America and Japan for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income, or the Tax Convention, a U.S. holder of ADSs will be treated as the owner of the shares of our common stock underlying the ADSs evidenced by the ADRs.

Generally, a non-resident holder of shares of our common stock or ADSs is subject to Japanese withholding tax on dividends paid by us. In the absence of any applicable tax treaty, convention or agreement reducing the rate of withholding tax, the rate of Japanese withholding tax applicable to dividends paid by us to non-resident holders is (i) 15.315% for dividends to be paid on or before December 31, 2037 and (ii) 15% for dividends to be paid thereafter, except for dividends paid to any individual non-resident holder who holds 3% or more of our issued shares for which the applicable rate is (a) 20.42% for dividends to be paid on or before December 31, 2037 and (b) 20% for dividends to be paid thereafter, pursuant to Japanese tax law.

The Tax Convention establishes the maximum rate of Japanese withholding tax which may be imposed on dividends paid to a U.S. resident not having a permanent establishment in Japan. Under the Tax Convention, the maximum withholding rate for U.S. holders (as defined below) is generally set at 10% of the gross amount distributed. However, the maximum rate is 5% of the gross amount distributed if the recipient is a corporation and owns directly or indirectly, on the date on which entitlement to the dividends is determined, at least 10% of the voting shares of the paying corporation. Furthermore, the amount distributed shall not be taxed if the recipient is (i) a pension fund which is a U.S. resident, provided that such dividends are not derived from the carrying on of a business, directly or indirectly, by such pension fund or (ii) a parent company with a controlling interest in the paying company and satisfies certain other requirements. U.S. holders (as defined below) are urged to consult their own tax advisors with respect to their eligibility for benefits under the Tax Convention.

Japanese tax law provides in general that if the Japanese statutory rate is lower than the maximum rate applicable under tax treaties, conventions or agreements, the Japanese statutory rate as stated above shall be applicable.

Non-resident holders of shares who are entitled to a reduced rate of Japanese withholding tax on payments of dividends on the shares of our common stock or ADSs by us are required to submit an Application Form for the Income Tax Convention regarding Relief from Japanese Income Tax on Dividends, or an Application Form for the Income Tax Convention, in advance through a paying handling agent to the relevant tax authority before the payment of dividends. A standing proxy for non-resident holders may provide this application service for the non-resident holders. In this regard, a certain simplified special filing procedure is available for non-resident holders to claim treaty benefits of exemption from or reduction of Japanese withholding tax with respect to dividends to be paid on or after January 1, 2014, by submitting a Special Application Form for Income Tax Convention regarding Relief from Japanese Income Tax and Special Income Tax for Reconstruction on Dividends of Listed Stocks (together with any other required forms and documents). With respect to ADSs, this reduced rate or exemption will be applicable to non-resident holders of ADSs if the depository or its agent submits two Application Forms (one before payment of dividends and the other within eight months after the record date concerning such payment of dividends), together with certain other documents. To claim this reduced rate or exemption, non-resident holders of ADSs will be required to file a proof of taxpayer status, residence and beneficial ownership, as applicable, and to provide other information or documents as may be required by the depository. Non-resident holders who are entitled, under any applicable tax treaty, to a reduced rate of Japanese withholding tax below the rate otherwise applicable under Japanese tax law, or exemption therefrom, as the case may be, but fail to submit the required application in advance may nevertheless be entitled to claim a refund from the relevant Japanese tax authority of withholding taxes withheld in excess of the rate under an applicable tax treaty (if such non-resident holders are entitled to a reduced treaty rate under the applicable tax treaty) or the full amount of tax withheld (if such non-resident holders are entitled to an exemption under the applicable tax treaty), as the case may be, by complying with a certain subsequent filing procedure. We do not assume any responsibility to ensure withholding at the reduced rate, or exemption therefrom, for non-resident holders who would be so eligible under an applicable tax treaty but where the required procedures as stated above are not followed.

Gains derived from the sale or other disposition of shares of our common stock or ADSs by a non-resident holder are not, in general, subject to Japanese income or corporation taxes or other Japanese taxes.

Any deposits or withdrawals of shares of our common stock by a non-resident holder in exchange for ADSs are not subject to Japanese income or corporation tax.

Japanese inheritance and gift taxes, at progressive rates, may be payable by an individual who has acquired shares of our common stock or ADSs as legatee, heir or donee, even if none of the individual, the decedent or the donor is a Japanese resident.

## **U.S. Taxation**

The following sets forth the material U.S. federal income tax consequences of the ownership of shares and ADSs by a U.S. holder, as defined below. This summary is based on U.S. federal income tax laws, including the U.S. Internal Revenue Code of 1986, or the Code, its legislative history, existing and proposed Treasury regulations thereunder, published rulings and court decisions, and the Tax Convention (as defined above), all of which are subject to change, possibly with retroactive effect.

The following summary is not a complete analysis or description of all potential U.S. federal income tax consequences to a particular U.S. holder. It does not address all U.S. federal income tax considerations that may be relevant to all categories of potential purchasers, certain of which (such as banks or other financial institutions, insurance companies, dealers in securities, tax-exempt entities, non-U.S. persons, persons holding a share or an ADS as part of a “straddle,” “hedge,” conversion or integrated transaction, holders whose “functional currency” is not the U.S. dollar, holders liable for alternative minimum tax, holders required to report income no later than when such income is reported on an “applicable financial statement,” and holders of 10% or more of our shares by vote or value) are subject to special tax treatment. This summary does not address any foreign, state, local or other tax consequences of investments in our shares or ADSs.

This summary addresses only shares or ADSs that are held as capital assets within the meaning of Section 1221 of the Code.

As used herein, a “U.S. holder” is a beneficial owner of shares or ADSs, as the case may be, that is:

- a citizen or resident of the United States as determined for U.S. federal income tax purposes;
- a corporation or other entity taxable as a corporation created or organized under the laws of the United States, any state thereof or the District of Columbia;
- an estate, the income of which is subject to U.S. federal income tax regardless of its source; or
- a trust
  - the administration of which is subject to (1) the supervision of a court within the United States and (2) the control of one or more U.S. persons as described in Section 7701(a)(30) of the Code; or
  - that has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person.

If a partnership holds shares or ADSs, the tax treatment of a partner will generally depend on the status of the partner and the activities of the partnership. If you are a partner of a partnership holding shares or ADSs, you should consult your tax advisor.

**We urge U.S. holders to consult their own tax advisors concerning the U.S. federal, state and local and other tax consequences to them of the purchase, ownership and disposition of shares or ADSs.**

This summary is based in part on the assumption that each obligation under the deposit agreement and any related agreement will be performed in accordance with its respective terms. Subject to the discussion in the next

paragraph, for U.S. federal income tax purposes, holders of ADSs will be treated as the owners of the shares represented by the ADSs. Accordingly, withdrawals or deposits of shares in exchange for ADSs generally will not be subject to U.S. federal income tax.

The U.S. Treasury has expressed concerns that intermediaries in the chain of ownership between the holder of an ADS and the issuer of the security underlying the ADS may be taking actions that are inconsistent with the beneficial ownership of the underlying shares (for example, pre-releasing ADSs to persons who do not have beneficial ownership of the securities underlying the ADSs). Accordingly, the discussion on the creditability of Japanese taxes and the availability of the reduced rate of tax for dividends received by certain non-corporate U.S. holders, each as described below, could be affected by actions taken by intermediaries in the chain of ownership between the holder of ADSs and us if, as a result of such actions, the holders of ADSs are not properly treated as beneficial owners of the underlying shares. We are not aware of any intention to take any such actions, and accordingly, the remainder of this discussion assumes that holders of ADSs will be properly treated as beneficial owners of the underlying shares.

Special adverse U.S. federal income tax rules apply if a U.S. holder holds shares or ADSs of a company that is treated as a “passive foreign investment company” (a “PFIC”) for any taxable year during which the U.S. holder held shares or ADSs, as discussed in more detail below. U.S. holders should consult their own tax advisors as to the potential application of the PFIC rules to their ownership and disposition of shares or ADSs.

### ***Taxation of Dividends***

Subject to the application of the PFIC rules discussed below, U.S. holders will include the gross amount of any distribution received with respect to shares or ADSs (before reduction for Japanese withholding taxes), to the extent paid out of our current or accumulated earnings and profits (as determined for U.S. federal income tax purposes), as ordinary income in their gross income. As discussed below, for certain U.S. holders, dividends may be eligible for a reduced rate of taxation. The amount of distribution of property other than cash will be the fair market value of such property on the date of the distribution. Dividends received by a U.S. holder will not be eligible for the “dividends-received deduction” allowed to U.S. corporations in respect of dividends received from other U.S. corporations. To the extent that an amount received by a U.S. holder exceeds such holder’s allocable share of our current earnings and profits, such excess will be applied first to reduce such holder’s tax basis in its shares or ADSs, thereby increasing the amount of gain or decreasing the amount of loss recognized on a subsequent disposition of the shares or ADSs. Then, to the extent such distribution exceeds such U.S. holder’s tax basis, such excess will be treated as capital gain. However, we do not maintain calculations of our earnings and profits in accordance with U.S. federal income tax principles, and U.S. holders should therefore assume that any distribution by us with respect to shares or ADSs will constitute ordinary dividend income. The amount of the dividend will be the U.S. dollar value of the Japanese yen payments received. This value will be determined at the spot Japanese yen/U.S. dollar rate on the date the dividend is received by the depository in the case of U.S. holders of ADSs, or by the shareholder in the case of U.S. holders of shares, regardless of whether the dividend payment is in fact converted into U.S. dollars at that time. If the Japanese yen received as a dividend are not converted into U.S. dollars on the date of receipt, a U.S. holder will have basis in such Japanese yen equal to their U.S. dollar value on the date of receipt, and any foreign currency gains or losses resulting from the conversion of the Japanese yen will generally be treated as U.S. source ordinary income or loss. If the Japanese yen received as a dividend are converted into U.S. dollars on the date of receipt, a U.S. holder will generally not be required to recognize foreign currency gain or loss in respect of the dividend income.

If a U.S. holder is eligible for benefits under the Tax Convention, the holder may be able to claim a reduced rate of Japanese withholding tax. All U.S. holders should consult their tax advisors about their eligibility for reduction of Japanese withholding tax. A U.S. holder may claim a deduction or a foreign tax credit, subject to other applicable limitations, only for tax withheld at the appropriate rate. A U.S. holder would be allowed a foreign tax credit for withholding tax for any portion of the tax that could have been avoided by claiming benefits under the Tax Convention. For foreign tax credit limitation purposes, the dividend will be income from sources

outside the United States. The limitation on foreign taxes eligible for credit is calculated separately with respect to specific classes of income. For this purpose, dividends we pay will constitute “passive income” or, in the case of certain U.S. holders, “financial services income.” The rules governing U.S. foreign tax credits are very complex and U.S. holders should consult their tax advisors regarding the availability of foreign tax credits under their particular circumstances.

Subject to applicable exceptions with respect to short-term and hedged positions, qualified dividends received by non-corporate U.S. holders from a qualified corporation may be eligible for reduced rates of taxation. Qualified corporations include those foreign corporations eligible for the benefits of a comprehensive income tax treaty with the United States that the U.S. Treasury Department determines to be satisfactory for these purposes and that includes an exchange of information provision. The Tax Convention meets these requirements. Subject to the PFIC discussion below, we believe that we are a qualified foreign corporation and that dividends received by U.S. investors with respect to our shares or ADSs will be qualified dividends. Dividends received by U.S. investors from a foreign corporation that was a PFIC in either the taxable year of the distribution or the preceding taxable year are not qualified dividends.

### ***Passive Foreign Investment Company Considerations***

Special adverse U.S. federal income tax rules apply if a U.S. holder holds shares or ADSs of a company that is treated as a PFIC, for any taxable year during which the U.S. holder held shares or ADSs. A foreign corporation will be considered a PFIC for any taxable year in which (i) 75% or more of its gross income is passive income (the “income test”), or (ii) 50% or more of the average fair market value of its assets (determined quarterly) is attributable to assets that produce or are held for the production of passive income (the “asset test”). For this purpose, passive income generally includes dividends, interest, royalties, rents and certain gains from the sale of stock and securities. If a foreign corporation owns at least 25% (by value) of the stock of another corporation, the corporation will be treated, for purposes of the PFIC tests, as owning a proportionate share of the other corporation’s assets and receiving its proportionate share of the other corporation’s income. The determination of whether a foreign corporation is a PFIC is made annually.

Proposed Treasury regulations convert what would otherwise be passive income into non-passive income when such income is banking income earned by an active bank. Based upon these proposed Treasury regulations, and upon certain management estimates and assumptions, we do not believe that we were a PFIC for the year ended March 31, 2018 because we did not meet either the income test or the asset test. Until recently, temporary IRS guidance treated certain qualifying government bonds as assets that generate active banking income for these purposes; however, such guidance has expired for taxable years beginning after 2016. The determination of whether we are a PFIC must be made annually and involves a fact-intensive analysis based upon, among other things, the composition of our income and assets and the value of our assets from time to time. It is possible that we may become a PFIC in the fiscal year ending March 31, 2019 or any future taxable year due to changes in our income or asset composition and the expiration of the temporary IRS guidance described above. In addition, a decrease in the price of our shares may also result in our becoming a PFIC. Furthermore, there can be no assurance that the above-described proposed Treasury regulations will be finalized in their current form. Moreover, the application of the proposed Treasury regulations is not clear. If we were classified as a PFIC in any year during which a U.S. holder owns shares or ADSs and the U.S. holder does not make a “mark-to-market” election, as discussed below, we generally would continue to be treated as a PFIC as to such U.S. holder in all succeeding years, regardless of whether we continue to meet the income or asset test discussed above. U.S. Holders are urged to consult their own tax advisors with respect to the tax consequences to them if we were to become a PFIC for any taxable year in which they own our shares or ADSs.

If we were classified as a PFIC for any taxable year during which a U.S. holder holds our shares or ADSs, the U.S. holder would generally not receive capital gains treatment upon the sale of the shares or ADSs and would be subject to increased tax liability (generally including an interest charge) upon the sale or other disposition of the shares or ADSs or upon the receipt of certain distributions treated as “excess distributions,”

unless the U.S. holder makes the mark-to-market election described below. An excess distribution generally would be any distribution to a U.S. holder with respect to shares or ADSs during a single taxable year that is greater than 125% of the average annual distributions received by a U.S. holder with respect to shares or ADSs during the three preceding taxable years or, if shorter, during the U.S. holder's holding period for the shares or ADSs.

*Mark-to-Market Election.* If the shares or ADSs are regularly traded on a registered national securities exchange or certain other exchanges or markets, then such shares or ADSs would constitute "marketable stock" for purposes of the PFIC rules, and a U.S. holder would not be subject to the foregoing PFIC rules if such holder made a mark-to-market election. After making such an election, the U.S. holder generally would include as ordinary income each year during which the election is in effect and during which we are a PFIC the excess, if any, of the fair market value of our shares or ADSs at the end of the taxable year over such holder's adjusted basis in such shares or ADSs. These amounts of ordinary income would not be eligible for the favorable tax rates applicable to qualified dividend income or long-term capital gains. A U.S. holder also would be allowed to take an ordinary loss in respect of the excess, if any, of the holder's adjusted basis in our shares or ADSs over their fair market value at the end of the taxable year (but only to the extent of the net amount of income that was previously included as a result of the mark-to-market election). A U.S. holder's tax basis in our shares or ADSs would be adjusted to reflect any income or loss amounts resulting from a mark-to-market election. If made, a mark-to-market election would be effective for the taxable year for which the election was made and for all subsequent taxable years unless the shares or ADSs cease to qualify as "marketable stock" for purposes of the PFIC rules or the IRS consented to the revocation of the election. In the event that we are classified as a PFIC, U.S. holders are urged to consult their tax advisors regarding the availability of the mark-to-market election, and whether the election would be advisable in the holder's particular circumstances.

*QEF Election.* The PFIC rules outlined above also would not apply to a U.S. holder if such holder alternatively elected to treat us as a "qualified electing fund" or "QEF." An election to treat us as a QEF will not be available, however, if we do not provide the information necessary to make such an election. We will not provide U.S. holders with the information necessary to make a QEF election, and thus, the QEF election will not be available with respect to our shares.

Notwithstanding any election made with respect to our shares, dividends received with respect to our shares will not constitute "qualified dividend income" if we are a PFIC in either the year of the distribution or the preceding taxable year. Dividends that do not constitute qualified dividend income are not eligible for taxation at the reduced tax rate described above in "—Taxation of Dividends." Instead, such dividends would be subject to tax at ordinary income rates.

If a U.S. holder owns shares or ADSs during any year in which we are a PFIC, the U.S. holder must also file IRS Form 8621 regarding distributions received on the shares or ADSs, any gain realized on the shares or ADSs, and any "reportable election" in accordance with the instructions to such form. In addition, each U.S. holder is required to file a separate IRS Form 8621 if such U.S. holder owns shares or ADSs during any year in which we are a PFIC whether or not such U.S. holder received distributions on the shares or ADSs, realized a gain on the shares or ADSs or made a "reportable election" during such year. U.S. holders are urged to consult their own tax advisors concerning the U.S. federal income tax consequences of holding shares or ADSs if the Company were considered a PFIC in any taxable year.

### ***Taxation of Capital Gains***

Subject to the application of the PFIC rules discussed above, upon a sale or other disposition of shares or ADSs, a U.S. holder will recognize a gain or loss in an amount equal to the difference between the U.S. dollar value of the amount realized and the U.S. holder's tax basis, determined in U.S. dollars, in such shares or ADSs. Such gains or losses will be capital gains or losses and will be long-term capital gains or losses if the U.S. holder's holding period for such shares or ADSs exceeds one year. Long-term capital gains of non-corporate



U.S. holders (including individuals) are generally eligible for reduced rates of taxation. A U.S. holder's adjusted tax basis in its shares or ADSs will generally be the cost to the holder of such shares or ADSs. Any such gains or losses realized by a U.S. holder upon disposal of the shares or ADSs will generally be income or loss from sources within the United States for foreign tax credit limitation purposes. The deductibility of capital losses is subject to limitations under the Code.

### ***Information Reporting and Backup Withholding***

Dividends paid on shares or ADSs to a U.S. holder, or proceeds from a U.S. holder's sale or other disposition of shares or ADSs, may be subject to information reporting requirements. Those dividends or proceeds from sale or disposition may also be subject to backup withholding unless the U.S. holder:

- is a corporation or other exempt recipient, and, when required, demonstrates this fact; or
- provides a correct taxpayer identification number on a properly completed U.S. IRS Form W-9 or other appropriate form which certifies that the U.S. holder is not subject to backup withholding and otherwise complies with applicable requirements of the backup withholding rules.

Backup withholding is not an additional tax. Any amount withheld under these rules will be creditable against the U.S. holder's U.S. federal income tax liability or refundable to the extent that it exceeds such liability if the U.S. holder provides the required information to the IRS. If a U.S. holder is required to and does not provide a correct taxpayer identification number, the U.S. holder may be subject to penalties imposed by the IRS. All holders should consult their tax advisors as to their qualification for the exemption from backup withholding and the procedure for obtaining an exemption.

In addition, certain U.S. holders who are individuals that hold certain foreign financial assets (which may include our shares or ADSs) are required to report information relating to such assets, subject to certain exceptions. U.S. holders should consult their tax advisors regarding the effect, if any, of this requirement on their ownership and disposition of our shares and ADSs.

### ***Additional Tax on Investment Income***

U.S. holders that are individuals, estates or trusts and whose income exceeds certain thresholds will be subject to an additional 3.8% tax on unearned income, including, among other things, dividends on, and capital gains from the sale or other taxable disposition of, shares or ADSs, subject to certain limitations and exceptions.

### **F. Dividends and Paying Agents**

Not applicable.

### **G. Statement by Experts**

Not applicable.

### **H. Documents on Display**

We file periodic reports and other information with the SEC. You may read and copy any document that we file with the SEC at the SEC's public reference room at 100 F Street, NE, Washington, DC 20549. Please call the SEC at 1-800-SEC-0330 for further information on the operation of its public reference room. The SEC also maintains a web site that contains reports, proxy and information statements and other information regarding registrants that file electronically with the SEC (<http://www.sec.gov>).

### **I. Subsidiary Information**

Please refer to discussion under "Item 4.C. Information on the Company—Organizational Structure."

**Item 11. Quantitative and Qualitative Disclosures about Credit, Market and Other Risk.**

In the current market and regulatory environment, financial groups such as us are expected to ensure increasingly more sophisticated and comprehensive risk management. Risk management plays an increasingly important role in our operations as a financial group operating globally through various subsidiaries.

We identify various risks arising from businesses based on group-wide uniform criteria and implement integrated risk management to ensure a stronger financial condition and to maximize shareholder value. Based on this approach, we identify, measure, control and monitor a wide variety of risks so as to achieve a stable balance between earnings and risks. We undertake risk management to create an appropriate capital structure and to achieve optimal allocation of resources.

## Risk Classification

At the holding company level, we broadly classify and define risk categories faced by the Group, including those that are summarized below. Group companies perform more detailed risk management based on their respective operations.

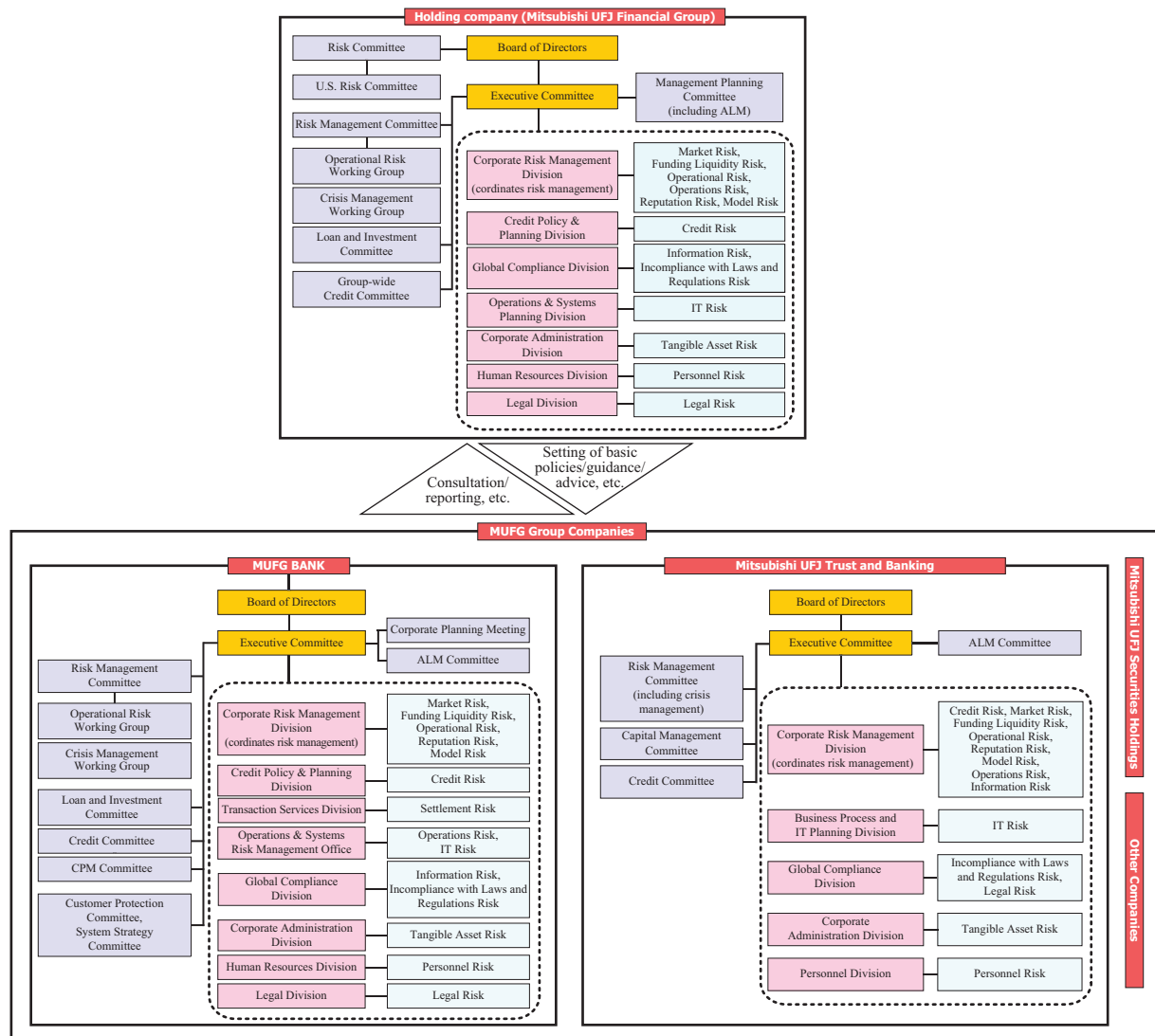
Type of Risk	Definition
Credit Risk	The risk of financial loss in credit assets (including off-balance sheet instruments) caused by deterioration in the credit conditions of counterparties. This category includes country risk.
Market Risk	The risk of financial loss where the value of our assets and liabilities could be adversely affected by changes in market variables such as interest rates, securities prices and foreign exchange rates. Market liquidity risk is the risk of financial loss caused by the inability to secure market transactions at the required volume or price levels as a result of market turbulence or lack of trading liquidity.
Funding Liquidity Risk	The risk of incurring loss if a poor financial position at a group company hampers the ability to meet funding requirements or necessitates fund procurement at interest rates markedly higher than normal.
Operational Risk	The risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events.
<ul style="list-style-type: none"> <li>• Operations Risk</li> </ul>	The risk of incurring losses arising from negligence of correct operational processing, incidents or misconduct involving officers or staff, as well as risks similar to this risk.
<ul style="list-style-type: none"> <li>• Information Risk</li> </ul>	The risk of loss caused by loss, alteration, falsification or leakage of personal or other confidential information, as well as risks similar to these risks.
<ul style="list-style-type: none"> <li>• IT Risk</li> </ul>	The risk of loss arising from destruction, suspension, malfunction or misuse of IT, or unauthorized alteration and leakage of electronic data caused by insufficient IT systems planning, development or operations or by vulnerabilities of or external threats to IT system security, including cybersecurity, as well as risks similar to these risks.
<ul style="list-style-type: none"> <li>• Tangible Asset Risk</li> </ul>	The risk of loss due to damage to tangible assets or deterioration in the operational environment caused by disasters or inadequate asset maintenance, as well as risks similar to this risk. Tangible assets include movable and immovable property, including owned or leased land and buildings, facilities incidental to buildings, and fixtures and fittings.
<ul style="list-style-type: none"> <li>• Personnel Risk</li> </ul>	The risk of loss due to an outflow or loss of human resources or deterioration in employee morale, as well as risks similar to this risk.
<ul style="list-style-type: none"> <li>• Incompliance with Laws and Regulations Risk</li> </ul>	The risk of loss due to failure to comply with laws and regulations, as well as risks similar to these risks.
<ul style="list-style-type: none"> <li>• Legal Risk</li> </ul>	The risk of a loss due to failure to identify or address legal issues relating to contracts and other business operations or insufficient handling of lawsuits, as well as risks similar to these risks.
Reputation Risk	The risk of harm to our corporate value arising from perceptions of our customers, shareholders, investors or other stakeholders and in the market or society that we deviate from their expectations or confidence.
Model Risk	The risk of loss due to decision-making based on information provided by an inaccurate model or the misuse of a model.

## Risk Management System

We have adopted an integrated risk management system to promote close cooperation among the holding company and group companies. The holding company and the major subsidiaries (which include MUFG Bank, Mitsubishi UFJ Trust and Banking and Mitsubishi UFJ Securities Holdings) each appoint a chief risk officer and establish an independent risk management division. The board of directors of the holding company determines risk management policies for various types of risks based on the discussions at, and reports and recommendations from, committees established specially for risk management purposes. The holding company has established committees to oversee management in managing risks relevant to the Group. Following the fundamental risk management policies determined by the board of directors, each group company establishes its own systems and procedures for identifying, analyzing and managing various types of risks from both quantitative and qualitative perspectives. The holding company seeks to enhance group wide risk identification, to integrate and improve the Group's risk management system and related methods, to maintain asset quality, and to eliminate concentrations of specific risks.

The following diagram summarizes our integrated risk management framework:

## Risk Management System



### ***Crisis Management Framework***

In order to have a clear critical response rationale and associated decision-making criteria, we have developed systems designed to ensure that our operations are not interrupted or can be restored to normal quickly in the event of a natural disaster or system failure so as to minimize any disruption to customers and markets. A crisis management team within the holding company is the central coordinating body in the event of any emergency. Based on information collected from crisis management personnel at the major subsidiaries, this central body would assess the overall impact of a crisis on the Group's business and establish task forces that could implement all countermeasures to restore full operations. We have business continuity plans to maintain continuous operational viability in the event of natural disasters, system failures and other types of emergencies. Regular training drills are conducted to upgrade the practical effectiveness of these systems.

Recognizing that our operations, particularly in Japan, are subject to the risk of earthquakes and other natural disasters as well as accidents resulting from such disasters, including a sudden massive blackout in major metropolitan areas in Japan, and that our contingency plans may not address all eventualities that may occur in the event of a material disruption to our operations, we conduct a comprehensive review of our existing business continuity plan to more effectively respond to such extreme scenarios, and contemplate and implement measures to augment our current business continuity management framework, including enhancing our off-site back-up data storage and other information technology systems.

### **Implementation of Basel Standards**

In determining capital ratios under the FSA guidelines implementing Basel III, we and our banking subsidiaries used the Advanced Internal Ratings-Based approach, or the AIRB approach, to calculate capital requirements for credit risk as of March 31, 2018. The Standardized Approach is used for some subsidiaries that are considered to be immaterial to the overall MUFG capital requirements, and MUFG Americas Holdings has adopted a phased rollout of the Internal Ratings-Based Approach. We reflect market risk in our risk-weighted assets by applying the Internal Models Approach to calculate general market risk and the Standardized Measurement Method to calculate specific risk. Under the Internal Models Approach, we principally use a historical simulation model to calculate value-at-risk, or VaR, amounts by estimating the profit and loss on our portfolio by applying actual fluctuations in historical market rates and prices over a fixed period. Under the FSA guidelines implementing Basel III, we reflect operational risk in our risk-weighted assets by using the Standardized Approach and the Advanced Measurement Approach.

Based on the Basel III framework, the Japanese capital ratio framework has been revised to implement the more stringent requirements, which are being implemented in phases beginning on March 31, 2013. Likewise, local banking regulators outside of Japan, such as those in the United States, have begun, or are expected, to revise the capital and liquidity requirements imposed on our subsidiaries and operations in those countries to implement the more stringent requirements of Basel III as adopted in those countries. We intend to carefully monitor further developments with an aim to enhance our corporate value and maximize shareholder value by integrating the various strengths within the Group. For more information on the Basel regulatory framework and requirements, see "Item 4.B. Information on the Company—Business Overview—Supervision and Regulation."

### **Credit Risk Management**

Credit risk is the risk of losses due to deterioration in the financial condition of a borrower. We have established risk management systems to maintain asset quality, manage credit risk exposure and achieve earnings commensurate with risk.

MUFG and its major banking subsidiaries apply a uniform credit rating system for asset evaluation and assessment, loan pricing, and quantitative measurement of credit risk. This system also underpins the calculation of capital requirements and management of credit portfolios. We continually seek to our upgrade credit portfolio management, or CPM, expertise to achieve an improved risk-adjusted return based on the Group's credit portfolio status and flexible response capability to economic and other external changes.

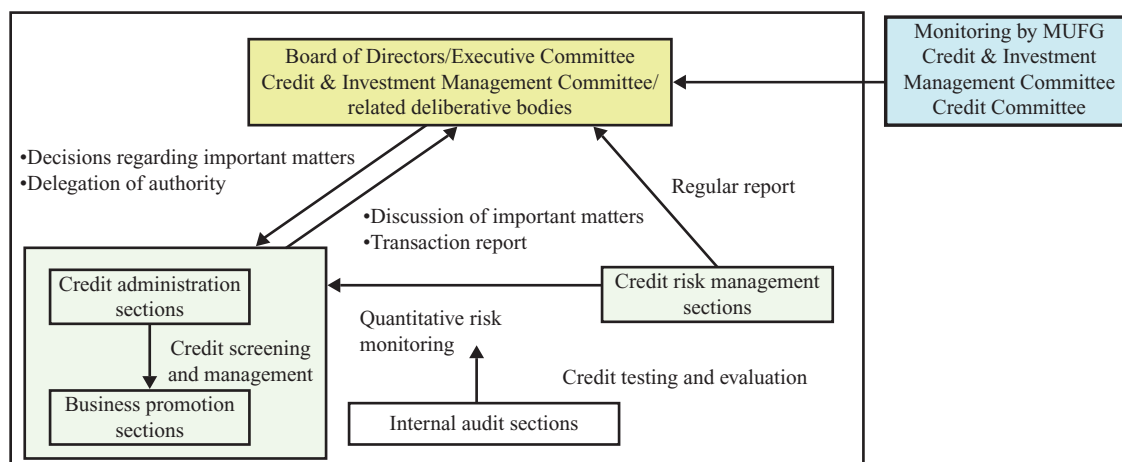
### ***Credit Risk Management System***

The credit portfolios of our major banking subsidiaries are monitored and assessed on a regular basis by the holding company to maintain and improve asset quality. A uniform credit rating and asset evaluation and assessment system is used to ensure timely and proper evaluation of all credit risks.

Under our credit risk management system, each of our subsidiaries in the banking, securities, consumer finance, and leasing businesses, manages its respective credit risk on a consolidated basis based on the attributes of the risk, while the holding company oversees and manages credit risk on an overall group-wide basis. The holding company also convenes regular committee meetings to monitor credit risk management at banking subsidiaries and to issue guidance where necessary.

Each major banking subsidiary has in place a system of checks and balances in which a credit administration section that is independent of the business promotion sections screens individual transactions and manages the extension of credit. At the management level, regular meetings of the Credit & Investment Management Committee and related deliberative bodies ensure full discussion of important matters related to credit risk management. Besides such checks and balances and internal oversight systems, credit examination sections also undertake credit testing and evaluation to ensure appropriate credit risk management.

The following diagram summarizes the credit risk management framework for our major banking subsidiaries:



### ***Credit Rating System***

MUFG and its major banking subsidiaries use an integrated credit rating system to evaluate credit risk. The credit rating system consists primarily of borrower rating, facility risk rating, structured finance rating and asset securitization rating.

Country risk is also rated on a uniform group-wide basis. Our country risk rating is reviewed periodically to take into account relevant political and economic factors, including foreign currency availability.

Risk exposure for small retail loans, such as residential mortgage loans, is managed by grouping loans into various pools and assigning ratings at the pool level.

### ***Borrower rating***

Our borrower rating classifies borrowers into 15 grades based on evaluations of their expected debt-service capability over the next three to five years.

The following table sets forth our borrower grades:

*Definition of MUFG Borrower Rating*

<b>MUFG Borrower Rating</b>	<b>MUFG Borrower Rating Definition</b>
1	The capacity to meet financial commitments is extremely certain, and the borrower has the highest level of creditworthiness.
2	The capacity to meet financial commitments is highly certain, but there are some elements that may result in lower creditworthiness in the future.
3	The capacity to meet financial commitments is sufficiently certain, but there is the possibility that creditworthiness may fall in the long run.
4	There are no problems concerning the capacity to meet financial commitments, but there is the possibility that creditworthiness may fall in the long run.
5	There are no problems concerning the capacity to meet financial commitments, and creditworthiness is in the middle range.
6	There are no problems concerning the capacity to meet financial commitments presently, but there are elements that require attention if the situation changes.
7	There are no problems concerning the capacity to meet financial commitments presently, but long-term stability is poor.
8	There are no problems concerning the capacity to meet financial commitments presently, but long-term stability is poor, and creditworthiness is relatively low.
9	The capacity to meet financial commitments is somewhat poor, and creditworthiness is the lowest among "Normal" customers.
10 through 12	Borrowers who must be closely monitored because of the following business performance and financial conditions: (1) Borrowers who have problematic business performance, such as virtually delinquent principal repayment or interest payment; (2) Borrowers whose business performance is unsteady, or who have unfavorable financial conditions; (3) Borrowers who have problems with loan conditions, for whom interest rates have been reduced or shelved.
10	Although business problems are not serious or their improvement is seen to be remarkable, there are elements of potential concern with respect to the borrower's management, and close monitoring is required.
11	Business problems are serious, or require long-term solutions. Serious elements concerning business administration of the borrower have emerged, and subsequent debt repayment needs to be monitored closely.
12	Borrowers who fall under the criteria of Rating 10 or 11 and have a loan concession granted. Borrowers who have "Loans contractually past due 90 days or more." (As a rule, delinquent borrowers are categorized as "Likely to Become Bankrupt," but the definition here applies to borrowers delinquent for 90 days or more because of inheritance and other special reasons.)
13	Borrowers who pose a serious risk with respect to debt repayment, loss is likely to occur in the course of transactions. While still not bankrupt, these borrowers are in financial difficulty, with poor progress in achieving restructuring plans, and are likely to become bankrupt in the future.
14	While not legally bankrupt, borrowers who are considered to be virtually bankrupt because they are in serious financial difficulty and have no prospects for an improvement in their business operations.
15	Borrowers who are legally bankrupt (i.e., who have no prospects for continued business operations because of non-payment, suspension of business, voluntary liquidation, or filing for legal liquidation).

The Japanese regulatory authorities require Japanese banks to categorize borrowers as follows:

- Normal borrowers (generally corresponding to borrowers in categories 1 through 9 in our ratings), which are borrowers that are performing well, with no significant financial concerns,
- Borrowers requiring close watch (generally corresponding to borrowers in categories 10 through 12 in our ratings), which include loans that have been amended to allow for delays or forgiveness of interest payments, borrowers experiencing difficulty in complying with loan terms and conditions and borrowers that are recording losses or performing badly,

- Borrowers likely to become bankrupt (generally corresponding to borrowers in category 13 in our ratings), which relate to borrowers who pose a serious risk with respect to debt repayment, loss is likely to occur in the course of transactions. While still not bankrupt, these borrowers are in financial difficulty, with poor progress in achieving restructuring plans, and are likely to become bankrupt in the future,
- Virtually bankrupt borrowers (generally corresponding to borrowers in category 14 in our ratings), which are not legally bankrupt, but borrowers who are considered to be virtually bankrupt because they are in serious financial difficulty and have no prospects for an improvement in their business operations, and
- Bankrupt borrowers or de facto bankrupt borrowers (generally corresponding to borrowers in category 15 in our ratings), which are borrowers who are legally bankrupt (i.e., who have no prospects for continued business operations because of non-payment, suspension of business, voluntary liquidation, or filing for legal liquidation) proceedings.

The primary data utilized in our assessment of borrowers include the borrower's financial statements and notes thereto as well as other public disclosure made by the borrower. In addition, when appropriate and possible, we obtain non-public financial and operating information from borrowers, such as the borrower's business plan, borrower's self-evaluation of its operating assets and other borrower information about its business and products.

Based on the borrower and industry information, we assign borrower ratings mainly by applying financial scoring models—either developed internally or by third party vendors, depending on the borrower's attributes, whether the borrower is domestic or foreign, whether the borrower is a large corporation or a small and medium-sized corporation, and whether the borrower is a corporate entity or another type of legal entity (such as a school, hospital or fund).

For example, for domestic small and medium-sized corporations, which constitute the largest borrower attribute in our current loan portfolio in terms of number of borrowers, we have adopted an internally developed financial scoring model, exclusively designed and developed for such attribute. We have selected various financial ratios that we believe to be useful and meaningful to quantitatively measure and assess the borrowers' financial standing and repayment capability. Such financial ratios represent, among other things, borrowers' growth, profitability, stability, cash flow, company size and capital efficiency. The model is periodically tested against historical results. The following is an illustration of some of the financial ratios we utilize as part of our financial scoring model:

- To measure growth: Sales growth, and growth in total assets,
- To measure profitability: Current profit to sales, and profit before tax to sales, and
- To measure stability: Equity ratio and current ratio.

The financial score obtained through the models is reviewed and, when necessary, adjusted downward to reflect our qualitative assessment of the borrower's financial strength and other factors that could affect the borrower's ability to service the debt. For example, we take into account: capability of turning around the business (in case of borrowers with losses) or recovering positive net worth (in case of borrowers with negative net worth), industry risk, management risk, legal risk, as well as our assessment of the probability of receiving support from parent companies (if the borrower is a subsidiary of a large listed company).

When adjusting the results of primary financial scoring assigned to borrowers with losses, we consider the severity of losses and the possibility of improving operating results. We analyze and assess whether the loss is temporary, the trend in operating results is improving, or the loss is expected to continue for an extended period. When adjusting the results of primary financial scoring assigned to borrowers with losses or borrowers with negative net worth, we also analyze whether the borrower can return to a positive net worth, and the time period needed to achieve such recovery (one to two years, three to five years, or five years or more).



In addition, adjustments based on industry risk are based on future prospects, applicable laws and regulations, and other factors surrounding the industry. Adjustments for management risk reflect our assessment of management's track record, the composition of the management team including the board of directors, any management succession plan as well as the risk management and compliance framework of the borrower. Adjustments for legal risk are made when the borrower is facing a lawsuit and when there is a possibility of a significant claim payment related to product liability, intellectual property, environmental problems, building standard law, and other legal issues.

When assessing the probability of receiving support from parent companies, various factors are examined, such as the parent company's credit standings, whether key management personnel are sent by the parent, whether the borrower is consolidated by the parent, and the proportion of the borrower in consolidated sales and profits of the parent.

In addition, we consider outside ratings, and our internal borrower ratings may be adjusted when deemed appropriate.

### ***Facility risk rating***

Facility risk rating is used to evaluate and classify the quality of individual credit facilities, including guarantees and collateral. Ratings are assigned by quantitatively measuring the estimated loss rate of a facility in the event of a default.

### ***Structured finance rating and asset securitization rating***

Structured finance rating and asset securitization rating are used to evaluate and classify the quality of individual credit facilities, including guarantees and collateral, and focus on the structure, including the applicable credit period, of each credit facility. In evaluating the debt service potential of a credit facility, we scrutinize its underlying structure to determine the likelihood of the planned future cash flows being achieved.

### ***Pool assignment***

Each major banking subsidiary has its own system for pooling and rating small retail loans designed to reflect the risk profile of its loan portfolios.

### ***Asset evaluation and assessment system***

The asset evaluation and assessment system is used to classify assets held by us according to the probability of collection and the risk of any impairment in value based on borrower classifications consistent with the borrower ratings and the status of collateral, guarantees, and other factors.

The system is used to conduct write-offs and allocate allowances against credit risk in a timely and adequate manner.

### ***Quantitative Analysis of Credit Risk***

MUFG and its major banking subsidiaries manage credit risk by monitoring credit amount and expected losses, and run simulations based on internal models to estimate the maximum amount of credit risk. These models are used for internal management purposes, including loan pricing and measuring economic capital.

When quantifying credit risk amounts using the internal models, MUFG and its major banking subsidiaries consider various parameters, including probability of default, loss given default, and exposure at default used in their borrower ratings, facility risk ratings and pool assignments as well as any credit concentration risk in particular borrower groups or industry sectors. MUFG and its major banking subsidiaries also share credit portfolio data in appropriate cases.

### ***Loan Portfolio Management***

We aim to achieve and maintain levels of earnings commensurate with credit risk exposure. Products are priced to take into account expected losses, based on the internal credit ratings.

We assess and monitor loan amounts and credit exposure by credit rating, industry and region. Portfolios are managed to limit concentrations of risk in specific categories in accordance with our Large Credit Guidelines.

To manage country risk, we have established specific credit ceilings by country. These ceilings are reviewed when there is a material change in a country's credit standing, in addition to being subject to a regular periodic review.

### ***Continuous CPM Improvement***

With the prevalence of securitized products and credit derivatives in global markets, we seek to supplement conventional CPM techniques with advanced methods based on the use of such market-based instruments.

Through credit risk quantification and portfolio management, we aim to improve the risk return profile of the Group's credit portfolio, using financial markets to rebalance credit portfolios in a dynamic and active manner based on an accurate assessment of credit risk.

### **Risk Management of Strategic Equity Portfolio**

Strategic equity investment risk is the risk of loss caused by a decline in the prices of our equity investments.

We hold shares of various corporate clients for strategic purposes, in particular to maintain long-term relationships with these clients. These investments have the potential to increase business revenue and appreciate in value. At the same time, we are exposed to the risk of price fluctuation in the Japanese stock market. For that reason, in recent years, it has been a high priority for us to reduce our equity portfolio to limit the risks associated with holding a large equity portfolio, but also to respond to applicable regulatory requirements as well as increasing market expectations and demands for us to reduce our equity portfolio. We are required to comply with a regulatory framework that prohibits Japanese banks from holding an amount of shares in excess of their adjusted Tier 1 capital.

We use quantitative analysis to manage the risks associated with the portfolio of equities held for strategic purposes. According to internal calculations, the market value of our strategically held (Tokyo Stock Exchange-listed) stocks (excluding foreign stock exchange-listed stocks) as of March 31, 2018 was subject to a variation of approximately ¥3.23billion when TOPIX index moves one point in either direction.

We seek to manage and reduce strategic equity portfolio risk based on quantitative analysis such as the sensitivity analysis described above. The aim is to keep this risk at appropriate levels compared with Tier 1 capital while generating returns commensurate with the degree of risk exposure.

### **Market Risk Management**

Market risk is the risk that the value of our assets and liabilities could be adversely affected by changes in market variables such as interest rates, securities prices, or foreign exchange rates.

Management of market risk at MUFG aims to control related risk exposure across the Group while ensuring that earnings are commensurate with levels of risk.

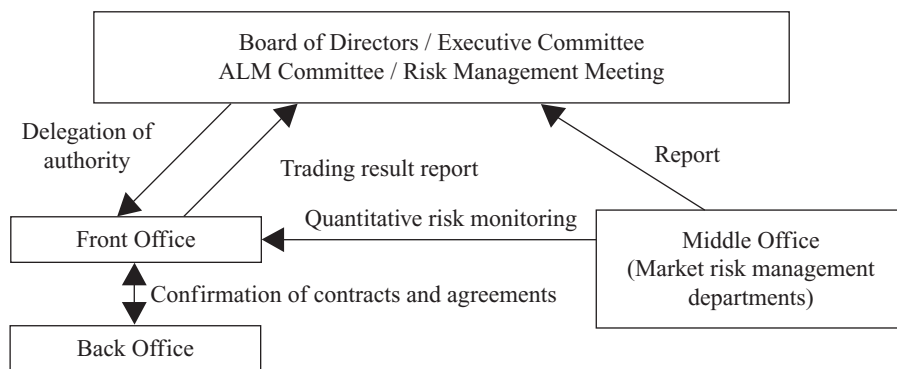
### ***Market Risk Management System***

We have adopted an integrated system to manage market risk from our trading and non-trading activities. The holding company monitors group-wide market risk, while each of the major subsidiaries manages its market risks on a consolidated and global basis.

At each of the major subsidiaries, checks and balances are maintained through a system in which back and middle offices operate independently from front offices. In addition, separate Asset-Liability Management, or ALM, Committee and Risk Management Meetings are held at each of the major subsidiaries every month to deliberate important matters related to market risk and control.

The holding company and the major subsidiaries allocate economic capital commensurate with levels of market risk and determined within the scope of their capital bases. The major subsidiaries have established quantitative limits relating to market risk based on their allocated economic capital. In addition, in order to keep losses within predetermined limits, the major subsidiaries have also set limits for the maximum amount of losses arising from market activities. The following diagram summarizes the market risk management system of each major subsidiary:

### ***Market Risk Management System of Our Major Subsidiaries***



### ***Market Risk Management and Control***

At the holding company and the major subsidiaries, market risk exposure is reported to the Chief Risk Officers on a daily basis. At the holding company, the Chief Risk Officer monitors market risk exposure across the Group as well as the major subsidiaries' control over their quantitative limits for market risk and losses. Meanwhile, the Chief Risk Officers at the major subsidiaries monitor their own market risk exposure and their control over their quantitative limits for market risk and losses. In addition, various analyses on risk profiles, including stress testing, are conducted and reported to the Executive Committees and the Corporate Risk Management Committees on a regular basis. At the business unit levels in the major subsidiaries, the market risks on their marketable assets and liabilities, such as interest rate risk and foreign exchange rate risk, are controlled by entering into various hedging transactions using marketable securities and derivatives.

As part of our market risk management activities, we use certain derivative financial instruments to manage our interest rate and currency exposures. We maintain an overall interest rate risk management strategy that incorporates the use of interest rate contracts to minimize significant unplanned fluctuations in earnings that are caused by interest rate volatility. We enter into interest rate swaps and other contracts as part of our interest rate risk management strategy primarily to alter the interest rate sensitivity of our loans, investment securities and deposit liabilities. Our principal objectives in risk management include asset and liability management. Asset and liability management is viewed as one of the methods for us to manage our interest rate exposures on interest-earning assets and interest-bearing liabilities. Interest rate contracts, which are generally non-leveraged generic

interest rate and basis swaps, options and futures, allow us to effectively manage our interest rate risk position. Option contracts primarily consist of caps, floors, swaptions and options on index futures. Futures contracts used for asset and liability management activities are primarily index futures providing for cash payments based upon the movement of an underlying rate index. We enter into forward exchange contracts, currency swaps and other contracts in response to currency exposures resulting from on-balance sheet assets and liabilities denominated in foreign currencies in order to limit the net foreign exchange position by currency to an appropriate level.

These market risk management activities are performed in accordance with the predetermined rules and procedures. The internal auditors regularly verify the appropriateness of the management controls over these activities and the risk evaluation models adopted.

### ***Market Risk Measurement Model***

Market risks consist of general risks and specific risks. General market risks result from changes in entire markets, while specific risks relate to changes in the prices of individual stocks and bonds which are independent of the overall direction of the market.

To measure market risks, MUFG uses the VaR method which estimates changes in the market value of portfolios within a certain period by statistically analyzing past market data. Since the daily variation in market risk is significantly greater than that in other types of risk, MUFG measures and manages market risk using VaR on a daily basis.

Market risk for trading and non-trading activities is measured using a uniform market risk measurement model. The principal model used for these activities is a historical simulation, or HS, model (holding period, 10 business days; confidence interval, 99%; and observation period, 701 business days). The HS model calculates VaR amounts by estimating the profit and loss on the current portfolio by applying actual fluctuations in market rates and prices over a fixed period in the past. This method is designed to capture certain statistically infrequent movements, such as a fat tail, and accounts for the characteristics of financial instruments with non-linear behavior. The holding company and banking subsidiaries also use the HS model as part of the calculation of their Basel III regulatory capital adequacy ratios.

In calculating VaR using the HS method, we have implemented an integrated market risk measurement system throughout the Group. Our major subsidiaries calculate their VaR based on the risk and market data prepared by the information systems of their front offices and other departments. The major subsidiaries provide this risk data to the holding company, which calculates overall VaR, taking into account the diversification effect among all portfolios of the major subsidiaries.

For the purpose of internally evaluating capital adequacy on an economic capital basis in terms of market risk, we use this market risk measurement model to calculate risk amounts based on a holding period of one year and a confidence interval of 99.9%.

Monitoring and managing our sensitivity to interest rate fluctuations is the key to managing market risk in MUFG's non-trading activities. The major banking subsidiaries take the following approach to measuring risks concerning core deposits, loan prepayments and early deposit withdrawals.

To measure interest rate risk relating to deposits without contract-based fixed maturities, the amount of "core deposits" is calculated through a statistical analysis based on deposit balance trend data and the outlook for interest rates on deposits, business decisions, and other factors. The amount of "core deposit" is categorized into various groups of maturity terms of up to ten years to recognize interest rate risk. The calculation assumptions and methods to determine the amount of core deposits and maturity term categorization are regularly reviewed.

Meanwhile, deposits and loans with contract-based maturities are sometimes cancelled or repaid before their maturity dates. To measure interest rate risk for these deposits and loans, we reflect these early termination

events mainly by applying early termination rates calculated based on a statistical analysis of historical repayment and cancellation data together with historical market interest rate data.

### **Summaries of Market Risks (Fiscal Year Ended March 31, 2018)**

#### *Trading activities*

The aggregate VaR for our total trading activities as of March 31, 2018 was ¥13.27 billion, comprising interest rate risk exposure of ¥12.79 billion, foreign exchange risk exposure of ¥3.83 billion, and equity-related risk exposure of ¥1.99 billion. Compared with the VaR as of March 31, 2017, we experienced a decrease in market risk during the fiscal year ended March 31, 2018, primarily due to a decrease in foreign exchange risk and interest rate risk.

Our average daily VaR for the fiscal year ended March 31, 2018 was ¥13.58 billion. Based on a simple sum of figures across market risk categories, interest rate risk accounted for approximately 67%, foreign exchange risk for approximately 24% and equity-related risk for approximately 9%, of our total trading activity market risks.

Due to the nature of trading operations which involves frequent changes in trading positions, market risk varied substantially during the fiscal year, depending on our trading positions.

The following tables set forth the VaR related to our trading activities by risk category for the periods indicated:

<u>April 1, 2016—March 31, 2017</u>	<u>Average</u>	<u>Maximum<sup>(1)</sup></u>	<u>Minimum<sup>(1)</sup></u>	<u>March 31, 2017</u>
	(in billions)			
MUFG .....	¥ 17.52	¥30.10	¥ 12.55	¥ 15.87
Interest rate .....	18.43	28.08	14.30	15.21
Yen .....	10.59	21.25	5.40	7.95
U.S. Dollars .....	8.87	12.79	6.02	6.69
Foreign exchange .....	8.81	16.59	5.45	6.14
Equities .....	2.00	5.85	1.02	1.89
Commodities .....	0.01	0.16	0.00	0.00
Less diversification effect .....	(11.73)	—	—	(7.37)
<u>April 1, 2017—March 31, 2018</u>	<u>Average</u>	<u>Maximum<sup>(1)</sup></u>	<u>Minimum<sup>(1)</sup></u>	<u>March 31, 2018</u>
	(in billions)			
MUFG .....	¥ 13.58	¥18.46	¥ 11.29	¥ 13.27
Interest rate .....	13.28	16.93	11.47	12.79
Yen .....	6.59	9.79	4.70	6.72
U.S. Dollars .....	5.96	8.46	3.94	4.63
Foreign exchange .....	4.66	7.69	2.62	3.83
Equities .....	1.81	5.72	0.62	1.99
Commodities .....	0.01	0.20	0.00	0.00
Less diversification effect .....	(6.18)	—	—	(5.34)

#### **Assumptions for VaR calculations:**

Historical simulation method  
Holding period: 10 business days  
Confidence interval: 99%  
Observation period: 701 business days

Note:

(1) The maximum and minimum VaR overall and for various risk categories were taken from different days. A simple summation of VaR by risk category is not equal to total VaR due to the effect of diversification.

The average daily VaR by quarter in the fiscal year ended March 31, 2018 was as follows:

<u>Quarter</u>	<u>Daily average VaR</u> (in billions)
April—June 2017 .....	¥12.81
July—September 2017 .....	13.79
October—December 2017 .....	14.31
January—March 2018 .....	13.41

The quantitative market risk figures from trading activities tend to fluctuate widely due to the market sensitive nature of the trading business. During the fiscal year ended March 31, 2018, the revenue from our trading activities has been relatively stable, keeping positive numbers in 249 days out of 259 trading days in the period. During the same period, there were 87 days with positive revenue exceeding ¥1 billion and 1 day with negative revenue exceeding minus ¥1 billion.

#### *Non-trading Activities*

The aggregate VaR for our total non-trading activities as of March 31, 2018, excluding market risks related to our strategic equity portfolio and measured using the same standards as trading activities, was ¥385.9 billion. Market risk related to interest rates equaled ¥304.9 billion and equities-related risk equaled ¥225.9 billion. Compared with the VaR as of March 31, 2017, we experienced an increase in market risk during the fiscal year ended March 31, 2018, primarily due to an increase in interest rate risk. For a description of our strategic equity investment risk management, see “—Risk Management of Strategic Equity Portfolio.”

Based on a simple sum of figures across market risk categories, interest rate risks accounted for approximately 56% of our total non-trading activity market risks. Looking at a breakdown of interest rate related risk by currency, as of March 31, 2018, the yen accounted for approximately 53% while the U.S. dollar accounted for approximately 30%, and the euro approximately 17%.

The following tables set forth the VaR related to our non-trading activities by risk category for the periods indicated:

<u>April 1, 2016—March 31, 2017</u>	<u>Average</u>	<u>Maximum<sup>(1)</sup></u>	<u>Minimum<sup>(1)</sup></u>	<u>March 31, 2017</u>
		(in billions)		
Interest rate .....	¥ 393.1	¥528.5	¥265.7	¥ 273.1
Yen .....	290.7	345.1	231.1	240.7
U.S. Dollars .....	220.6	289.3	116.3	121.4
Foreign exchange .....	2.6	5.4	1.0	5.4
Equities <sup>(2)</sup> .....	236.7	266.6	185.3	259.3
Less diversification effect .....	(171.2)	—	—	(165.8)
Total .....	461.2	564.5	368.9	372.0

<u>April 1, 2017—March 31, 2018</u>	<u>Average</u>	<u>Maximum<sup>(1)</sup></u>	<u>Minimum<sup>(1)</sup></u>	<u>March 31, 2018</u>
			(in billions)	
Interest rate . . . . .	¥ 305.2	¥330.1	¥270.1	¥ 304.9
Yen . . . . .	236.1	253.5	212.6	231.2
U.S. Dollars . . . . .	146.2	174.1	116.5	128.5
Foreign exchange . . . . .	8.0	10.8	3.4	10.0
Equities <sup>(2)</sup> . . . . .	233.1	271.9	171.0	225.9
Less diversification effect . . . . .	(151.7)	—	—	(154.9)
Total . . . . .	394.6	440.5	348.4	385.9

**Assumptions for VaR calculations:**

Historical simulation method  
Holding period: 10 business days  
Confidence interval: 99%  
Observation period: 701 business days

Notes:

- (1) The maximum and minimum VaR overall for each category and in total were taken from different days. A simple summation of VaR by risk category is not equal to total VaR due to the effect of diversification.
- (2) The equities-related risk figures do not include market risk exposure from our strategic equity portfolio.

The average daily interest rate VaR by quarter in the fiscal year ended March 31, 2018 was as follows.

<u>Quarter</u>	<u>Daily average VaR</u>
	(in billions)
April—June 2017 . . . . .	¥391.4
July—September 2017 . . . . .	417.0
October—December 2017 . . . . .	385.2
January—March 2018 . . . . .	385.0

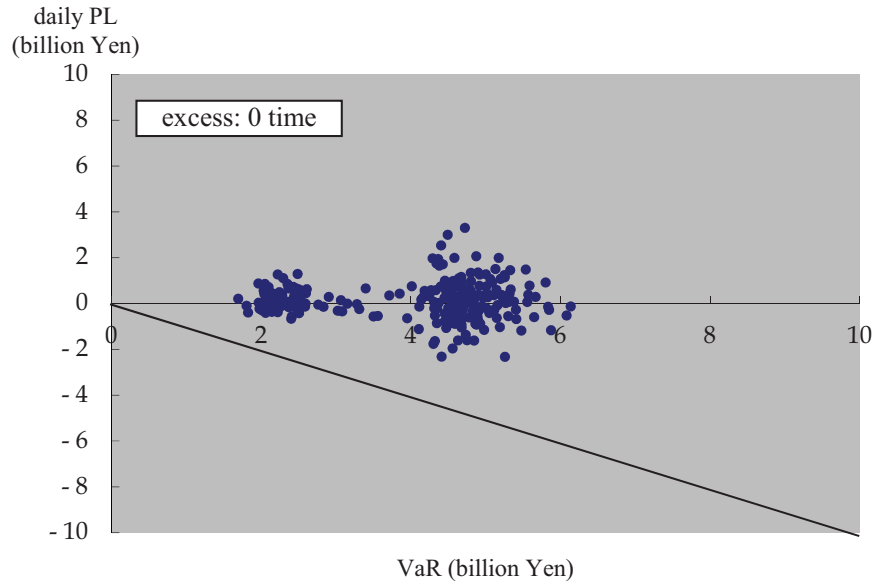
Comparing the proportion of each currency's interest rate VaR to the total interest rate VaR as of March 31, 2018 against that as of March 31, 2017, there was a 8 percentage point decrease in the Japanese yen from 61% to 53%, a 1 percentage point decrease in the U.S. dollar from 31% to 30%, and a 9 percentage point increase in the euro from 8% to 17%.

***Backtesting***

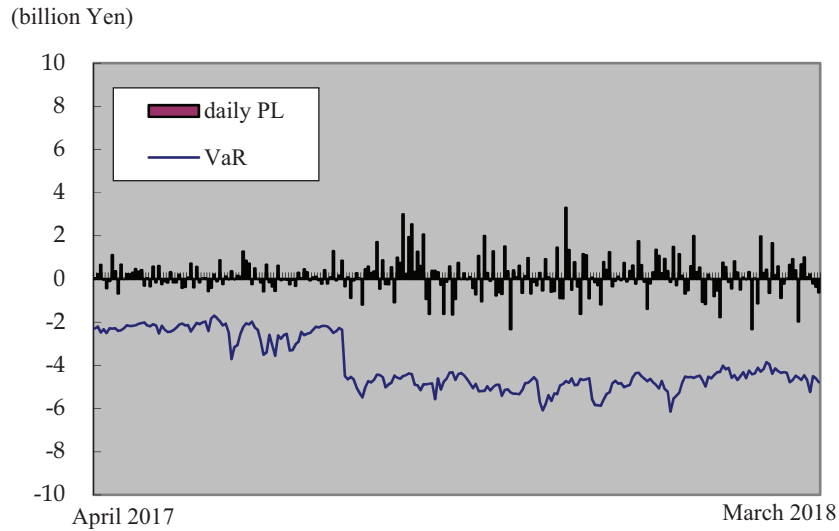
We conduct backtesting in which a VaR is compared with hypothetical profits and losses on a daily basis to verify the accuracy of our VaR measurement model. We also conduct additional backtesting using other methods, including testing VaR against actual realized and unrealized losses and testing VaR by various changing parameters such as confidence intervals and observation periods used in the model.

Hypothetical losses never exceeded VaR in the fiscal year ended March 31, 2018. This means that our VaR model provided reasonably accurate measurements of market risk during the fiscal year.

The following graph shows daily VaR of trading activities and the distribution of corresponding hypothetical profits and losses for the fiscal year ended March 31, 2018:



The following graph shows VaR of trading activities and hypothetical profits and losses on a daily basis for the fiscal year ended March 31, 2018:



**Stress Testing**

We use an HS-VaR model, which calculates potential changes in the market value of our portfolio as a statistically possible amount of losses that could be incurred due to market fluctuations within a certain period (or holding period, of 10 business days) based on historical market volatility for a certain period (or observation period, of 701 business days, or approximately three years). Actual losses may exceed the value at risk obtained by the application of the model in the event, for example, that the market fluctuates to a degree not accounted for in the observation period, or that the correlations among various risk factors, including interest rates and foreign currency exchange rates, deviate from those assumed in the model.



In order to complement these weaknesses of the HS-VaR model and measure potential losses that the model is not designed to capture, we conduct stress testing. Through the daily stress testing, we estimate maximum potential losses in each market on the current trading portfolio based on the worst ten-day historical volatility recorded during the VaR observation period of 701 days. As of March 31, 2018, we held a total trading activity position subject to estimated maximum potential losses of ¥8.8 billion as compared to ¥10.8 billion as of March 31, 2017. In addition, the holding company and major subsidiaries conduct stress testing, as appropriate, by applying various stress scenarios, including those which take into account estimates regarding future market volatility, in order to better identify risks and manage our portfolio in a more stable and appropriate manner. The holding company and major subsidiaries also measure stressed VaR relating to their trading activities based on a one-year observation period with the highest VaR at least in the immediately preceding ten years. To verify the effectiveness of our HS-VaR model, we also examine whether the data group of hypothetical profits and losses used in the VaR calculation represents an appropriate profit and loss distribution by monitoring the autocorrelation and the kurtosis of the data group.

### **Funding Liquidity Risk Management**

Liquidity risk is the risk of incurring losses if a poor financial position hampers the ability to meet funding requirements, or necessitates fund procurement at interest rates markedly higher than normal.

Our major subsidiaries maintain appropriate liquidity in both Japanese yen and foreign currencies by managing their funding sources and mechanisms, such as liquidity gap, liquidity-supplying products such as commitment lines, and buffer assets.

We have established a group-wide system for managing liquidity risk by categorizing the risk in the following three stages: normal, concern and crisis. The front offices and risk management offices of the major subsidiaries and the holding company exchange information and data on liquidity risk even at the normal stage. At higher alert stages, we centralize information about liquidity risk and discuss issues relating to group-wide liquidity control actions among Group companies, if necessary. We have also established a system for liaison and consultation on funding in preparation for contingency, such as natural disasters, wars and terrorist attacks. The holding company and the major subsidiaries conduct group-wide contingency preparedness drills on a regular basis to ensure smooth implementation in the event of an emergency.

In addition, we have established a group-wide system for ensuring compliance with the minimum regulatory liquidity coverage ratio requirements by categorizing the risk in the following three stages: sufficient, concern and insufficient. The holding company and the major subsidiaries exchange information and data on LCR even at the sufficient stage. At higher alert stages, we hold group-wide LCR liaison meetings to discuss issues relating to LCR and, based on the discussion as well as the information and data that have been shared, take countermeasures to improve LCR as necessary.

For more information, see “Item 5.B. Operating and Financial Review and Prospects—Liquidity and Capital Resources—Financial Condition—Sources of Funding and Liquidity.”

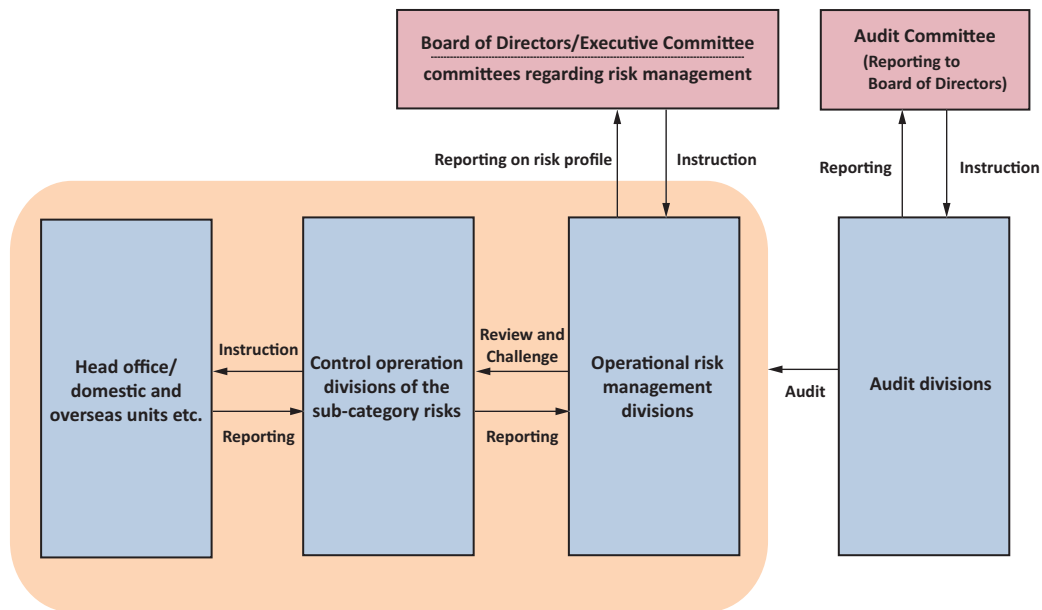
### **Operational Risk Management**

Operational risk refers to the risk of loss caused by either internal control issues such as inadequate operational processes or misconduct, system failures, or external factors such as serious political instability, major terrorist activity, health epidemics or natural disasters. The term includes a broad range of risks that could lead to losses, including operations risk, information risk, IT risk, tangible asset risk, personnel risk, incompliance with laws and regulations risk and legal risk. These risks that comprise operational risk are referred to as sub-category risks.

The holding company has established, based on its Executive Committee’s determination, the MUFG Operational Risk Management Policy as a group-wide policy for managing operational risk. This policy sets

forth the core principles regarding operational risk management, including the definition of operational risk, and the risk management system and processes. Under the policy, the board of directors and the Executive Committee formulate fundamental principles of operational risk management and establish and maintain an appropriate risk management system. The Chief Risk Management Officer is responsible for recognizing, evaluating, and appropriately managing operational risk in accordance with the fundamental principles formulated by the board of directors and the Executive Committee. A division in charge of operational risk management has been established that is independent of business promotion sections to manage overall operational risk in a comprehensive manner. These fundamental principles have also been approved by the boards of directors of the major subsidiaries, providing a consistent framework for operational risk management of the Group. The diagram below sets forth the operational risk management system of each major banking subsidiary:

*Operational Risk Management System of Our Major Banking Subsidiaries*

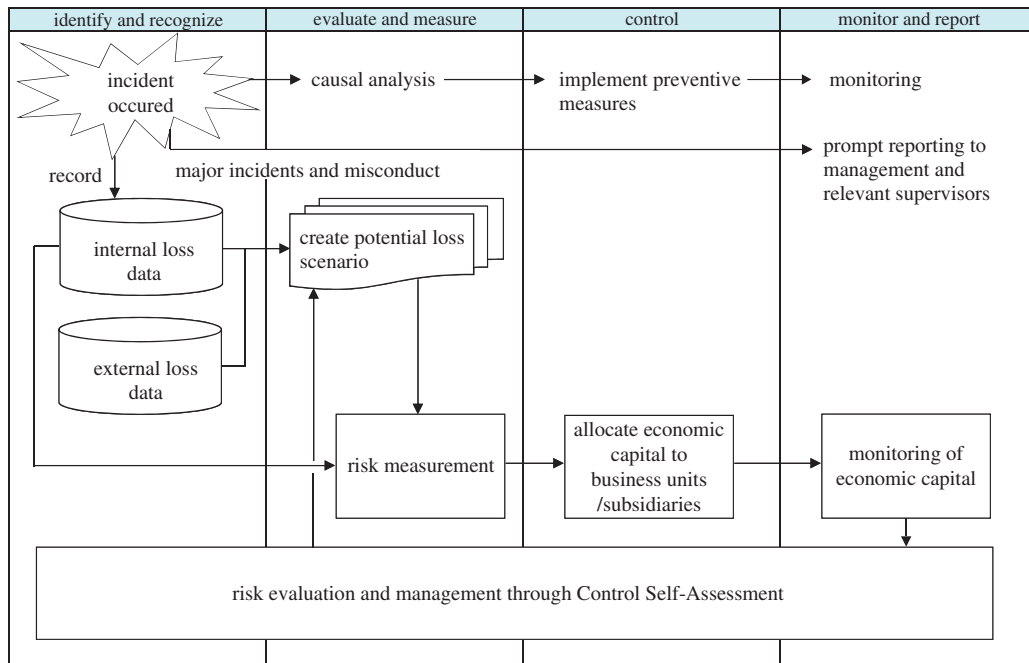


As set forth in the following diagram, we have established a risk management framework for loss data collection, control self-assessment, and measurement of operational risk in order to appropriately identify, recognize, evaluate, measure, control, monitor and report operational risk.

We have also established group-wide reporting guidelines with respect to loss data collection and its monitoring. We focus our efforts on ensuring accurate assessment of the status of operational risk losses and the implementation of appropriate countermeasures, while maintaining databases of internal and external loss events.

The following diagram summarizes our operational risk management framework:

*Operational Risk Management Framework*



**Operations Risk Management**

Operations risk refers to the risk of incurring losses arising from negligence of correct operational processing, incidents or misconduct involving officers or staff, as well as risks similar to this risk. The Group companies offer a wide range of financial services, ranging from commercial banking products such as deposits, exchange services and loans to trust and related services covering pensions, securities, real estate and securitization, as well as transfer agent services. Cognizant of the potentially significant impact that operations risk-related events could have in terms of both economic losses and damage to our reputation, our banking subsidiaries continue to work on improving their management systems to create and apply appropriate operations risk-related controls.

Specific ongoing measures to reduce operations risk include the development of databases to manage, analyze and prevent the recurrence of related loss events; efforts to tighten controls over administrative procedures and related operating authority, while striving to improve human resources management, investments in systems to improve the efficiency of administrative operations, and programs to expand and upgrade internal auditing and operational guidance systems.

Senior management receives regular reports on the status of our businesses from an operations risk management perspective. We work to promote the sharing within the Group of information and expertise concerning any operational incidents and the measures implemented to prevent any recurrence.

Efforts to upgrade the management of operations risk continue with the aim of providing our customers with a variety of high-quality services.

**Information Risk Management**

Information risk refers to the risk of loss caused by loss, alteration, falsification or leakage of personal or other confidential information, as well as risks similar to these risks. We recognize our grave social and legal

responsibility to handle customer information properly, and we continue to work on enhancing our framework to manage such risk.

Complying with laws and regulations requiring proper handling of customer information, we implement information security management measures, including the establishment of an information risk management framework, enhancement of our internal operational procedures, and training courses mandatory for all officers and staff.

We have also formulated our Personal Information Protection Policy as the basis for our ongoing programs designed to protect the confidentiality of personal information.

With the aim of preventing any recurrence and minimizing risk or loss, we also work to promote sharing on a group-wide basis of experience, knowledge and expertise related to information risk incidents.

### ***IT Risk Management***

IT risk refers to the risk of loss arising from destruction, suspension, malfunction or misuse of IT, or unauthorized alteration and leakage of electronic data caused by insufficient IT systems planning, development or operations or by vulnerabilities of or external threats to IT system security, including cybersecurity, as well as risks similar to these risks.

Systems planning, development and operations include appropriate design and extensive testing phases to ensure that systems are designed to help prevent failures while providing sufficient safeguards for the security of electronic data including personal information. The status of the development of any mission-critical IT systems is reported regularly to senior management. We have developed disaster countermeasures systems and have also been investing in duplication of the Group's IT infrastructure to minimize damage in the event of any system failure. Emergency drills are conducted to help increase staff preparedness.

With the aim of preventing any recurrence and minimizing risk or loss, we also work to promote sharing on a group-wide basis of experience, knowledge and expertise related to system failures.

In addition, the risk of increasingly sophisticated cyber-attacks is a significant focus of the Board of Directors, and the Board regularly receives reports on our cybersecurity program. We continue to work to strengthen measures designed to address and mitigate the risk, including the establishment of MUFG-CERT, our Computer Security Incident Response Team, implementation of multi-layered defense and detection measures, enhancement of monitoring systems through our Security Operation Centers, and cooperation with global organizations with relevant expertise. MUFG-CERT is charged with the responsibility of taking, coordinating and managing prompt action in response to cyber security incidents to mitigate their impact.

### ***Tangible Asset Risk Management***

Tangible asset risk refers to the risk of loss due to damage to tangible assets or deterioration in the operational environment caused by disasters or inadequate asset maintenance, as well as risks similar to this risk. Tangible assets include movable physical properties and immovable properties, owned or leased, such as land, buildings, equipment attached to buildings, fixtures and furniture. We recognize the potentially significant impact tangible asset risk-related events can have on the management and execution of the Group's businesses, which in turn can result in economic losses to, or diminished market confidence in, the Group. Accordingly, we continue to improve our risk control framework designed to appropriately manage such risk.

### ***Personnel Risk Management***

Personnel risk refers to the risk of loss due to an outflow or loss of human resources or deterioration in employee morale, as well as risks similar to this risk. We recognize the potentially significant impact personnel

risk-related events can have on the management and execution of the Group's businesses, which in turn can result in economic losses to, or diminished market confidence in, the Group. Accordingly, we continue to work on improving our risk control framework designed to appropriately manage such risk.

### ***Incompliance with Laws and Regulations Risk Management***

Incompliance with laws and regulations risk refers to the risk of loss due to failure to compliance with laws and regulations, as well as risks similar to these risks. We recognize the potentially significant impact compliance risk-related events can have on the management and execution of the Group's businesses, which in turn can result in economic, reputation and other losses to, or diminished market confidence in, the Group. Accordingly, we continue to work on improving our compliance risk control framework designed to appropriately manage such risk.

Specifically, in order to promote compliance, we have established our Principles of Ethics and Conduct as the basic legal compliance policy for the Group's directors and employees. In addition, a compliance management division has been established at each of the holding company and the major subsidiaries. See "—Compliance" below.

### ***Legal Risk Management***

Legal risk refers to the risk of loss due to failure to identify or address legal issues relating to contracts and other business operations or insufficient handling of lawsuits, as well as risks similar to these risks.

The legal division at each of the holding company and the major subsidiaries centrally and uniformly evaluates legal issues prior to entering into contracts or commencing new business operations, deals with legal disputes and manages other legal matters. With the aim of effectively managing our legal risk arising from our globally expanding business operations, we have established a global and group-wide legal risk management framework and promote sharing of experience, knowledge and practices relating to legal risk issues on a global and group-wide basis.

### ***Regulatory Capital Requirements for Operational Risk***

#### **(1) Adoption of the Advanced Measurement Approach (AMA)**

We have employed the AMA since March 31, 2012, in place of the Standardized Approach that we had been using previously, for calculation of the operational risk equivalent amount in connection with measuring capital adequacy ratios based on the Basel Standards. On the other hand, we use the Basic Indicator Approach, or BIA, for entities that are deemed to be less important in the calculation of the operational risk equivalent amount and for entities that are still preparing to implement the AMA.

#### **(2) Outline of AMA**

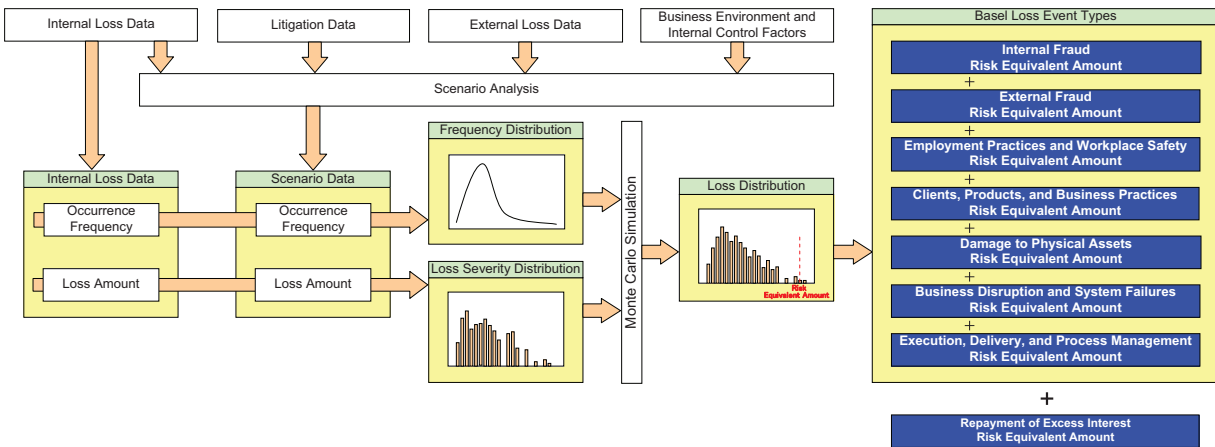
We have established a measurement model designed to account for four data elements—internal loss data, external loss data, scenario analysis, and business environment and internal control factors, or BEICFs—and calculate the operational risk equivalent amount by estimating the maximum loss using a 99.9th percentile one-tailed confidence interval and a one-year holding period.

In calculating the operational risk equivalent amount, we exclude expected losses relating to the amount of allowance for repayment of excess interest associated with the consumer finance business of a subsidiary. We do not exclude any other expected losses and do not reflect the risk mitigating impact of insurance. In addition, we take into account credit risk-related events that are not reflected in the measurement of the credit risk equivalent amount.

### (3) Outline of Measurement Model

Our operational risk equivalent amount measured under the AMA is a simple sum of the amounts calculated separately for (1) MUFG Bank on a consolidated basis, (2) Mitsubishi UFJ Trust and Banking on a consolidated basis, and (3) the holding company and other principal consolidated subsidiaries, in accordance with applicable FSA rules. For each of MUFG Bank and Mitsubishi UFJ Trust and Banking on a consolidated basis, the operational risk equivalent amount is a simple sum of the amounts calculated based on the seven loss event types defined by the Basel Standards. For other Group companies, the operational risk equivalent amount is a simple sum of the amounts calculated based on eight loss event types consisting of the seven loss event types defined by the Basel Standards and an additional loss event type representing losses relating to repayment of excess interest associated with the consumer finance business of a subsidiary. We do not reflect the correlation effects among the loss event types in the calculation of our operational risk equivalent amount.

#### Outline of Measurement Model



The risk equivalent amount for each loss event type represents the amount of maximum loss estimated with a 99.9th percentile one-tailed confidence interval and a one-year holding period based on the distribution of losses arising from all relevant risk events for a one-year period (Loss Distribution). A Loss Distribution combines a Frequency Distribution (through which the frequency of occurrence of risk events is expressed) and a Loss Severity Distribution (through which the amounts of losses resulting from risk events are expressed) through Monte Carlo simulations. The data used for this purpose include internal loss data and scenario data. scenario data are generated through a scenario analysis. External data and BEICFs are taken into account in the scenario analysis and reflected in scenario data. The Frequency Distribution is derived from the occurrence frequency information in internal loss data and scenario data expressed through a Poisson Distribution. The Loss Severity Distribution is derived from the amount information in internal loss data and scenario data expressed in a non-parametric manner (where no underlying distribution is assumed).

With respect to the risk of losses relating to repayment of excess interest associated with the consumer finance business of a subsidiary, the risk equivalent amount represents the amount of maximum loss estimated with a 99.9th percentile one-tailed confidence interval and a one-year holding period based on a normal distribution assumed by applying data on losses that arose in a given period, excluding any related expected losses.

We confirm the appropriateness of the measurement models by periodic verification and back testing.

### (4) Outline of Scenario Analysis

As an initial step of our scenario analysis, we identify potential severe loss events that we have not experienced but may potentially experience in the future. In this identification process, we seek to ensure

exhaustive coverage of potential severe loss events by comprehensively examining our experience relating to loss events and legal proceedings, external loss data, the control self-assessment results and other relevant information.

In the next step, we prepare scenario data for each identified severe loss event by quantifying the values depending on its occurrence frequency and loss severity, taking into account relevant transaction amounts and restructuring costs as well as BEICFs. In preparing scenario data, we apply an analysis method we deem appropriate for the type and nature of the operational risk involved.

In order to obtain an operational risk equivalent amount that is commensurate with, and appropriate for, our risk profile, we assess the need for an additional scenario or modification to our existing scenarios semi-annually.

We then reflect, as necessary, new risks arising as a result of changes in the business environment and the results of the implementation of measures to enhance our internal controls in response to newly identified risks in our scenario data.

### **Reputation Risk Management**

Reputation risk refers to the risk of harm to our corporate value arising from perceptions of our customers, shareholders, investors or other stakeholders and in the market or society that we deviate from their expectations or confidence. We recognize that such risk, if materialized, can have a material negative impact on our business and continue to work on enhancing our framework designed to appropriately manage the risk based on our Corporate Vision, Principles of Ethics and Conduct, and other rules and codes of the Group.

Specifically, in order to manage our reputation risk effectively on a group-wide basis, we have established a risk management system designed to ensure mutual consultation and reporting if a reputation risk-related event occurs or is anticipated and, through this system, share relevant information within the Group.

Through the risk control framework and risk management system, we seek to prevent reputation risk-related events and minimize damage to the corporate value of the Group by promptly obtaining an accurate understanding of relevant facts relating to risk events and disclosing information concerning such events and the measures we take in response to such events in an appropriate and timely manner.

### **Model Risk Management**

Model risk refers to the risk of loss due to decision-making based on information provided by an inaccurate model or the misuse of a model. We recognize the potentially significant impact model risk-related events can have on the management and execution of the Group's businesses, which in turn can result in economic losses to, or diminished market confidence in, the Group. Models are used for increasingly wider and more important purposes, including valuing exposures, instruments and positions, measuring risks, and determining capital adequacy. Accordingly, we continue to work on improving our risk control framework.

### **Compliance**

#### ***Basic Policy***

We have clarified our mission, our vision and our values in the Corporate Vision and have expressed our commitment to meeting the expectations of customers and society as a whole. Furthermore, we have established Principles of Ethics and Conduct as the guidelines for how the Group's directors and employees act to realize the Corporate Vision, in which we have expressed our commitment to complying with laws and regulations, to acting with honesty and integrity, and to behaving in a manner that supports and strengthens the trust and confidence of society.

In addition, as we expand the geographic scope of our business globally, we are committed to keeping abreast of developments in laws and regulations of the jurisdictions in which we operate including anti-money laundering and anti-bribery, as well as paying attention to trends in financial crimes.

See “Item 3.D. Key Information—Risk Factors—Risks Related to Our Business—Legal and regulatory changes could have a negative impact on our business, financial condition and results of operations.” and “Item 3.D. Key Information—Risk Factors—Risks Related to Our Business—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.” See also “Item 4.B. Information on the Company—Business Overview—Supervision and Regulation.”

## ***Principles of Ethics and Conduct***

### ***Introduction***

These Principles of Ethics and Conduct establish clear and consistent standards for all MUFG employees to guide decisions and actions. They reflect and support the MUFG Corporate Vision. The principles are organized in three sections. Chapter 1 presents the attitude that we adopt with our customers, to act with honesty and integrity and pursue their best interests, which is a core component of our business practices. Chapter 2 presents a set of standards to help us fulfill our responsibilities as a good corporate citizen. MUFG’s reputation depends upon the trust and confidence of our customers and other stakeholders, including local communities, and we are responsible to society on a global level. Chapter 3 describes the actions and mindset that will create a stimulating and supportive working environment as MUFG continues to grow. Our success depends on building and maintaining a dynamic workplace where all employees can reach their full potential in ways that support our customers and contribute to society as a whole.

### ***Outline / Overview***

#### ***Chapter 1 Customer Focus***

We place our diverse customers at the center of all our activities and always act in their best interests. MUFG is able to thrive today because of the trust and confidence that customers have placed in us—the result of years of fair, transparent, and honorable dealings. Our business culture is not driven by the prospect of short-term, immediate gains. Instead, we place a premium on supporting long-term, sustainable relationships with our customers to help them meet their goals.

##### **1-1. Acting with Honesty and Integrity**

We always place our diverse customers at the center of all activities and act with honesty and integrity in all of our dealings with them. We protect customer assets, including their personal information, and strive at all times not to damage their interests.

##### **1-2. Controlling Quality**

In order to earn the lasting trust and confidence of our customers, we maintain thorough quality control of our products and services in all aspects from product design and development to delivery, and continually improve our processes to provide accurate and secure transactions.

##### **1-3. Exceeding Customer Expectations**

We strive to satisfy the diverse needs of our customers worldwide and to exceed their expectations through the highest standards of professionalism and by effectively leveraging our global network and consolidated strength.



## *Chapter 2 Responsibility as a Corporate Citizen*

As a member of MUFG with global operations, we act honorably, with honesty and integrity, and comply at all times with laws, regulations, rules, and internal policies globally. We strive to maintain stability and confidence in the global financial system and to contribute to the sound growth and development of society. We behave in a manner that supports and strengthens the trust and confidence that MUFG has built up over the years.

### 2-1. Adherence to Laws and Regulations

We always judge and act with honesty and integrity, do what is right, and comply with both the letter and the spirit of the laws, regulations, and rules that apply to us. We avoid insider trading, do not engage in anti-competitive conduct or any form of corrupt activity, and publicly disclose corporate information in an appropriate manner.

### 2-2. Combating Criminal Activity

We do not conduct business with criminal elements. We do not allow our financial products and services to be used for illegal or improper activities such as money laundering, fraud, or financing terrorist activities.

### 2-3. Commitment to Social Sustainability

We respect the history, culture, and customs of local communities and strive to contribute to their development and the protection of the environment through our corporate activities and employee volunteer efforts.

## *Chapter 3 Ethical and Dynamic Workplace*

We are committed to creating a working environment that fosters mutual respect among MUFG employees, supports the full expression of our individuality as professionals, promotes the power of teamwork, honors diversity, transcends differences, and embraces new challenges.

### 3-1. Stimulating Workplace

We strive to enhance our knowledge and expertise, focus on maximizing the value of teamwork, and view changes in the business environment as opportunities to launch new initiatives.

### 3-2. Ethical Workplace

We respect the diversity and human rights of all MUFG employees. We do not engage in or tolerate discrimination, harassment, intimidation, or any other behavior or activity that is inconsistent with these core beliefs. We report any violations of laws and rules, and we manage corporate assets appropriately.

## ***Compliance Framework***

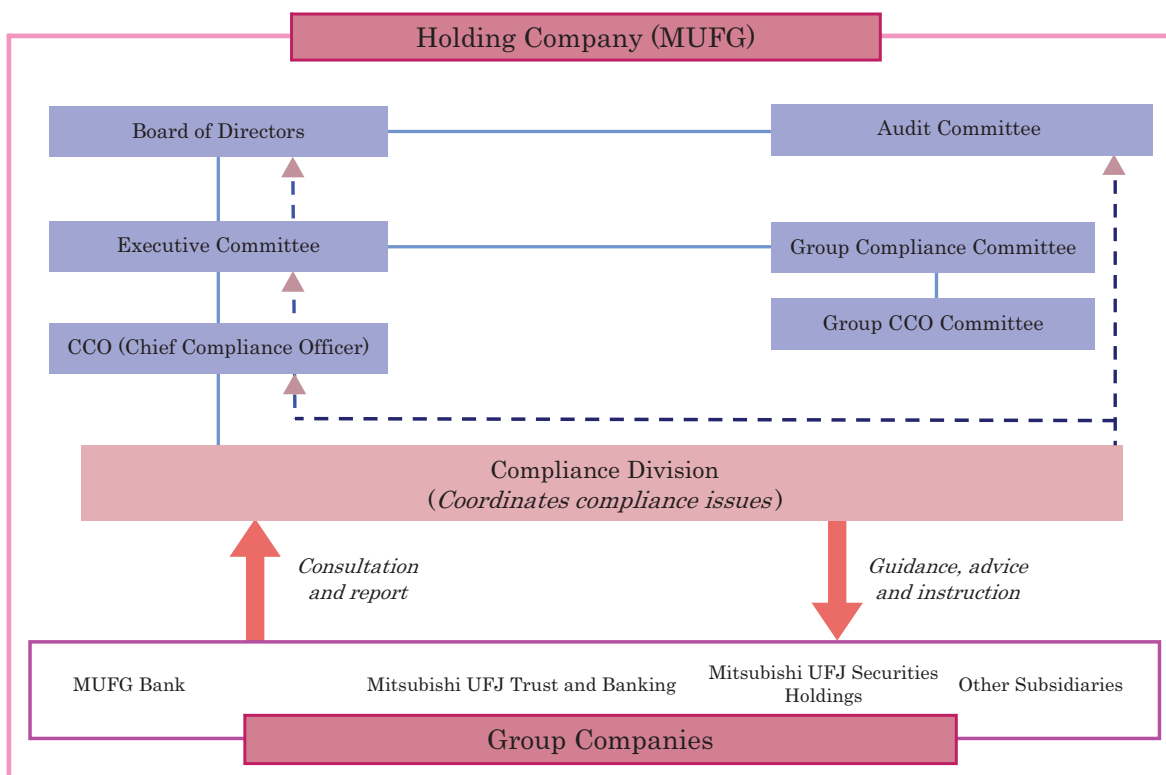
Management and coordination of compliance-related matters are the responsibility of separate compliance management divisions established at the holding company and the major subsidiaries. Each compliance management division formulates compliance programs and organizes training courses to promote compliance, and regularly reports to each company's board of directors and Executive Committee on the status of compliance activities.

The holding company has established a Group Compliance Committee and each major subsidiary has established a Compliance Committee for deliberating key issues related to compliance. Additionally, the holding

company has a Group Chief Compliance Officer, or CCO, Committee, which consists of the CCO of the holding company acting as committee chairman and the CCOs of the major subsidiaries. The Group CCO Committee deliberates important matters related to compliance and compliance-related issues for which the Group should share a common understanding.

The following diagram summarizes our compliance framework:

*Compliance Framework*



***Internal Reporting System and Accounting Auditing Hotline***

The major subsidiaries have established internal reporting systems that aim to identify compliance issues early so that any problems can be quickly rectified. This system includes an independent external compliance hotline. Furthermore, the holding company has set up an MUFG Group Compliance Helpline that acts in parallel with group-company internal reporting systems and provides a reporting channel for directors and employees of Group companies. In the holding company, the contents of the reported cases as well as the result of surveys is reported to the audit committee on a regular basis or whenever necessary.

In addition to these internal reporting systems, the holding company has also established an accounting auditing hotline that provides a means to report any problems related to MUFG accounting.

***MUFG Accounting Auditing Hotline***

MUFG has set up an accounting auditing hotline to be used to make reports related to instances of improper practices (violations of laws and regulations) and inappropriate practices, or of practices raising questions about such impropriety or inappropriateness, regarding accounting and internal control or audits related to accounting

in Group companies. The audit committee oversees the reporting process to ensure the appropriateness and effectiveness of the reporting process and monitors the reports received through the hotline. The reporting process works as follows, and may be carried out via letter or e-mail:

**Hokusei Law Office, P.C.**

Address: Kojimachi 4-3-4, Chiyoda-ku, Tokyo

e-mail: MUFG-accounting-audit-hotline@hokusei-law.com

*When reporting information please pay attention to the following:*

- Matters subject to reporting are limited to instances regarding the Group companies.
- Please provide detailed information with respect to the matter. Without detailed factual information there is a limit to how much our investigations can achieve.
- Anonymous information will be accepted.
- No information regarding the identity of the informant will be passed on to third parties without the approval of the informant him- or herself. However, this excludes instances where disclosure is legally mandated, or to the extent that the information is necessary for surveys or reports, when data may be passed on following the removal of the informant's name.
- Please submit reports in either Japanese or English.
- If the informant wishes, we will endeavor to report back to the informant on the response taken within a reasonable period of time following the receipt of specific information, but cannot promise to do so in all instances.

## **Internal Audit**

### ***Role of Internal Audit***

Internal audit functions within MUFG seek to verify the adequacy and effectiveness of internal control systems from a standpoint independent of the operating functions. This includes monitoring the status of risk management and compliance systems, which are critical to the maintenance of sound and appropriate business operations. Internal audit results are reported to senior management. An additional role of internal audit is to make suggestions to help improve or rectify any issues or specific problems that are identified.

### ***Group Internal Audit Framework***

The holding company has instituted MUFG's internal audit policy to define the policy, function and organizational position of internal audits. Separate internal audit divisions have been created within the holding company and certain subsidiaries. Through close cooperation and collaboration among the internal audit divisions of the holding company and these subsidiaries, these internal audit divisions provide coverage for the Group and also support the board of directors of the holding company in monitoring and overseeing all MUFG operations.

In addition to having primary responsibility for initiating and preparing plans and proposals related to internal audits of the Group, the internal audit division at the holding company monitors and, as necessary, guides, advises and administers the internal audit divisions of subsidiaries and affiliated companies. The internal audit divisions within the major subsidiaries conduct audits of the respective head office and branch operations of these companies. In addition, each of these internal audit divisions undertakes direct audits of their respective subsidiaries, and monitors and oversees the separate internal audit functions established within them. This helps to evaluate and verify the adequacy and effectiveness of internal controls within MUFG on a consolidated basis.

### ***Implementing Effective and Efficient Internal Audits***

To ensure that internal audit processes use available resources with optimal effectiveness and efficiency, the internal audit divisions implement risk-focused internal audits in which the nature and magnitude of the associated risks are considered in determining audit priorities and the frequency and depth of internal audit activities. The internal audit divisions ensure that audit personnel attend key meetings, collect important internal control documents and access databases to facilitate efficient off-site monitoring.

### ***Reports to the Audit Committee***

The holding company has an audit committee within its board of directors as required by the Companies Act of Japan, and each of the major subsidiaries has established an audit and supervisory committee or an internal audit and compliance committee. Within each of the holding company and the major subsidiaries, the internal audit division reports to the committee on important matters, including the results of the internal audits and basic policies for planning internal audits.

**Item 12. Description of Securities Other than Equity Securities.**

**A. Debt Securities**

Not applicable.

**B. Warrants and Rights**

Not applicable.

**C. Other Securities**

Not applicable.

**D. American Depositary Shares**

*Fees, charges and other payments relating to ADSs*

As a holder of our ADSs, you will be required to pay to The Bank of New York Mellon, as depositary for the ADRs, or the Depositary, either directly or indirectly, the following fees or charges. The Depositary collects its fees for delivery and surrender of ADRs directly from investors depositing shares or surrendering ADRs for the purpose of withdrawal or from intermediaries acting for them. The Depositary collects fees for making distributions to investors by deducting those fees from the amounts distributed or by selling a portion of distributable property to pay the fees.

**ADS holders must pay:**

\$5.00 (or less) per 100 ADSs (or portion thereof)

\$0.02 (or less) per ADS

A fee equivalent to the fee that would be payable if securities distributed to the ADS holder had been shares and the shares had been deposited for issuance of ADRs

Registration or transfer fees

Expenses of The Bank of New York Mellon

Taxes and other governmental charges The Bank of New York Mellon or MUFG Bank, as custodian, have to pay on any ADS or share underlying an ADS, for example, stock transfer taxes, stamp duty or withholding taxes

**For:**

Each issuance of an ADR, including as a result of a distribution of shares or rights or other property

Each cancellation of an ADR, including if the agreement terminates

Any cash distribution, to the extent permitted by any securities exchange on which the ADSs may be listed for trading

Distribution of securities distributed to holders of deposited securities which are distributed by the Depositary to ADS registered holders

Transfer and registration of shares on the share register from your name to the name of The Bank of New York Mellon or its agent and vice versa when you deposit or withdraw shares

Conversion of foreign currency to U.S. dollars, as well as cable, telex and facsimile transmission expenses

As necessary

***Fees Waived or Paid by the Depositary***

The Depositary has agreed to waive the standard out-of-pocket administrative, maintenance and other expenses for providing services to the registered holders of our ADSs, which include the expenses relating to the delivery of annual reports, dividend fund remittances, stationery, postage and photocopying. For the fiscal year ended March 31, 2018, the Depositary waived \$135,367.53 of standard out-of-pocket expenses.

The Depositary has also agreed to reimburse us for expenses related to the administration and maintenance of the ADS program, including investor relations expenses, the annual New York Stock Exchange listing fees and other program-related expenses. There is a limit on the amount of expenses for which the Depositary will reimburse us based and conditioned on the number of outstanding ADSs and the amount of dividend fees collected by the Depositary. For the fiscal year ended March 31, 2018, the Depositary reimbursed us \$1.0 million for such expenses.

## PART II

### **Item 13. Defaults, Dividend Arrearages and Delinquencies.**

None.

### **Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds.**

None.

### **Item 15. Controls and Procedures.**

#### *Disclosure Controls and Procedures*

An evaluation was carried out under the supervision and with the participation of our management, including the Chief Executive Officer, or CEO, and the Chief Financial Officer, or CFO, of the effectiveness of our disclosure controls and procedures, as defined in Rule 13a-15(e) under the U.S. Securities Exchange Act of 1934, as of the end of the period covered by this Annual Report.

Based on that evaluation, our CEO and CFO concluded that our disclosure controls and procedures were effective as of March 31, 2018.

#### *Management's Annual Report on Internal Control Over Financial Reporting*

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a-15(f) under the U.S. Securities Exchange Act of 1934. Our internal control over financial reporting is a process designed by, or under the supervision of, MUFG's principal executive and principal financial officers, and effected by MUFG's board of directors, management, and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. GAAP and includes those policies and procedures that:

- (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of MUFG,
- (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of MUFG are being made only in accordance with authorizations of management and directors of MUFG, and
- (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of MUFG's assets that could have a material effect on the financial statements.

Because of inherent limitations, internal control over financial reporting, no matter how well designed, may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management evaluated the effectiveness of our internal control over financial reporting as of March 31, 2018 based on the criteria established in "Internal Control—Integrated Framework (2013)" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on the evaluation, management has concluded that MUFG maintained effective internal control over financial reporting as of March 31, 2018.

The effectiveness of our internal control over financial reporting as of March 31, 2018 has been audited by Deloitte Touche Tohmatsu LLC, an independent registered public accounting firm, as stated in its report, presented on page 232.

***Changes in Internal Control Over Financial Reporting***

During the period covered by this Annual Report, there has been no change in our internal control over financial reporting that has materially affected or is reasonably likely to materially affect our internal control over financial reporting.



## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and the Shareholders of  
Mitsubishi UFJ Financial Group, Inc.  
(Kabushiki Kaisha Mitsubishi UFJ Financial Group)

### Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Mitsubishi UFJ Financial Group, Inc. (Kabushiki Kaisha Mitsubishi UFJ Financial Group) (“MUFG”) and subsidiaries (together, the “MUFG Group”) as of March 31, 2018, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”). In our opinion, the MUFG Group maintained, in all material respects, effective internal control over financial reporting as of March 31, 2018, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the consolidated financial statements as of and for the year ended March 31, 2018, of the MUFG Group and our report dated July 12, 2018, expressed an unqualified opinion on those financial statements.

### Basis for Opinion

The MUFG Group’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the MUFG Group’s internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the MUFG Group in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

### Definition and Limitations of Internal Control over Financial Reporting

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Deloitte Touche Tohmatsu LLC

Tokyo, Japan  
July 12, 2018

**Item 16A. Audit Committee Financial Expert.**

Our board of directors has determined that Mr. Akira Yamate, an outside director, is an “audit committee financial expert” as defined in Item 16A of Form 20-F and is “independent” as defined in the listing standards of the New York Stock Exchange. Mr. Yamate has spent most of his professional carrier as a certified public accountant in Japan, auditing Japanese corporations, including those registered with the U.S. Securities and Exchange Commission. Mr. Yamate is also the chair of our audit committee.

**Item 16B. Code of Ethics.**

We have adopted a code of ethics, which consists of internal rules named Principles of Ethics and Conduct, compliance rules, compliance manual and rules of employment. Each of these rules applies to our principal executive officer, principal financial officer, principal accounting officer and persons performing similar functions. Our internal compliance rules were most recently amended on September 13, 2017 and April 2, 2018, clarifying the complaint submission channels and the manner in which complaints should be handled. A copy of the Principles of Ethics and Conduct and the sections of our compliance rules, compliance manual and rules of employment relating to the “code of ethics” (as defined in paragraph (b) of Item 16B of Form 20-F) is attached as Exhibit 11 to this Annual Report.

No waivers of the Principles of Ethics and Conduct or the ethical framework and code of conduct, as applicable, or the relevant sections of our compliance rules, compliance manual and rules of employment were granted to our principal executive officer, principal financial officer, principal accounting officer, directors or corporate auditors during the fiscal year ended March 31, 2018.

**Item 16C. Principal Accountant Fees and Services.*****Fees and Services of Deloitte Touche Tohmatsu LLC***

The aggregate fees billed by Deloitte Touche Tohmatsu LLC, our independent registered public accounting firm and its affiliates, for the fiscal years ended March 31, 2017 and 2018 are presented in the following table:

	<u>2017</u>	<u>2018</u>
	<u>(in millions)</u>	
Audit fees . . . . .	¥8,107	¥8,032
Audit-related fees . . . . .	393	199
Tax fees . . . . .	504	307
All other fees . . . . .	<u>119</u>	<u>97</u>
Total . . . . .	<u>¥9,123</u>	<u>¥8,635</u>

The description of our fees billed for each category described above is as follows:

*Audit fees*—Audit fees are primarily for annual audit of our financial statements, review of our semi-annual condensed financial statements, statutory audit of our financial statements and audits of our subsidiary financial statements and attestation services relating to the internal controls over financial reporting under Section 404 of the U.S. Sarbanes-Oxley Act of 2002.

*Audit-related fees*—Audit-related fees primarily include accounting consultations, agreed upon procedures on internal controls, employee benefit plan audit, and advisory services relating to internal control reviews.

*Tax fees*—Tax fees relate primarily to tax compliance, including assistance with preparation of tax return filings, tax advisory and tax planning services.

*All other fees*—All other fees primarily include fees for risk management and compliance advisory services.

### ***Pre-Approval Policies and Procedures for Services by Deloitte Touche Tohmatsu LLC***

Our audit committee performs the pre-approval function required by applicable SEC rules and regulations. Our audit committee has established pre-approval policies and procedures that MUFG and its subsidiaries must follow before engaging Deloitte Touche Tohmatsu LLC to perform audit and permitted non-audit services.

When MUFG or a subsidiary intends to engage Deloitte Touche Tohmatsu LLC to perform audit and permitted non-audit services, it must make an application for pre-approval on either a periodic or case-by-case basis.

- *Periodic application* is an application for pre-approval made each fiscal year for services that are expected to be provided by Deloitte Touche Tohmatsu LLC during the next fiscal year.
- *Case-by-case application* is an application for pre-approval made on a case-by-case basis for services to be provided by Deloitte Touche Tohmatsu LLC that are not covered by the periodic application.

Pre-approval is resolved in principle by our audit committee prior to engagement, although if necessary a full-time member of our audit committee may consider any case-by-case application for pre-approval on behalf of the audit committee prior to the next scheduled audit committee meeting. Such decisions made individually by a full-time member of our audit committee are reported to the audit committee as appropriate at the next scheduled audit committee meeting.

Fees approved pursuant to the procedures described in paragraph 2-01(c)(7)(i)(C) of Regulation S-X, which provides for an exception to the general requirement for pre-approval in certain circumstances, were less than 0.1% of the total fees paid to Deloitte Touche Tohmatsu LLC for each of the fiscal years ended March 31, 2017 and 2018.

### ***Review of Deloitte Touche Tohmatsu LLC's Independence in Prior Periods***

As disclosed in our Annual Reports on Form 20-F for the fiscal years ended March 31, 2015, 2016 and 2017, Deloitte Touche Tohmatsu LLC, or Tohmatsu, previously advised MUFG's Audit Committee of several SEC auditor independence rule violations relating to its audit of MUFG's financial statements as of and for the fiscal years ended March 31, 2015, 2016 and 2017. The violations primarily involved financial interests, including deposit accounts with balances in excess of deposit insurance limits held at MUFG Group companies by partners and other members of Tohmatsu's audit engagement teams for MUFG and its subsidiaries and affiliates and their immediate family members, including a senior partner who at the time served in an executive management role at Tohmatsu and was in the Chain of Command of Tohmatsu's audit engagement of MUFG's financial statements.

With respect to the prior fiscal year audit reports, Tohmatsu reported to the Audit Committee that it had investigated the relevant facts and circumstances, and concluded that Tohmatsu's objectivity, impartiality and integrity with respect to its audit on MUFG's financial statements were unaffected by the violations. Tohmatsu also reported to the Audit Committee that corrective and remedial measures were implemented. Finally, Tohmatsu reported that it had informed the Audit Committee of all identified violations, and represented its good faith belief that there should not be any unidentified violations.

In connection with the prior year audited financial statements included in our Annual Reports on Form 20-F for the fiscal years ended March 31, 2015, 2016 and 2017, the Audit Committee engaged counsel to review the circumstances relating to the violations reported by Tohmatsu. Based on discussions with Tohmatsu, and after undertaking its own work to review the circumstances, prior to the filing of MUFG's Annual Reports on Form 20-F for the fiscal years ended March 31, 2015, 2016 and 2017, the Audit Committee concluded that Tohmatsu's ability to exercise objective and impartial judgment on issues within the scope of its audit of MUFG's financial statements had not been impaired. Based on this determination, the Audit Committee concluded that the audited financial statements as of and for the fiscal years ended March 31, 2016 and 2017 may be included in this Annual Report on Form 20-F.

**Item 16D. Exemptions from the Listing Standards for Audit Committees.**

Not applicable.

**Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers.***Issuer Purchases of Common Stock*

	Total Number of Shares Purchased <sup>(1)</sup>	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs <sup>(2)</sup>
April 1 to April 30, 2017 .....	1,473	¥673.64	—	—
May 1 to May 31, 2017 .....	2,180	698.59	54,807,800	145,192,200
June 1 to June 30, 2017 .....	2,745	714.66	86,351,100	58,841,100
July 1 to July 31, 2017 .....	6,415	737.54	—	—
August 1 to August 31, 2017 .....	5,588	700.62	—	—
September 1 to September 30, 2017 .....	3,703	685.81	—	—
October 1 to October 31, 2017 .....	4,066	731.39	—	—
November 1 to November 30, 2017 .....	5,069	747.38	45,491,700	154,508,300
December 1 to December 31, 2017 .....	5,997	803.17	82,175,200	72,333,100
January 1 to January 31, 2018 .....	6,835	861.73	—	—
February 1 to February 28, 2018 .....	3,871	808.13	—	—
March 1 to March 31, 2018 .....	2,925	732.96	—	—
Total .....	50,867	¥743.98	268,825,800	—

## Notes:

- (1) All of the purchased shares were shares constituting less than one unit (100 shares) purchased from registered holders of such shares at the current market price of those shares.
- (2) During May 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 on May 15, 2017 and completed in June 2017. Under the program, we were authorized by the Board of Directors to repurchase up to the lesser of an aggregate of 200,000,000 shares of our common stock and an aggregate of ¥100.0 billion between May 16, 2017 and June 30, 2017. All of the repurchased shares were cancelled on July 20, 2017.
- During November 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 on November 14, 2017 and completed in December 2017. Under the program, we were authorized by the Board of Directors to repurchase up to the lesser of an aggregate of 200,000,000 shares of our common stock and an aggregate of ¥100.0 billion between November 15, 2017 and December 31, 2017. All of the repurchased shares were cancelled on January 22, 2018.

We did not make any purchases of shares of our common stock other than as shown in the above table for the fiscal year ended March 31, 2018.

During May 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 on May 15, 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. We plan to cancel all of the repurchased shares on July 20, 2018.

In May 2018, 13,049,600 shares were purchased by the trustee of the trust for the first performance-based stock compensation plan. In connection with the MUFG Americas Holdings Corporation Stock Bonus Plan, 9,085,223 ADSs were purchased by the trustee of the independent trust between April 1, 2017 and March 31, 2018. In the same period, 616,514 ADSs were purchased by the trustee of the independent trust in connection with the Bank of Tokyo-Mitsubishi UFJ, Ltd. Headquarters for the Americas Stock Bonus Plan. In the same

period, 1,643,459 ADSs were purchased by the trustee of the independent trust in connection with the UNBC Stock Bonus Plan. For descriptions of our stock compensation and bonus plans, see “Item 6.B. Directors, Senior Management and Employees—Compensation.”

**Item 16F. Change in Registrant’s Certifying Accountant.**

None.

**Item 16G. Corporate Governance.**

The NYSE allows NYSE-listed companies that are foreign private issuers, such as MUFG, with certain exceptions, to follow home-country practices in lieu of the corporate governance practices followed by U.S. companies pursuant to the NYSE’s Listed Company Manual. The following is a summary of the significant differences between MUFG’s corporate governance practices and those followed by U.S. listed companies under the NYSE’s Listed Company Manual.

***1. A NYSE-listed U.S. company must have a majority of directors that meet the independence requirements under Section 303A of the NYSE’s Listed Company Manual.***

As of the date of this Annual Report, we have eight outside directors as members of our board of directors, which consists of a total of fifteen members. Under our governance system, we are required to have a majority of outside directors on each of our nominating, audit and compensation committees. For a description of an outside director, see “Item 6.C. Directors and Senior Management—Board Practices.”

The Tokyo Stock Exchange rules require listed companies, including us, to identify at least one individual who the company believes is unlikely to have a conflict of interest with general shareholders and have such individual serve as an independent director or outside corporate auditor.

Further, a listed company with fewer than two outside directors who are considered independent based on such internal standards as the company establishes pursuant to the Tokyo Stock Exchange requirements must publicly disclose the reason for not having at least two such directors on its board of directors. In addition, if a listed company determines that at least one-third of the members of its board of directors should be independent outside directors, the listed company must disclose its policy relating to the determination. We have adopted and made public our corporate governance policy providing, among other things, that, in general cases, at least one-third of the members of our board of directors will be independent outside directors, and that, in general cases, the majority of the members of our board of directors will be non-executive directors.

***2. A NYSE-listed U.S. company must have an audit committee composed entirely of independent directors.***

Under the Companies Act, we are required to have an audit committee consisting of at least three non-executive directors, and the majority of its members must be outside directors. Currently, our audit committee consists of three outside directors and two non-executive directors. Our audit committee satisfies the requirements of Rule 10A-3 under the U.S. Securities Exchange Act of 1934, including the independence requirements thereunder.

***3. A NYSE-listed U.S. company must have a compensation committee composed entirely of independent directors.***

Under the Companies Act, we are required to have a compensation committee consisting of at least three directors, and the majority of its members must be outside directors. Currently, our compensation committee consists of five directors, four of whom are outside directors.

***4. A NYSE-listed U.S. company must have a nominating or corporate governance committee composed entirely of independent directors.***

Under the Companies Act, we are required to have a nominating committee consisting of at least three directors, and the majority of its members must be outside directors. Currently, our nominating committee, which we call the nominating and governance committee, consists of five directors, four of whom are outside directors.

***5. A NYSE-listed U.S. company must obtain shareholder approval with respect to any equity compensation plan.***

Under the Companies Act, an equity compensation plan for directors and corporate executive officers is deemed to be compensation for the services performed by the company's directors and corporate executive officers. Our compensation committee establishes the policy with respect to the determination of the individual compensation of our directors and corporate executive officers, including equity compensation in the form of performance-based stock compensation plan, and determines individual compensation in accordance with the policy. Under the Companies Act, a public company with board audit, compensation and nominating committees seeking to introduce a performance-based stock compensation plan must obtain the approval of its compensation committee, not its shareholders.

***6. A NYSE-listed U.S. company must adopt and disclose Corporate Governance Guidelines and a Code of Business Conduct and Ethics, and it must also disclose any exemptions granted to directors or executives.***

Our corporate governance policies, which are called the "MUFG Corporate Governance Policies," are based on applicable home-country rules, particularly the Tokyo Stock Exchange rules, which require listed companies, such as us, to adopt a corporate governance code setting forth fundamental principles designed to establish an effective corporate governance system or explain in their corporate governance reports the reasons for not adopting such a code. We disclose these policies on our website.

We have adopted a code of ethics, compliance rules and a compliance manual, which meet the definition of "code of ethics" in "Item 16B. Code of Ethics."

***7. A NYSE-listed U.S. company must hold regularly scheduled executive sessions where participants are limited to non-management directors.***

Under the Companies Act, Japanese corporations are not obliged to hold executive sessions where participants are limited to non-management directors. Such executive sessions are also not required under our internal corporate governance rules.

**Item 16H. Mine Safety Disclosure.**

Not Applicable.

### PART III

#### Item 17. Financial Statements.

In lieu of responding to this item, we have responded to Item 18 of this Annual Report.

#### Item 18. Financial Statements.

The information required by this item is set forth in our consolidated financial statements starting on page F-1 of this Annual Report.

#### Item 19. Exhibits.

<u>Exhibit</u>	<u>Description</u>
1(a)	Articles of Incorporation of Mitsubishi UFJ Financial Group, Inc., as amended on July 6, 2018 (English translation)
1(b)	Board of Directors Regulations of Mitsubishi UFJ Financial Group, Inc., as amended on June 25, 2015 (English translation)
1(c)	Corporation Meetings Regulations of Mitsubishi UFJ Financial Group, Inc., as amended on July 1, 2018 (English translation)
1(d)	Share Handling Regulations of Mitsubishi UFJ Financial Group, Inc., as amended on June 27, 2013 (English Translation)*
1(e)	Charter of the Audit Committee of Mitsubishi UFJ Financial Group, Inc., as amended on July 1, 2018 (English translation)
1(f)	Charter of the Compensation Committee of Mitsubishi UFJ Financial Group, Inc., as amended on July 1, 2018 (English translation)
1(g)	Charter of the Nominating and Governance Committee of Mitsubishi UFJ Financial Group, Inc., as amended on July 1, 2018 (English translation)
1(h)	Charter of the Risk Committee of Mitsubishi UFJ Financial Group, Inc., as amended on July 1, 2018 (English translation)
2(a)	Form of American Depositary Receipt
2(b)	Form of Deposit Agreement, amended and restated as of December 22, 2004, among Mitsubishi Tokyo Financial Group, Inc. (subsequently renamed Mitsubishi UFJ Financial Group, Inc.), The Bank of New York Mellon and the holders from time to time of American Depositary Receipts issued thereunder
7	Statement of Computation of Consolidated Ratio of Earnings to Fixed Charges for the fiscal years ended March 31, 2014, 2015, 2016, 2017 and 2018**
8	Subsidiaries of the Company—see “Item 4.C. Information on the Company—Organizational Structure.”
11	Principles of Ethics and Conduct, Compliance Rules, Compliance Manual, and Rules of Employment of Mitsubishi UFJ Financial Group, Inc. applicable to its principal executive officer, principal financial officer, principal accounting officer and persons performing similar functions (English translation of relevant sections)
12	Certifications required by Rule 13a-14(a) (17 CFR 240.13a-14(a)) or Rule 15d-14(a) (17 CFR 240.15d-14(a))
13	Certifications required by Rule 13a-14(b) (17 CFR 240.13a-14(b)) or Rule 15d-14(b) (17 CFR 240.15d-14(b)) and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. 1350)
15	Consent of independent registered public accounting firm

Exhibit	Description
99(a)	Capitalization and Indebtedness of Mitsubishi UFJ Financial Group, Inc. as of March 31, 2018***
99(b)	Unaudited Reverse Reconciliation of Selected Financial Information of Mitsubishi UFJ Financial Group, Inc. as of and for the fiscal year ended March 31, 2018****
101.INS	XBRL Instance Document
101.SCH	XBRL Schema Document
101.CAL	XBRL Calculation Linkbase Document
101.DEF	XBRL Definition Linkbase Document
101.LAB	XBRL Label Linkbase Document
101.PRE	XBRL Presentation Linkbase Document

Notes:

- \* Incorporated by reference to our registration statement on Form S-8 (File No. 333-204845) filed on June 10, 2015.
- \*\* Deemed to be incorporated as Exhibit 12.1 to the registration statement on Form F-3 (No. 333-209455) of Mitsubishi UFJ Financial Group, Inc. and to be a part thereof.
- \*\*\* Deemed to be incorporated by reference into the registration statement on Form F-3 (No. 333-209455) of Mitsubishi UFJ Financial Group, Inc. and to be a part thereof.
- \*\*\*\* Deemed to be incorporated as Annex A to the registration statement on Form F-3 (No. 333-209455) of Mitsubishi UFJ Financial Group, Inc. and to be a part thereof.



## **SELECTED STATISTICAL DATA**

Due to close integration of our foreign and domestic activities, it is difficult to make a precise determination of the assets, liabilities, income and expenses of our foreign operations. The foreign operations as presented include the business conducted by overseas subsidiaries and branches, and the international business principally conducted by the international banking-related divisions headquartered in Japan. Our management believes that the results appropriately represent our domestic and foreign activities.

## I. Distribution of Assets, Liabilities and Equity; Interest Rates and Interest Differential

### Average Balance Sheets, Interest and Average Rates

The following table shows our average balances, interest and average interest rates for the fiscal years ended March 31, 2016, 2017 and 2018. Average balances are generally based on a daily average while a month-end average is used for certain average balances when it is not practicable to obtain applicable daily averages.

	Fiscal years ended March 31,								
	2016			2017			2018		
	Average balance	Interest income	Average rate	Average balance	Interest income	Average rate	Average balance	Interest income	Average rate
	(in millions, except percentages)								
<b>Assets:</b>									
<b>Interest-earning assets:</b>									
Interest-earning deposits in other banks:									
Domestic .....	¥ 31,905,984	¥ 32,063	0.10%	¥ 31,322,995	¥ 28,975	0.09%	¥ 31,515,803	¥26,391	0.08%
Foreign .....	9,259,479	50,591	0.55	7,118,443	49,760	0.70	7,889,777	100,217	1.27
Total .....	41,165,463	82,654	0.20	38,441,438	78,735	0.20	39,405,580	126,608	0.32
Call loans, funds sold, and receivables under resale agreements and securities borrowing transactions:									
Domestic .....	3,997,009	1,184	0.03	5,825,863	2,116	0.04	7,703,606	7,246	0.09
Foreign .....	10,633,966	57,440	0.54	8,259,160	59,263	0.72	7,873,112	77,447	0.98
Total .....	14,630,975	58,624	0.40	14,085,023	61,379	0.44	15,576,718	84,693	0.54
Trading account assets:									
Domestic .....	5,328,794	33,076	0.62	3,818,370	24,262	0.64	4,737,292	27,126	0.57
Foreign .....	22,146,669	389,004	1.76	23,111,674	431,598	1.87	20,012,444	405,469	2.03
Total .....	27,475,463	422,080	1.54	26,930,044	455,860	1.69	24,749,736	432,595	1.75
Investment securities <sup>(1)</sup> :									
Domestic .....	41,308,432	230,478	0.56	35,863,993	219,443	0.61	34,659,859	183,622	0.53
Foreign .....	7,059,232	157,564	2.23	6,583,759	151,701	2.30	6,891,939	160,279	2.33
Total .....	48,367,664	388,042	0.80	42,447,752	371,144	0.87	41,551,798	343,901	0.83
Loans <sup>(2)</sup> :									
Domestic .....	71,072,445	800,723	1.13	68,348,115	743,683	1.09	65,985,440	757,623	1.15
Foreign .....	50,003,733	1,253,615	2.51	48,940,077	1,279,966	2.62	51,779,709	1,513,596	2.92
Total .....	121,076,178	2,054,338	1.70	117,288,192	2,023,649	1.73	117,765,149	2,271,219	1.93
Total interest-earning assets:									
Domestic .....	153,612,664	1,097,524	0.71	145,179,336	1,018,479	0.70	144,602,000	1,002,008	0.69
Foreign .....	99,103,079	1,908,214	1.93	94,013,113	1,972,288	2.10	94,446,981	2,257,008	2.39
Total .....	252,715,743	3,005,738	1.19	239,192,449	2,990,767	1.25	239,048,981	3,259,016	1.36
<b>Non-interest-earning assets:</b>									
Cash and due from banks .....	3,853,732			21,989,856			34,040,675		
Other non-interest-earning assets .....	43,703,112			47,775,376			48,549,541		
Allowance for credit losses .....	(1,001,714)			(1,018,982)			(1,049,265)		
Total non-interest-earning assets .....	46,555,130			68,746,250			81,540,951		
<b>Total assets</b> .....	<u>¥299,270,873</u>			<u>¥307,938,699</u>			<u>¥320,589,932</u>		

#### Notes:

- (1) Tax-exempt income of tax-exempt investment securities has not been calculated on a tax equivalent basis because the effect of such calculation would not be material.
- (2) Average balances on loans outstanding include all nonaccrual and restructured loans. See "III. Loan Portfolio." The amortized portion of net loan origination fees (costs) is included in interest income on loans, which accounts for an insignificant amount of an adjustment to the yields.

	Fiscal years ended March 31,								
	2016			2017			2018		
	Average balance	Interest expense	Average rate	Average balance	Interest expense	Average rate	Average balance	Interest expense	Average rate
	(in millions, except percentages)								
<b>Liabilities and equity:</b>									
<b>Interest-bearing liabilities:</b>									
Deposits:									
Domestic . . . . .	¥110,396,310	¥ 69,634	0.06%	¥117,156,484	¥ 45,790	0.04%	¥123,141,060	¥ 58,779	0.05%
Foreign . . . . .	41,066,208	280,701	0.68	38,411,021	301,640	0.79	41,421,717	456,089	1.10
Total . . . . .	<u>151,462,518</u>	<u>350,335</u>	0.23	<u>155,567,505</u>	<u>347,430</u>	0.22	<u>164,562,777</u>	<u>514,868</u>	0.31
Call money, funds purchased, and payables under repurchase agreements and securities lending transactions <sup>(1)</sup> :									
Domestic . . . . .	24,017,338	50,567	0.21	22,024,053	82,162	0.37	17,913,277	113,805	0.64
Foreign . . . . .	11,666,364	16,732	0.14	10,765,446	20,425	0.19	10,138,998	56,955	0.56
Total . . . . .	<u>35,683,702</u>	<u>67,299</u>	0.19	<u>32,789,499</u>	<u>102,587</u>	0.31	<u>28,052,275</u>	<u>170,760</u>	0.61
Due to trust account—									
Domestic . . . . .	1,162,326	505	0.04	3,122,190	207	0.01	3,065,511	109	0.00
Other short-term borrowings and trading account liabilities:									
Domestic . . . . .	7,945,537	26,145	0.33	3,644,192	11,679	0.32	3,768,213	11,012	0.29
Foreign . . . . .	5,787,927	28,427	0.49	5,435,977	49,458	0.91	6,476,232	82,523	1.27
Total . . . . .	<u>13,733,464</u>	<u>54,572</u>	0.40	<u>9,080,169</u>	<u>61,137</u>	0.67	<u>10,244,445</u>	<u>93,535</u>	0.91
Long-term debt <sup>(1)</sup> :									
Domestic . . . . .	15,791,409	150,124	0.95	20,358,348	173,634	0.85	25,277,891	183,944	0.73
Foreign . . . . .	3,301,789	121,529	3.68	2,604,585	84,644	3.25	2,654,153	65,539	2.47
Total . . . . .	<u>19,093,198</u>	<u>271,653</u>	1.42	<u>22,962,933</u>	<u>258,278</u>	1.12	<u>27,932,044</u>	<u>249,483</u>	0.89
Total interest-bearing liabilities:									
Domestic . . . . .	159,312,920	296,975	0.19	166,305,267	313,472	0.19	173,165,952	367,649	0.21
Foreign . . . . .	61,822,288	447,389	0.72	57,217,029	456,167	0.80	60,691,100	661,106	1.09
Total . . . . .	<u>221,135,208</u>	<u>744,364</u>	0.34	<u>223,522,296</u>	<u>769,639</u>	0.34	<u>233,857,052</u>	<u>1,028,755</u>	0.44
<b>Non-interest-bearing liabilities</b> . . . . .	62,849,899			69,405,574			71,309,802		
<b>Total equity</b> . . . . .	<u>15,285,766</u>			<u>15,010,829</u>			<u>15,423,078</u>		
<b>Total liabilities and equity</b> . . . . .	<u>¥299,270,873</u>			<u>¥307,938,699</u>			<u>¥320,589,932</u>		
<b>Net interest income and interest rate spread</b> . . . . .		<u>¥2,261,374</u>	<u>0.85%</u>		<u>¥2,221,128</u>	<u>0.91%</u>		<u>¥2,230,261</u>	<u>0.92%</u>
<b>Net interest income as a percentage of total interest-earning assets</b> . . . . .			<u>0.89%</u>			<u>0.93%</u>			<u>0.93%</u>

Note:

(1) The table above reflects changes in presentation that were made to long-term repurchase agreements for the fiscal years ended March 31, 2016 and 2017. For further information, see Note 1 to our consolidated financial statements included elsewhere in this Annual Report.

The percentage of total average assets attributable to foreign activities was 39.4%, 37.3% and 36.6%, respectively, for the fiscal years ended March 31, 2016, 2017 and 2018.

The percentage of total average liabilities attributable to foreign activities was 40.1%, 38.1% and 36.9%, respectively, for the fiscal years ended March 31, 2016, 2017 and 2018.

### *Analysis of Net Interest Income*

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

	Fiscal year ended March 31, 2016 versus fiscal year ended March 31, 2017			Fiscal year ended March 31, 2017 versus fiscal year ended March 31, 2018		
	Increase (decrease) due to changes in			Increase (decrease) due to changes in		
	Volume <sup>(1)</sup>	Rate <sup>(1)</sup>	Net change	Volume <sup>(1)</sup>	Rate <sup>(1)</sup>	Net change
	(in millions)					
<b>Interest income:</b>						
Interest-earning deposits in other banks:						
Domestic .....	¥ (577)	¥ (2,511)	¥ (3,088)	¥ 177	¥ (2,761)	¥ (2,584)
Foreign .....	(13,178)	12,347	(831)	5,908	44,549	50,457
Total .....	(13,755)	9,836	(3,919)	6,085	41,788	47,873
Call loans, funds sold, and receivables under resale agreements and securities borrowing transactions:						
Domestic .....	624	308	932	865	4,265	5,130
Foreign .....	(14,533)	16,356	1,823	(2,885)	21,069	18,184
Total .....	(13,909)	16,664	2,755	(2,020)	25,334	23,314
Trading account assets:						
Domestic .....	(9,580)	766	(8,814)	5,430	(2,566)	2,864
Foreign .....	17,387	25,207	42,594	(60,886)	34,757	(26,129)
Total .....	7,807	25,973	33,780	(55,456)	32,191	(23,265)
Investment securities <sup>(2)</sup> :						
Domestic .....	(32,071)	21,036	(11,035)	(7,170)	(28,651)	(35,821)
Foreign .....	(10,844)	4,981	(5,863)	7,156	1,422	8,578
Total .....	(42,915)	26,017	(16,898)	(14)	(27,229)	(27,243)
Loans:						
Domestic .....	(30,138)	(26,902)	(57,040)	(26,254)	40,194	13,940
Foreign .....	(27,046)	53,397	26,351	77,153	156,477	233,630
Total .....	(57,184)	26,495	(30,689)	50,899	196,671	247,570
<b>Total interest income:</b>						
Domestic .....	(71,742)	(7,303)	(79,045)	(26,952)	10,481	(16,471)
Foreign .....	(48,214)	112,288	64,074	26,446	258,274	284,720
<b>Total</b> .....	<b>¥(119,956)</b>	<b>¥104,985</b>	<b>¥(14,971)</b>	<b>¥ (506)</b>	<b>¥268,755</b>	<b>¥268,249</b>

Notes:

- (1) Volume/rate variance is allocated based on the percentage relationship of changes in volume and changes in rate to the total "net change."
- (2) Tax-exempt income of tax-exempt investment securities has not been calculated on a tax equivalent basis because the effect of such calculation would not be material.

	Fiscal year ended March 31, 2016 versus fiscal year ended March 31, 2017			Fiscal year ended March 31, 2017 versus fiscal year ended March 31, 2018		
	Increase (decrease) due to changes in		Net change	Increase (decrease) due to changes in		Net change
	Volume <sup>(1)</sup>	Rate <sup>(1)</sup>		Volume <sup>(1)</sup>	Rate <sup>(1)</sup>	
	(in millions)					
<b>Interest expense:</b>						
Deposits:						
Domestic .....	¥ 4,039	¥(27,883)	¥(23,844)	¥ 2,436	¥ 10,553	¥ 12,989
Foreign .....	(18,967)	39,906	20,939	25,194	129,255	154,449
Total .....	(14,928)	12,023	(2,905)	27,630	139,808	167,438
Call money, funds purchased, and payables under repurchase agreements and securities lending transactions <sup>(2)</sup> :						
Domestic .....	(4,511)	36,106	31,595	(17,597)	49,240	31,643
Foreign .....	(1,373)	5,066	3,693	(1,256)	37,786	36,530
Total .....	(5,884)	41,172	35,288	(18,853)	87,026	68,173
Due to trust account—Domestic .....	371	(669)	(298)	(4)	(94)	(98)
Other short-term borrowings and trading account liabilities:						
Domestic .....	(13,802)	(664)	(14,466)	388	(1,055)	(667)
Foreign .....	(1,827)	22,858	21,031	10,690	22,375	33,065
Total .....	(15,629)	22,194	6,565	11,078	21,320	32,398
Long-term debt <sup>(2)</sup> :						
Domestic .....	40,122	(16,612)	23,510	38,127	(27,817)	10,310
Foreign .....	(23,729)	(13,156)	(36,885)	1,582	(20,687)	(19,105)
Total .....	16,393	(29,768)	(13,375)	39,709	(48,504)	(8,795)
<b>Total interest expense:</b>						
Domestic .....	26,219	(9,722)	16,497	23,350	30,827	54,177
Foreign .....	(45,896)	54,674	8,778	36,210	168,729	204,939
Total .....	¥ (19,677)	¥ 44,952	¥ 25,275	¥ 59,560	¥ 199,556	¥ 259,116
<b>Net interest income:</b>						
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

Notes:

- (1) Volume/rate variance is allocated based on the percentage relationship of changes in volume and changes in rate to the total “net change.”
- (2) The table above reflects changes in presentation that were made to long-term repurchase agreements for the fiscal years ended March 31, 2016 and 2017. For further information, see Note 1 to our consolidated financial statements included elsewhere in this Annual Report.

## II. Investment Portfolio

The following table shows information as to the value of our Available-for-sale securities and Held-to-maturity securities at March 31, 2016, 2017 and 2018:

	At March 31,								
	2016			2017			2018		
	Amortized cost	Fair value	Net unrealized gains (losses)	Amortized cost	Fair value	Net unrealized gains (losses)	Amortized cost	Fair value	Net unrealized gains (losses)
	(in millions)								
<b>Available-for-sale securities:</b>									
Domestic:									
Japanese national government and Japanese government agency bonds	¥28,427,163	¥29,127,841	¥ 700,678	¥25,435,570	¥25,826,288	¥ 390,718	¥24,272,345	¥24,567,904	¥ 295,559
Corporate bonds	795,427	816,984	21,557	899,572	917,170	17,598	923,912	935,965	12,053
Marketable equity securities	2,646,182	5,602,328	2,956,146	2,719,146	6,115,213	3,396,067	2,638,796	6,544,938	3,906,142
Other securities	1,088,843	1,103,232	14,389	1,844,358	1,851,402	7,044	2,581,942	2,589,367	7,425
Total domestic	32,957,615	36,650,385	3,692,770	30,898,646	34,710,073	3,811,427	30,416,995	34,638,174	4,221,179
Foreign:									
U.S. Treasury and other U.S. government agencies bonds	869,152	880,154	11,002	1,075,244	1,060,868	(14,376)	1,400,997	1,366,456	(34,541)
Other governments and official institutions bonds	1,177,635	1,193,914	16,279	1,087,653	1,089,061	1,408	806,665	805,236	(1,429)
Mortgage-backed securities	1,090,886	1,076,866	(14,020)	913,118	898,301	(14,817)	1,229,111	1,214,211	(14,900)
Other securities	1,419,445	1,424,912	5,467	1,321,273	1,331,796	10,523	1,492,293	1,480,621	(11,672)
Total foreign	4,557,118	4,575,846	18,728	4,397,288	4,380,026	(17,262)	4,929,066	4,866,524	(62,542)
Total	¥37,514,733	¥ 41,226,231	¥3,711,498	¥35,295,934	¥39,090,099	¥3,794,165	¥35,346,061	¥39,504,698	¥4,158,637
<b>Held-to-maturity securities:</b>									
Domestic:									
Japanese national government and Japanese government agency bonds	¥1,101,107	¥ 1,159,115	¥ 58,008	¥ 1,100,955	¥ 1,144,070	¥ 43,115	¥ 1,100,807	¥ 1,141,019	¥ 40,212
Other securities	200	200	—	100	100	—	—	—	—
Total domestic	1,101,307	1,159,315	58,008	1,101,055	1,144,170	43,115	1,100,807	1,141,019	40,212
Foreign:									
U.S. Treasury and other U.S. government agencies bonds	62,563	63,965	1,402	60,910	62,023	1,113	59,330	59,610	280
Other governments and official institutions bonds	26,772	26,290	(482)	225	225	—	—	—	—
Mortgage-backed securities	1,139,631	1,145,520	5,889	1,146,828	1,143,938	(2,890)	1,057,612	1,047,635	(9,977)
Asset-backed securities	1,536,395	1,536,158	(237)	1,278,303	1,287,395	9,092	1,365,192	1,372,408	7,216
Total foreign	2,765,361	2,771,933	6,572	2,486,266	2,493,581	7,315	2,482,134	2,479,653	(2,481)
Total	¥ 3,866,668	¥ 3,931,248	¥ 64,580	¥ 3,587,321	¥ 3,637,751	¥ 50,430	¥ 3,582,941	¥ 3,620,672	¥ 37,731

Nonmarketable equity securities presented in Other investment securities in the accompanying consolidated financial statements were primarily carried at cost of ¥530,026 million, ¥529,869 million and ¥538,251 million, at March 31, 2016, 2017 and 2018, respectively. The corresponding fair values at those dates were not readily determinable. Investment securities held by certain subsidiaries subject to specialized industry accounting principles for investment companies and brokers and dealers presented in Other investment securities were carried at fair value of ¥24,689 million, ¥26,292 million and ¥28,359 million, at March 31, 2016, 2017 and 2018, respectively.

The following table presents the book values, maturities and weighted average yields of Available-for-sale securities and Held-to-maturity securities, excluding equity securities, at March 31, 2018. Weighted average yields are calculated based on amortized cost. Yields on tax-exempt obligations have not been calculated on a tax equivalent basis because the effect of such calculation would not be material:

	Maturities within one year		Maturities after one year but within five years		Maturities after five years but within ten years		Maturities after ten years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
(in millions, except percentages)										
<b>Available-for-sale securities:</b>										
Domestic:										
Japanese national government and Japanese government agency bonds	¥10,914,592	0.07%	¥ 7,870,360	0.50%	¥3,344,997	0.56%	¥2,437,955	1.22%	¥24,567,904	0.38%
Corporate bonds	114,018	0.47	597,427	0.27	183,468	0.41	41,052	0.73	935,965	0.34
Other securities	180,526	0.62	511,180	0.25	1,420,873	0.24	476,788	0.29	2,589,367	0.27
Total domestic	11,209,136	0.08	8,978,967	0.47	4,949,338	0.46	2,955,795	1.06	28,093,236	0.37
Foreign:										
U.S. Treasury and other U.S. government agencies bonds	112,139	1.50	527,561	1.77	725,438	1.86	1,318	3.62	1,366,456	1.80
Other governments and official institutions bonds	236,108	1.52	498,559	2.39	66,316	2.99	4,253	3.44	805,236	2.19
Mortgage-backed securities	191	5.37	390	2.28	110,922	2.02	1,102,708	2.61	1,214,211	2.56
Other securities	354,107	1.85	646,913	2.25	160,675	2.83	192,280	2.59	1,353,975	2.27
Total foreign	702,545	1.69	1,673,423	2.14	1,063,351	2.09	1,300,559	2.61	4,739,878	2.19
Total	¥11,911,681	0.17%	¥10,652,390	0.74%	¥6,012,689	0.76%	¥4,256,354	1.56%	¥32,833,114	0.64%
<b>Held-to-maturity securities:</b>										
Domestic:										
Japanese national government and Japanese government agency bonds	¥ —	—%	¥ —	—%	¥1,100,807	0.51%	¥ —	—%	¥ 1,100,807	0.51%
Total domestic	—	—	—	—	1,100,807	0.51	—	—	1,100,807	0.51
Foreign:										
U.S. Treasury and other U.S. government agencies bonds	—	—	59,330	2.09	—	—	—	—	59,330	2.09
Mortgage-backed securities	—	—	96,389	2.25	44,070	2.32	917,153	2.45	1,057,612	2.42
Asset-backed securities	—	—	57,160	6.27	454,342	2.48	853,690	2.14	1,365,192	2.42
Total foreign	—	—	212,879	3.29	498,412	2.46	1,770,843	2.30	2,482,134	2.42
Total	¥ —	—%	¥ 212,879	3.29%	¥1,599,219	1.12%	¥1,770,843	2.30%	¥ 3,582,941	1.83%

Other than U.S. Treasury and other U.S. government agencies bonds and Japanese national government bonds, none of the individual issuers held in our investment securities portfolio exceeded 10% of the consolidated total Mitsubishi UFJ Financial Group shareholders' equity at March 31, 2018.

### III. Loan Portfolio

The following table shows our loans outstanding, before deduction of allowance for credit losses, by domicile and industry of the borrower at March 31 for each of the five fiscal years ended March 31, 2018. Classification of loans by industry is based on the industry segment loan classification as defined by the Bank of Japan for regulatory reporting purposes and is not necessarily based on the use of proceeds:

	At March 31,				
	2014	2015	2016	2017	2018
	(in millions)				
<b>Domestic:</b>					
Manufacturing . . . . .	¥ 11,540,753	¥ 11,703,428	¥ 12,158,642	¥ 11,796,803	¥ 10,876,625
Construction . . . . .	980,877	977,892	913,180	819,262	781,262
Real estate . . . . .	10,989,562	10,911,240	11,175,130	11,622,372	11,763,769
Services . . . . .	2,693,561	2,684,355	2,503,446	2,549,300	2,689,086
Wholesale and retail . . . . .	8,475,143	8,345,481	7,891,364	7,970,579	7,989,080
Banks and other financial institutions <sup>(1)</sup> . . . . .	3,985,106	4,329,964	5,146,932	5,223,906	4,818,364
Communication and information services . . . . .	1,443,466	1,527,811	1,509,858	1,634,584	1,551,533
Other industries . . . . .	13,496,763	12,674,004	14,739,826	8,898,712	8,939,291
Consumer . . . . .	16,921,352	16,720,590	16,397,560	16,491,010	16,287,332
Total domestic . . . . .	<u>70,526,583</u>	<u>69,874,765</u>	<u>72,435,938</u>	<u>67,006,528</u>	<u>65,696,342</u>
<b>Foreign:</b>					
Governments and official institutions . . . . .	811,475	1,052,051	1,125,031	1,037,795	920,538
Banks and other financial institutions <sup>(1)</sup> . . . . .	9,792,255	11,973,021	13,654,335	13,844,964	12,851,570
Commercial and industrial . . . . .	24,533,816	29,593,255	30,056,474	30,279,641	30,591,173
Other . . . . .	4,872,372	6,065,782	5,818,747	6,334,551	7,270,928
Total foreign . . . . .	<u>40,009,918</u>	<u>48,684,109</u>	<u>50,654,587</u>	<u>51,496,951</u>	<u>51,634,209</u>
Total . . . . .	110,536,501	118,558,874	123,090,525	118,503,479	117,330,551
Unearned income, unamortized premiums—net and deferred loan fees—net . . . . .	<u>(260,090)</u>	<u>(293,672)</u>	<u>(299,567)</u>	<u>(288,507)</u>	<u>(294,656)</u>
<b>Total<sup>(2)</sup> . . . . .</b>	<u><u>¥110,276,411</u></u>	<u><u>¥118,265,202</u></u>	<u><u>¥122,790,958</u></u>	<u><u>¥118,214,972</u></u>	<u><u>¥117,035,895</u></u>

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 ¥46,635 million, ¥88,927 million, ¥100,889 million, ¥185,940 million and ¥226,923 million at March 31, 2014, 2015, 2016, 2017 and 2018, respectively, which are carried at the lower of cost or fair value.



### *Maturities and Sensitivities of Loans to Changes in Interest Rates*

The following table shows the maturities of our loan portfolio at March 31, 2018:

	Maturity			Total
	One year or less	One to five years	Over five years	
	(in millions)			
<b>Domestic:</b>				
Manufacturing . . . . .	¥ 5,755,042	¥ 3,337,562	¥ 1,784,021	¥ 10,876,625
Construction . . . . .	433,696	265,187	82,379	781,262
Real estate . . . . .	2,700,520	4,028,924	5,034,325	11,763,769
Services . . . . .	1,218,534	1,028,196	442,356	2,689,086
Wholesale and retail . . . . .	5,307,471	2,002,391	679,218	7,989,080
Banks and other financial institutions . . . . .	3,073,154	1,232,652	512,558	4,818,364
Communication and information services . . . . .	435,506	683,481	432,546	1,551,533
Other industries . . . . .	5,628,641	2,007,878	1,302,772	8,939,291
Consumer . . . . .	2,366,078	3,210,899	10,710,355	16,287,332
Total Domestic . . . . .	<u>26,918,642</u>	<u>17,797,170</u>	<u>20,980,530</u>	<u>65,696,342</u>
<b>Foreign . . . . .</b>	<u>20,086,876</u>	<u>19,423,923</u>	<u>12,123,410</u>	<u>51,634,209</u>
<b>Total . . . . .</b>	<u>¥47,005,518</u>	<u>¥37,221,093</u>	<u>¥33,103,940</u>	<u>¥117,330,551</u>

The above loans due after one year which had predetermined interest rates and floating or adjustable interest rates at March 31, 2018 are shown below:

	Domestic	Foreign	Total
	(in millions)		
Predetermined rate . . . . .	¥16,307,036	¥ 4,293,127	¥20,600,163
Floating or adjustable rate . . . . .	22,470,664	27,254,206	49,724,870
<b>Total . . . . .</b>	<u>¥38,777,700</u>	<u>¥31,547,333</u>	<u>¥70,325,033</u>

### *Nonaccrual, Past Due and Restructured Loans*

We generally discontinue the accrual of interest income on loans when substantial doubt exists as to the full and timely collection of either principal or interest, 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.

Generally, accruing loans that are modified in a troubled debt restructuring (“TDR”) remain as accruing loans subsequent to the modification, and nonaccrual loans remain as nonaccrual. However, if a nonaccrual loan has been restructured as a TDR, the borrower is not delinquent under the restructured 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. 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.

The following table shows the distribution of our nonaccrual loans, restructured loans and accruing loans which are contractually past due 90 days or more as to principal or interest payments at March 31 of each of the five fiscal years ended March 31, 2018, based on the domicile and type of industry of the borrowers:

	At March 31,				
	2014	2015	2016	2017	2018
	(in millions)				
<b>Nonaccrual loans:</b>					
Domestic:					
Manufacturing .....	¥ 167,962	¥ 119,052	¥ 372,875	¥ 185,124	¥ 77,188
Construction .....	30,202	20,150	15,256	15,248	10,922
Real estate .....	154,766	85,625	66,210	50,142	37,853
Services .....	72,851	54,801	41,056	38,977	31,733
Wholesale and retail .....	212,356	158,454	132,858	131,545	108,639
Banks and other financial institutions .....	7,234	5,715	675	2,432	1,145
Communication and information services ...	24,956	23,204	20,270	18,711	13,815
Other industries .....	36,861	19,094	29,715	10,352	37,677
Consumer .....	227,476	199,665	174,106	161,680	149,491
Total domestic .....	<u>934,664</u>	<u>685,760</u>	<u>853,021</u>	<u>614,211</u>	<u>468,463</u>
Foreign:					
Governments and official institutions .....	43	40	132	—	—
Banks and other financial institutions .....	24,091	7,372	14,337	5,902	1,716
Commercial and industrial .....	87,808	144,609	264,163	301,685	215,601
Other .....	68,840	75,916	68,514	64,834	67,869
Total foreign .....	<u>180,782</u>	<u>227,937</u>	<u>347,146</u>	<u>372,421</u>	<u>285,186</u>
Total .....	<u>¥1,115,446</u>	<u>¥ 913,697</u>	<u>¥1,200,167</u>	<u>¥ 986,632</u>	<u>¥ 753,649</u>
<b>Restructured loans:</b>					
Domestic .....	¥ 718,027	¥ 735,348	¥ 459,294	¥ 682,041	¥ 557,368
Foreign .....	153,204	144,089	166,240	158,784	137,674
Total .....	<u>¥ 871,231</u>	<u>¥ 879,437</u>	<u>¥ 625,534</u>	<u>¥ 840,825</u>	<u>¥ 695,042</u>
<b>Accruing loans contractually past due 90 days or more:</b>					
Domestic .....	¥ 47,759	¥ 48,050	¥ 47,919	¥ 37,650	¥ 17,356
Foreign <sup>(1)</sup> .....	961	360	314	3,430	2,408
Total .....	<u>¥ 48,720</u>	<u>¥ 48,410</u>	<u>¥ 48,233</u>	<u>¥ 41,080</u>	<u>¥ 19,764</u>
<b>Total<sup>(2)</sup> .....</b>	<u><u>¥2,035,397</u></u>	<u><u>¥1,841,544</u></u>	<u><u>¥1,873,934</u></u>	<u><u>¥1,868,537</u></u>	<u><u>¥1,468,455</u></u>

Notes:

- (1) Foreign accruing loans contractually past due 90 days or more do not include ¥13,068 million, ¥5,666 million, ¥1,930 million, ¥1,514 million and ¥549 million of Federal Deposit Insurance Corporation (“FDIC”) covered loans held by MUFG Americas Holdings which are subject to the guidance on loans and debt securities acquired with deteriorated credit quality at March 31, 2014, 2015, 2016, 2017 and 2018, respectively.
- (2) The sum of nonaccrual loans, restructured loans and accruing loans contractually past due 90 days or more includes large groups of smaller-balance homogenous loans that have not been modified and are collectively evaluated for impairment, and accruing loans contractually past due 90 days or more. However, these loans are excluded from the impaired loan balances of ¥1,715,850 million and ¥1,331,123 million, at March 31, 2017 and 2018, respectively, disclosed in Note 4 to our consolidated financial statements included elsewhere in this Annual Report.

Gross interest income which would have been accrued at the original terms on domestic nonaccrual and restructured loans outstanding during the fiscal year ended March 31, 2018 was approximately ¥38.3 billion, of which ¥14.0 billion was included in the results of operations for the fiscal year. Gross interest income which would have been accrued at the original terms on foreign nonaccrual and restructured loans outstanding for the fiscal year ended March 31, 2018 was approximately ¥28.9 billion, of which ¥15.2 billion was included in the results of operations for the fiscal year.

### ***Potential Problem Loans***

We do not have potential problem loans where known information about possible credit problems of borrowers causes management to have serious doubts as to the borrowers' ability to comply with the present loan repayment terms that are not disclosed as nonaccrual loans, restructured loans and accruing loans past due 90 days or more.

### ***Foreign Loans Outstanding***

We had no cross-border outstandings to borrowers domiciled in a foreign country which in total exceeded 0.75% of our consolidated total assets at March 31, 2016, 2017 and 2018. Cross-border outstandings are defined, for this purpose, as loans (including accrued interest), acceptances, interest-earning deposits with other banks, other interest-earning investments and any other monetary assets denominated in Japanese yen or other non-local currencies. Material local currency loans outstanding which are neither hedged nor funded by local currency borrowings are included in cross-border outstandings.

Guarantees of outstandings to borrowers domiciled in other countries are considered to be outstandings of the guarantor. Loans made to, or deposits placed with, a branch of a foreign bank located outside the foreign bank's home country are considered to be loans to, or deposits with, the foreign bank. Outstandings of a country do not include principal or interest amounts which are supported by written, legally enforceable guarantees by guarantors of other countries or the amounts of outstandings to the extent that they are secured by tangible, liquid collateral held and realizable by MUFG Bank, Mitsubishi UFJ Trust and Banking and their subsidiaries outside the country in which they operate.

In addition to credit risk, cross-border outstandings are subject to country risk that as a result of political or economic conditions in a country, borrowers may be unable or unwilling to pay principal and interest according to contractual terms. Other risks related to cross-border outstandings include the possibility of insufficient foreign exchange and restrictions on its availability.

In order to manage country risk, we establish various risk management measures internally. Among other things, we regularly monitor economic conditions and other factors globally and assess country risk in each country where we have cross-border exposure. For the purposes of monitoring and controlling the amount of credit exposed to country risk, we set a country limit, the maximum amount of credit exposure for an individual country, in consideration of the level of country risk and our ability to bear such potential risk. We also determine our credit policy for each country in accordance with our country risk level and our business plan with regard to the country. The assessment of country risk, establishment of country limits, and determination of country credit policies are subject to review and approval by our senior management and are updated periodically.

### ***Loan Concentrations***

At March 31, 2018, there were no concentrations of loans to a single industry group of borrowers, as defined by the Bank of Japan industry segment loan classifications, which exceeded 10% of our consolidated total loans, except for loans in a category disclosed in the table of loans outstanding above.

### ***Credit Risk Management***

We have a credit rating system, under which borrowers and transactions are graded on a worldwide basis. We calculate probability of default by statistical means and manage our credit portfolio based on this credit rating system. For a detailed description of this system and other elements of our risk management structure, see "Item 11. Quantitative and Qualitative Disclosures about Credit, Market and Other Risk—Credit Risk Management."

#### IV. Summary of Loan Loss Experience

The following table shows an analysis of our loan loss experience by industry of the borrower for each of the five fiscal years ended March 31, 2018:

	Fiscal years ended March 31,				
	2014	2015	2016	2017	2018
	(in millions, except percentages)				
Allowance for credit losses at beginning of fiscal year	¥1,335,987	¥1,094,420	¥1,055,479	¥1,111,130	¥1,182,188
Provision for (reversal of) credit losses	(106,371)	86,998	231,862	253,688	(240,847)
Charge-offs:					
Domestic:					
Manufacturing	52,579	28,413	50,813	30,549	10,621
Construction	2,985	2,066	1,617	647	789
Real estate	17,124	8,571	1,857	2,318	1,305
Services	13,555	9,447	5,102	5,225	1,867
Wholesale and retail	39,218	37,477	32,910	17,402	20,979
Banks and other financial institutions	243	745	35	—	650
Communication and information services	5,061	3,668	1,173	2,903	1,254
Other industries	3,312	3,158	953	767	29,839
Consumer	27,888	27,148	15,847	22,877	26,786
Total domestic	161,965	120,693	110,307	82,688	94,090
Total foreign	29,133	56,468	88,464	131,070	138,019
Total	191,098	177,161	198,771	213,758	232,109
Recoveries:					
Domestic	27,105	22,083	22,357	21,954	22,261
Foreign	10,245	4,412	19,455	21,995	28,849
Total	37,350	26,495	41,812	43,949	51,110
Net charge-offs	153,748	150,666	156,959	169,809	180,999
Others <sup>(1)</sup>	18,552	24,727	(19,252)	(12,821)	3,782
Allowance for credit losses at end of fiscal year	¥1,094,420	¥1,055,479	¥1,111,130	¥1,182,188	¥ 764,124
Allowance for credit losses applicable to foreign activities:					
Balance at beginning of fiscal year	¥ 207,111	¥ 184,460	¥ 267,293	¥ 416,221	¥ 387,250
Balance at end of fiscal year	¥ 184,460	¥ 267,293	¥ 416,221	¥ 387,250	¥ 303,719
Provision for (reversal of) credit losses	¥ (21,727)	¥ 110,494	¥ 237,189	¥ 92,689	¥ 21,889
Ratio of net charge-offs during the fiscal year to average loans outstanding during the fiscal year	0.15%	0.13%	0.13%	0.14%	0.15%

Note:

(1) Others principally include losses (gains) from foreign exchange translation.

The following table shows an allocation of our allowance for credit losses at March 31 for each of the five fiscal years ended March 31, 2018:

	At March 31,											
	2014		2015		2016		2017		2018			
	Amount	% of loans in each category to total loans	Amount	% of loans in each category to total loans	Amount	% of loans in each category to total loans	Amount	% of loans in each category to total loans	Amount	% of loans in each category to total loans	Amount	% of loans in each category to total loans
	(in millions, except percentages)											
Domestic:												
Manufacturing . . . . .	¥ 239,461	10.44%	¥ 240,013	9.87%	¥ 321,412	9.88%	¥ 409,018	9.95%	¥179,799	9.27%		
Construction . . . . .	25,447	0.89	17,318	0.82	9,813	0.74	12,097	0.69	7,934	0.67		
Real estate . . . . .	81,685	9.94	70,423	9.20	31,960	9.08	33,579	9.81	21,062	10.03		
Services . . . . .	69,511	2.44	51,760	2.26	34,430	2.03	42,023	2.15	29,518	2.29		
Wholesale and retail . . . . .	207,281	7.67	164,729	7.04	116,450	6.41	138,119	6.73	99,985	6.81		
Banks and other financial institutions . . . . .	21,110	3.61	30,597	3.65	12,840	4.18	14,732	4.41	7,636	4.11		
Communication and information services . . . . .	20,196	1.31	20,130	1.29	14,371	1.23	13,902	1.38	17,300	1.32		
Other industries . . . . .	59,770	12.20	64,443	10.69	48,870	11.97	25,156	7.50	13,543	7.62		
Consumer . . . . .	177,384	15.30	126,362	14.11	102,351	13.33	106,312	13.92	80,238	13.88		
Foreign:												
Governments and official institutions . . . . .	28,599	0.73	25,136	0.89	22,950	0.91	25,098	0.88	751	0.78		
Banks and other financial institutions . . . . .	26,921	8.86	18,325	10.10	24,471	11.09	20,717	11.68	10,452	10.95		
Commercial and industrial . . . . .	119,204	22.20	176,823	24.96	307,050	24.42	263,429	25.55	197,653	26.07		
Other . . . . .	9,736	4.41	47,009	5.12	61,750	4.73	78,006	5.35	94,863	6.20		
Unallocated . . . . .	8,115	—	2,411	—	2,412	—	—	—	3,390	—		
<b>Total</b> . . . . .	<b>¥1,094,420</b>	<b>100.00%</b>	<b>¥1,055,479</b>	<b>100.00%</b>	<b>¥1,111,130</b>	<b>100.00%</b>	<b>¥1,182,188</b>	<b>100.00%</b>	<b>¥764,124</b>	<b>100.00%</b>		
Allowance as a percentage of loans . . . . .	0.99%		0.89%		0.90%		1.00%		0.65%			
Allowance as a percentage of nonaccrual loans, restructured loans and accruing loans contractually past due 90 days or more . . . . .	53.77%		57.31%		59.29%		63.27%		52.04%			

While the allowance for credit losses contains amounts allocated to components of specifically identified loans as well as a group on a portfolio of loans, the allowance for credit losses covers the credit losses of the entire loan portfolio and the allocations shown above are not intended to be restricted to the specific loan category. Accordingly, as the evaluation of credit risk changes, allocations of the allowance will be adjusted to reflect current conditions and various other factors.

## V. Deposits

The following table shows the average amount of, and the average rate paid on, the following deposit categories for the fiscal years ended March 31, 2016, 2017 and 2018:

	Fiscal years ended March 31,					
	2016		2017		2018	
	Average amount	Average rate	Average amount	Average rate	Average amount	Average rate
	(in millions, except percentages)					
Domestic offices:						
Non-interest-bearing demand deposits	¥ 16,771,050	—%	¥ 20,034,315	—%	¥ 22,701,413	—%
Interest-bearing demand deposits	62,669,203	0.03	69,961,568	0.02	76,104,436	0.03
Deposits at notice	1,204,182	0.02	1,704,160	0.00	1,773,780	0.00
Time deposits	40,389,469	0.12	41,782,117	0.08	41,501,996	0.08
Certificates of deposit	6,133,456	0.08	3,708,639	0.02	3,760,848	0.01
Foreign offices:						
Non-interest-bearing demand deposits	5,711,170	—	5,636,431	—	5,477,038	—
Interest-bearing deposits, principally time deposits and certificates of deposit	41,066,208	0.68	38,411,021	0.79	41,421,717	1.10
<b>Total</b>	<u>¥173,944,738</u>		<u>¥181,238,251</u>		<u>¥192,741,228</u>	

Deposits at notice represent interest-bearing demand deposits which require the depositor to give two or more days notice in advance of withdrawal.

The average amounts of total deposits by foreign depositors included in domestic offices for the fiscal years ended March 31, 2016, 2017 and 2018 were ¥799,134 million, ¥886,274 million and ¥882,772 million, respectively.

At March 31, 2018, the balances and remaining maturities of time deposits and certificates of deposit (“CDs”) issued by domestic offices in amounts of ¥10 million (approximately U.S.\$94 thousand at the Federal Reserve Bank of New York’s noon buying rate on March 30, 2018) or more and total foreign deposits issued in amounts of U.S.\$100,000 or more are shown in the following table:

	Time deposits	Certificates of deposit	Total
	(in millions)		
Domestic offices:			
Three months or less	¥ 6,159,725	¥2,868,180	¥ 9,027,905
Over three months through six months	4,642,366	278,375	4,920,741
Over six months through twelve months	9,461,413	156,461	9,617,874
Over twelve months	3,712,550	102,850	3,815,400
<b>Total</b>	<u>¥23,976,054</u>	<u>¥3,405,866</u>	<u>¥27,381,920</u>
Foreign offices			<u>¥22,386,612</u>

## VI Short-Term Borrowings

The following table shows certain additional information with respect to our short-term borrowings for the fiscal years ended March 31, 2016, 2017 and 2018:

	Fiscal years ended March 31,		
	2016	2017	2018
(in millions, except percentages)			
Call money, funds purchased, and payables under repurchase agreements and securities lending transactions <sup>(1)</sup> :			
Average balance outstanding during the fiscal year . . . . .	¥35,683,702	¥32,789,499	¥28,052,275
Maximum balance outstanding at any month-end during the fiscal year . . . . .	39,344,453	32,927,067	28,757,355
Balance at end of fiscal year . . . . .	29,647,941	25,217,396	28,757,355
Weighted average interest rate during the fiscal year . . . . .	0.19%	0.31%	0.61%
Weighted average interest rate on balance at end of fiscal year . . . . .	0.24%	0.27%	0.61%
Due to trust account:			
Average balance outstanding during the fiscal year . . . . .	¥ 1,162,326	¥ 3,122,190	¥ 3,065,511
Maximum balance outstanding at any month-end during the fiscal year . . . . .	6,338,154	4,099,102	3,386,158
Balance at end of fiscal year . . . . .	6,338,154	3,335,155	3,386,158
Weighted average interest rate during the fiscal year . . . . .	0.04%	0.01%	0.00%
Weighted average interest rate on balance at end of fiscal year . . . . .	0.02%	0.00%	0.00%
Other short-term borrowings:			
Average balance outstanding during the fiscal year . . . . .	¥11,030,368	¥ 6,527,129	¥ 7,491,384
Maximum balance outstanding at any month-end during the fiscal year . . . . .	11,875,134	7,969,521	8,705,257
Balance at end of fiscal year . . . . .	9,357,728	7,969,521	6,881,124
Weighted average interest rate during the fiscal year . . . . .	0.23%	0.58%	0.92%
Weighted average interest rate on balance at end of fiscal year . . . . .	0.36%	0.66%	1.29%

Note:

(1) The table above reflects changes in presentation that were made to long-term repurchase agreements for the fiscal years ended March 31, 2016 and 2017. For further information, see Note 1 to our consolidated financial statements included elsewhere in this Annual Report.

## CONSOLIDATED FINANCIAL STATEMENTS

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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and the Shareholders of  
Mitsubishi UFJ Financial Group, Inc.  
(Kabushiki Kaisha Mitsubishi UFJ Financial Group)

### Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Mitsubishi UFJ Financial Group, Inc. (Kabushiki Kaisha Mitsubishi UFJ Financial Group) (“MUFG”) and subsidiaries (together, the “MUFG Group”) as of March 31, 2017 and 2018, the related consolidated statements of income, comprehensive income, equity and cash flows for each of the three years in the period ended March 31, 2018, and the related notes (collectively referred to as the “financial statements”) (all expressed in Japanese Yen). In our opinion, the financial statements present fairly, in all material respects, the financial position of the MUFG Group as of March 31, 2017 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended March 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the MUFG Group’s internal control over financial reporting as of March 31, 2018, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated July 12, 2018, expressed an unqualified opinion on the MUFG Group’s internal control over financial reporting.

### Basis for Opinion

These financial statements are the responsibility of the MUFG Group’s management. Our responsibility is to express an opinion on the MUFG Group’s financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the MUFG Group in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Deloitte Touche Tohmatsu LLC

Tokyo, Japan  
July 12, 2018

We have served as the MUFG Group’s auditor since 1976.

**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**AS OF MARCH 31, 2017 AND 2018**

(in millions)	2017	2018
<b>ASSETS</b>		
Cash and due from banks (Note 8) . . . . .	¥ 25,682,741	¥ 32,648,387
Interest-earning deposits in other banks (Notes 8 and 32) . . . . .	38,327,029	43,209,662
Cash, due from banks and interest-earning deposits in other banks . . . . .	64,009,770	75,858,049
Call loans and funds sold . . . . .	704,237	896,360
Receivables under resale agreements (Notes 15 and 32) . . . . .	8,188,146	5,725,921
Receivables under securities borrowing transactions (Notes 15 and 32) . . . . .	11,002,724	9,268,756
Trading account assets (including assets pledged that secured parties are permitted to sell or repledge of ¥6,175,242 and ¥6,558,587 in 2017 and 2018) (including ¥14,957,135 and ¥15,007,706 measured at fair value under the fair value option in 2017 and 2018) (Notes 8, 15, 24 and 32) . . . . .	41,320,049	35,186,689
Investment securities (Notes 3, 8 and 32):		
Available-for-sale securities—carried at fair value (including assets pledged that secured parties are permitted to sell or repledge of ¥11,133,433 and ¥11,360,089 in 2017 and 2018) . . . . .	39,090,099	39,504,698
Held-to-maturity securities—carried at amortized cost (including assets pledged that secured parties are permitted to sell or repledge of ¥446,146 and ¥414,857 in 2017 and 2018) (fair value of ¥3,637,751 and ¥3,620,672 in 2017 and 2018) . . . . .	3,587,321	3,582,941
Other investment securities . . . . .	556,161	566,610
Total investment securities . . . . .	<u>43,233,581</u>	<u>43,654,249</u>
Loans, net of unearned income, unamortized premiums and deferred loan fees (including assets pledged that secured parties are permitted to sell or repledge of ¥1,010,730 and ¥898,186 in 2017 and 2018) (Notes 4 and 8) . . . . .	118,214,972	117,035,895
Allowance for credit losses (Note 4) . . . . .	<u>(1,182,188)</u>	<u>(764,124)</u>
Net loans . . . . .	<u>117,032,784</u>	<u>116,271,771</u>
Premises and equipment—net (Note 5) . . . . .	994,271	1,013,588
Accrued interest . . . . .	281,752	324,624
Customers' acceptance liability . . . . .	156,208	183,084
Intangible assets—net (Notes 2 and 6) . . . . .	1,020,359	1,011,119
Goodwill (Notes 2 and 6) . . . . .	450,143	441,334
Deferred tax assets (Notes 7 and 14) . . . . .	76,452	68,704
Other assets (Notes 8, 13, 14 and 32) . . . . .	8,714,543	10,666,064
<b>Total assets</b> . . . . .	<u>¥297,185,019</u>	<u>¥300,570,312</u>
<b>Assets of consolidated VIEs included in total assets above that can be used only to settle obligations of consolidated VIEs (Note 26)</b>		
Cash and due from banks . . . . .	¥ 186	¥ 130
Interest-earning deposits in other banks . . . . .	12,048	23,161
Trading account assets . . . . .	539,809	477,583
Investment securities . . . . .	1,637,587	1,952,683
Loans . . . . .	12,713,190	16,550,107
All other assets . . . . .	271,041	187,329
<b>Total assets of consolidated VIEs</b> . . . . .	<u>¥ 15,173,861</u>	<u>¥ 19,190,993</u>

**mitsubishi ufj financial group, inc. and subsidiaries**  
**CONSOLIDATED BALANCE SHEETS—(Continued)**  
**AS OF MARCH 31, 2017 AND 2018**

(in millions, except shares)	2017	2018
<b>LIABILITIES AND EQUITY</b>		
Deposits (Notes 8 and 9):		
Domestic offices:		
Non-interest-bearing	¥ 23,098,886	¥ 24,406,759
Interest-bearing	121,741,545	125,195,310
Overseas offices:		
Non-interest-bearing	6,387,219	5,455,677
Interest-bearing	39,173,973	40,616,847
Total deposits	<u>190,401,623</u>	<u>195,674,593</u>
Call money and funds purchased (Notes 8 and 10)	1,974,977	2,452,543
Payables under repurchase agreements (Notes 8, 15 and 16)	17,693,415	18,134,594
Payables under securities lending transactions (Notes 8, 15 and 16)	5,549,004	8,170,218
Due to trust account (Note 11)	3,335,155	3,386,158
Other short-term borrowings (including ¥112,424 and ¥264,783 measured at fair value under the fair value option in 2017 and 2018) (Notes 8, 12 and 32)	7,969,521	6,881,124
Trading account liabilities (Notes 15, 24 and 32)	18,790,133	12,222,331
Obligations to return securities received as collateral (Notes 15, 16 and 32)	3,516,232	3,176,962
Bank acceptances outstanding	156,208	183,084
Accrued interest	147,351	165,921
Long-term debt (including ¥377,423 and ¥333,985 measured at fair value under the fair value option in 2017 and 2018) (Notes 8, 12 and 32)	26,131,527	27,069,556
Other liabilities (Notes 1, 7, 8, 13, 14 and 27)	6,755,165	7,407,413
Total liabilities	<u>282,420,311</u>	<u>284,924,497</u>
Commitments and contingent liabilities (Notes 25 and 27)		
Mitsubishi UFJ Financial Group shareholders' equity:		
Capital stock (Notes 17 and 18)—common stock authorized, 33,000,000,000 shares; common stock issued, 14,168,853,820 shares and 13,900,028,020 shares in 2017 and 2018, with no stated value	2,090,270	2,090,270
Capital surplus (Note 18)	5,956,644	5,740,165
Retained earnings (Notes 19 and 36):		
Appropriated for legal reserve	239,571	239,571
Unappropriated retained earnings	3,931,612	4,945,733
Accumulated other comprehensive income, net of taxes (Note 20)	2,281,423	2,477,315
Treasury stock, at cost—739,564,216 common shares and 737,772,882 common shares in 2017 and 2018	(513,988)	(522,872)
Total Mitsubishi UFJ Financial Group shareholders' equity	<u>13,985,532</u>	<u>14,970,182</u>
Noncontrolling interests (Note 21)	779,176	675,633
Total equity	<u>14,764,708</u>	<u>15,645,815</u>
<b>Total liabilities and equity</b>	<u>¥297,185,019</u>	<u>¥300,570,312</u>
<b>Liabilities of consolidated VIEs for which creditors or beneficial interest holders do not have recourse to the general credit of Mitsubishi UFJ Financial Group (Note 26)</b>		
Other short-term borrowings	¥ 22,044	¥ 28,451
Long-term debt	547,971	510,948
All other liabilities	49,447	84,040
<b>Total liabilities of consolidated VIEs</b>	<u>¥ 619,462</u>	<u>¥ 623,439</u>

See the accompanying notes to Consolidated Financial Statements.

**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**FOR THE FISCAL YEARS ENDED MARCH 31, 2016, 2017 AND 2018**

(in millions)	2016	2017	2018
<b>Interest income:</b>			
Loans, including fees (Note 4) . . . . .	¥2,054,338	¥2,023,649	¥2,271,219
Deposits in other banks . . . . .	82,654	78,735	126,608
Investment securities:			
Interest . . . . .	254,214	235,638	198,715
Dividends . . . . .	133,828	135,506	145,186
Trading account assets . . . . .	422,080	455,860	432,595
Call loans and funds sold . . . . .	10,450	11,023	10,808
Receivables under resale agreements and securities borrowing transactions . . . . .	48,174	50,356	73,885
Total . . . . .	<u>3,005,738</u>	<u>2,990,767</u>	<u>3,259,016</u>
<b>Interest expense:</b>			
Deposits . . . . .	350,335	347,430	514,868
Call money and funds purchased . . . . .	8,802	1,791	5,248
Payables under repurchase agreements and securities lending transactions . . . . .	58,497	100,796	165,512
Due to trust account . . . . .	505	207	109
Other short-term borrowings and trading account liabilities . . . . .	54,572	61,137	93,535
Long-term debt . . . . .	271,653	258,278	249,483
Total . . . . .	<u>744,364</u>	<u>769,639</u>	<u>1,028,755</u>
<b>Net interest income</b> . . . . .	2,261,374	2,221,128	2,230,261
<b>Provision for (reversal of) credit losses</b> (Note 4) . . . . .	231,862	253,688	(240,847)
<b>Net interest income after provision for (reversal of) credit losses</b> . . . . .	<u>2,029,512</u>	<u>1,967,440</u>	<u>2,471,108</u>
<b>Non-interest income:</b>			
Fees and commissions income (Note 28) . . . . .	1,475,872	1,414,893	1,462,792
Foreign exchange gains (losses)—net (Note 29) . . . . .	192,086	(134,885)	(49,561)
Trading account profits (losses)—net (Notes 29 and 32) . . . . .	276,654	(639,184)	(73,114)
Investment securities gains—net (Note 3) <sup>(1)</sup> . . . . .	232,259	281,158	286,903
Equity in earnings of equity method investees—net (Note 14) . . . . .	176,857	197,821	227,984
Gains on sales of loans (Note 4) . . . . .	12,293	13,286	16,109
Other non-interest income (Note 21) . . . . .	41,669	63,617	63,978
Total . . . . .	<u>2,407,690</u>	<u>1,196,706</u>	<u>1,935,091</u>
<b>Non-interest expense:</b>			
Salaries and employee benefits (Note 13) . . . . .	1,158,896	1,096,797	1,099,493
Occupancy expenses—net (Notes 5 and 27) . . . . .	182,782	176,819	179,100
Fees and commissions expenses . . . . .	285,387	273,675	297,847
Outsourcing expenses, including data processing . . . . .	244,734	258,345	276,236
Depreciation of premises and equipment (Note 5) . . . . .	99,680	99,774	96,180
Amortization of intangible assets (Note 6) . . . . .	237,342	227,942	234,376
Impairment of intangible assets (Note 6) . . . . .	117,726	5,803	21,900
Insurance premiums, including deposit insurance . . . . .	91,854	91,881	91,847
Communications . . . . .	58,314	55,274	58,067
Taxes and public charges . . . . .	93,734	94,047	90,210
Impairment of goodwill (Note 6) . . . . .	333,719	6,638	—
Provision for (reversal of) off-balance sheet credit instruments . . . . .	(185)	106,556	(96,054)
Other non-interest expenses (Notes 4, 5, 21 and 27) . . . . .	370,549	398,052	395,178
Total . . . . .	<u>3,274,532</u>	<u>2,891,603</u>	<u>2,744,380</u>

**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME—(Continued)**  
**FOR THE FISCAL YEARS ENDED MARCH 31, 2016, 2017 AND 2018**

(in millions, except per share amount)	2016	2017	2018
<b>Income before income tax expense</b> . . . . .	1,162,670	272,543	1,661,819
<b>Income tax expense</b> (Note 7) . . . . .	369,432	94,453	407,823
<b>Net income before attribution of noncontrolling interests</b> . . . . .	793,238	178,090	1,253,996
Net income (loss) attributable to noncontrolling interests (Note 21) . . . . .	(9,094)	(24,590)	25,836
<b>Net income attributable to Mitsubishi UFJ Financial Group</b> . . . . .	¥ 802,332	¥202,680	¥1,228,160
<b>Earnings applicable to common shareholders of Mitsubishi UFJ Financial Group</b> . . . . .	¥ 802,332	¥202,680	¥1,228,160
<b>Earnings per common share applicable to common shareholders of Mitsubishi UFJ Financial Group</b> (Notes 19 and 23):			
Basic earnings per common share—Earnings applicable to common shareholders of Mitsubishi UFJ Financial Group . . . . .	¥ 57.78	¥ 14.93	¥ 92.40
Diluted earnings per common share—Earnings applicable to common shareholders of Mitsubishi UFJ Financial Group . . . . .	57.51	14.68	92.10
Cash dividend per common share . . . . .	18.00	18.00	18.00
Weighted average common shares outstanding . . . . .	13,886	13,574	13,292
Weighted average diluted common shares outstanding . . . . .	13,903	13,585	13,293

(1) The following credit losses are included in Investment securities gains—net:

(in millions)	2016	2017	2018
Decline in fair value . . . . .	¥ 937	¥ 706	¥ 99
Other comprehensive income—net . . . . .	26	35	15
<b>Total credit losses</b> . . . . .	¥ 963	¥ 741	¥ 114

See the accompanying notes to Consolidated Financial Statements.

**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE FISCAL YEARS ENDED MARCH 31, 2016, 2017 AND 2018**

(in millions)	2016	2017	2018
<b>Net income before attribution of noncontrolling interests</b> . . . . .	¥ 793,238	¥ 178,090	¥1,253,996
<b>Other comprehensive income (loss), net of tax</b> (Note 20):			
Net unrealized gains (losses) on investment securities . . . . .	(249,781)	12,961	230,308
Net debt valuation adjustments (Note 14) . . . . .	3,505	(8,552)	(2,178)
Net unrealized gains (losses) on derivatives qualifying for cash flow hedges . . . . .	1,808	(13,245)	(7,025)
Defined benefit plans (Note 13) . . . . .	(131,493)	103,572	109,838
Foreign currency translation adjustments . . . . .	(356,677)	(143,210)	(104,778)
Total . . . . .	<u>(732,638)</u>	<u>(48,474)</u>	<u>226,165</u>
<b>Comprehensive income</b> . . . . .	60,600	129,616	1,480,161
Net income (loss) attributable to noncontrolling interests . . . . .	(9,094)	(24,590)	25,836
Other comprehensive income (loss) attributable to noncontrolling interests . . . . .	<u>27,773</u>	<u>(24,765)</u>	<u>1,320</u>
<b>Comprehensive income attributable to Mitsubishi UFJ Financial Group</b> . . . . .	<u>¥ 41,921</u>	<u>¥ 178,971</u>	<u>¥1,453,005</u>

See the accompanying notes to Consolidated Financial Statements.

**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF EQUITY**  
**FOR THE FISCAL YEARS ENDED MARCH 31, 2016, 2017 AND 2018**

(in millions, except per share amount)	2016	2017	2018
<b>Capital stock</b> (Notes 17 and 18):			
Balance at beginning of fiscal year	¥2,090,270	¥2,090,270	¥2,090,270
Balance at end of fiscal year	<u>¥2,090,270</u>	<u>¥2,090,270</u>	<u>¥2,090,270</u>
<b>Capital surplus</b> (Note 18):			
Balance at beginning of fiscal year	¥5,959,626	¥5,958,929	¥5,956,644
Stock-based compensation (Note 33)	1,002	(1,856)	315
Purchase of shares of Mitsubishi UFJ NICOS from noncontrolling interest shareholder (Note 2)	—	—	(34,751)
Retirement of common stock	—	—	(190,054)
Other—net	(1,699)	(429)	8,011
Balance at end of fiscal year	<u>¥5,958,929</u>	<u>¥5,956,644</u>	<u>¥5,740,165</u>
<b>Retained earnings appropriated for legal reserve</b> (Note 19):			
Balance at beginning of fiscal year	¥ 239,571	¥ 239,571	¥ 239,571
Balance at end of fiscal year	<u>¥ 239,571</u>	<u>¥ 239,571</u>	<u>¥ 239,571</u>
<b>Unappropriated retained earnings</b> (Note 19):			
Balance at beginning of fiscal year	¥3,424,864	¥3,980,257	¥3,931,612
Net income attributable to Mitsubishi UFJ Financial Group	802,332	202,680	1,228,160
Cash dividends:			
Common stock—¥18.00 per share in 2016, 2017 and 2018	(251,342)	(246,338)	(240,497)
Losses on sales of shares of treasury stock	(1,182)	(1,114)	(8)
Effect of adopting new guidance by a foreign affiliated company	5,585 <sup>(1)</sup>	—	(2,605) <sup>(2)</sup>
Effect of adopting new guidance on consolidation of certain variable interest entities (Note 26)	—	(3,873)	—
Effect of adopting new guidance on reclassification of certain tax effects (Note 1)	—	—	29,071
Balance at end of fiscal year (Note 36)	<u>¥3,980,257</u>	<u>¥3,931,612</u>	<u>¥4,945,733</u>



**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF EQUITY—(Continued)**  
**FOR THE FISCAL YEARS ENDED MARCH 31, 2016, 2017 AND 2018**

(in millions)	2016	2017	2018
<b>Accumulated other comprehensive income, net of taxes:</b>			
Balance at beginning of fiscal year . . . . .	¥ 3,067,255	¥ 2,301,259	¥ 2,281,423
Net change during the fiscal year . . . . .	(760,411)	(23,709)	224,845
Effect of adopting new guidance by a foreign affiliated company . . .	(5,585) <sup>(1)</sup>	—	118
Effect of adopting new guidance on consolidation of certain variable interest entities (Note 26) . . . . .	—	3,873	—
Effect of adopting new guidance on reclassification of certain tax effects (Note 1) . . . . .	—	—	(29,071)
Balance at end of fiscal year . . . . .	<u>¥ 2,301,259</u>	<u>¥ 2,281,423</u>	<u>¥ 2,477,315</u>
<b>Treasury stock, at cost:</b>			
Balance at beginning of fiscal year . . . . .	¥ (102,521)	¥ (299,661)	¥ (513,988)
Purchases of shares of treasury stock (Notes 17 and 18) . . . . .	(200,053)	(217,803)	(201,102)
Sales of shares of treasury stock . . . . .	2,829	3,491	2,098
Retirement of common stock . . . . .	—	—	190,054
Net decrease (increase) resulting from changes in interests in consolidated subsidiaries, consolidated variable interest entities, and affiliated companies . . . . .	84	(15)	66
Balance at end of fiscal year . . . . .	<u>¥ (299,661)</u>	<u>¥ (513,988)</u>	<u>¥ (522,872)</u>
<b>Total Mitsubishi UFJ Financial Group shareholders' equity . . . . .</b>	<u>¥14,270,625</u>	<u>¥13,985,532</u>	<u>¥14,970,182</u>
<b>Noncontrolling interests:</b>			
Balance at beginning of fiscal year . . . . .	¥ 602,276	¥ 577,642	¥ 779,176
Initial subscriptions of noncontrolling interests (Note 2) . . . . .	28,246	112,644	48,828
Transactions between the consolidated subsidiaries and the related noncontrolling interest shareholders . . . . .	8,658	113,878	(120,216)
Decrease in noncontrolling interests related to deconsolidation of subsidiaries . . . . .	(54,238)	(563,918)	(22,556)
Decrease in noncontrolling interests related to disposition of subsidiaries . . . . .	(120)	(1,026)	—
Purchase of shares of Mitsubishi UFJ NICOS from noncontrolling interest shareholder (Note 2) . . . . .	—	—	(15,390)
Net income (loss) attributable to noncontrolling interests . . . . .	(9,094)	(24,590)	25,836
Dividends paid to noncontrolling interests . . . . .	(30,255)	(6,842)	(21,675)
Other comprehensive income (loss), net of taxes . . . . .	27,773	(24,765)	1,320
Effect of adopting new guidance on consolidation of certain variable interest entities (Note 26) . . . . .	—	595,982	—
Other—net . . . . .	4,396	171	310
Balance at end of fiscal year . . . . .	<u>¥ 577,642</u>	<u>¥ 779,176</u>	<u>¥ 675,633</u>
<b>Total equity . . . . .</b>	<u>¥14,848,267</u>	<u>¥14,764,708</u>	<u>¥15,645,815</u>

Notes:

- (1) The effect resulted from the early adoption of certain provisions of new accounting guidance on “Recognition and Measurement of Financial Assets and Financial Liabilities”. See Note 14 for more information.
- (2) The effect mainly resulted from the adoption of new accounting guidance on “Targeted Improvements to Accounting for Hedging Activities”. See Note 14 for more information.

See the accompanying notes to Consolidated Financial Statements.

**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE FISCAL YEARS ENDED MARCH 31, 2016, 2017 AND 2018**

(in millions)	2016 <sup>(1)</sup>	2017 <sup>(1)</sup>	2018
<b>Cash flows from operating activities:</b>			
Net income before attribution of noncontrolling interests	¥ 793,238	¥ 178,090	¥ 1,253,996
Adjustments to reconcile net income before attribution of noncontrolling interests to net cash provided by operating activities:			
Depreciation and amortization (Notes 5 and 6)	337,022	327,716	330,556
Impairment of goodwill (Note 6)	333,719	6,638	—
Impairment of intangible assets (Note 6)	117,726	5,803	21,900
Provision for (reversal of) credit losses (Note 4)	231,862	253,688	(240,847)
Employee benefit cost (income) for severance indemnities and pension plans (Note 13)	17,441	20,274	(7,955)
Investment securities gains—net	(232,259)	(281,158)	(286,903)
Amortization of premiums on investment securities	133,534	95,091	118,863
Changes in financial instruments measured at fair value under fair value option, excluding trading account securities—net (Note 32)	(13,867)	103,845	(13,456)
Foreign exchange gains—net	(358,858)	(136,976)	(208,398)
Equity in earnings of equity method investees—net (Note 2)	(176,857)	(197,821)	(227,984)
Provision (benefit) for deferred income tax expense	(60,945)	(212,368)	120,595
Decrease (increase) in trading account assets, excluding foreign exchange contracts	(1,718,145)	42,609	5,653,904
Increase (decrease) in trading account liabilities, excluding foreign exchange contracts	4,351,881	521,093	(6,433,948)
Increase (decrease) in unearned income, unamortized premiums and deferred loan fees	18,999	(20,476)	(35,857)
Decrease (increase) in accrued interest receivable and other receivables	(43,962)	49,783	(172,599)
Increase in accrued interest payable and other payables	104,487	66,419	153,365
Net increase (decrease) in accrued income taxes and decrease (increase) in income tax receivables	9,856	(81,083)	1,212
Increase (decrease) in allowance for repayment of excess interest	10,933	(7,790)	(15,658)
Net decrease (increase) in collateral for derivative transactions	539,852	(276,476)	259,287
Increase in cash collateral for the use of Bank of Japan's settlement infrastructure	—	(207,498)	(643,568)
Other—net	(219,462)	441,026	(190,341)
Net cash provided by (used in) operating activities	<u>4,176,195</u>	<u>690,429</u>	<u>(563,836)</u>
<b>Cash flows from investing activities:</b>			
Proceeds from sales of Available-for-sale securities (including proceeds from securities under the fair value option) (Note 3)	59,737,908	39,097,727	33,359,364
Proceeds from maturities of Available-for-sale securities (including proceeds from securities under the fair value option) (Note 3)	29,412,596	26,685,532	40,011,886
Purchases of Available-for-sale securities (including purchases of securities under the fair value option) (Note 3)	(88,088,620)	(56,306,531)	(73,770,878)
Proceeds from maturities of Held-to-maturity securities	949,592	810,838	1,085,603
Purchases of Held-to-maturity securities	(817,350)	(632,116)	(1,156,122)
Proceeds from sales and redemption of Other investment securities	108,615	18,539	12,807
Purchases of Other investment securities	(88,001)	(10,242)	(19,619)
Acquisition of Alternative Fund Services, a business of TB, net of cash acquired (Note 2)	221,169	—	—
Acquisition of MUFG Capital Analytics LLC (formerly Capital Analytics II LLC), a subsidiary of TB, net of cash acquired (Note 2)	—	(4,154)	—
Purchase of common stock and preferred stock investment in Security Bank Corporation, an equity method investee of BK (Note 2)	—	(91,993)	—
Acquisition of MUFG Investor Services (US) (formerly Rydex Fund Services, LLC), a subsidiary of TB, net of cash acquired (Note 2)	—	(17,175)	—
Purchase of common stock in Hitachi Capital Corporation, an equity method investee of MUFG (Note 2)	—	(91,877)	—
Acquisition of Hattha Kaksekar Limited, a subsidiary of Krungsri, net of cash acquired (Note 2)	—	(556)	—
Net decrease (increase) in loans	(8,118,108)	2,514,824	(169,478)
Net decrease (increase) in call loans, funds sold, and receivables under resale agreements and securities borrowing transactions	(1,928,024)	(6,971,016)	4,187,093
Proceeds from sales of premises and equipment	37,828	32,512	12,211
Capital expenditures for premises and equipment	(140,651)	(116,786)	(159,003)
Purchases of intangible assets	(221,264)	(237,253)	(239,755)
Proceeds from sales and dispositions of investments in equity method investees	35,666	66,729	39,710
Proceeds from sales of consolidated VIEs and subsidiaries—net	207,229	244,476	122,962
Other—net	(77,313)	(151,078)	(72,765)
Net cash provided by (used in) investing activities	<u>(8,768,728)</u>	<u>4,840,400</u>	<u>3,244,016</u>

**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS—(Continued)**  
**FOR THE FISCAL YEARS ENDED MARCH 31, 2016, 2017 AND 2018**

(in millions)	2016	2017	2018
<b>Cash flows from financing activities:</b>			
Net increase in deposits	12,400,034	10,902,923	5,720,011
Net increase (decrease) in call money, funds purchased, and payables under repurchase agreements and securities lending transactions	(2,716,018)	(2,790,342)	3,963,120
Net increase (decrease) in due to trust account	4,727,162	(3,002,999)	51,003
Net decrease in other short-term borrowings	(1,955,867)	(1,221,838)	(957,705)
Proceeds from issuance of long-term debt	5,919,214	12,265,629	6,671,031
Repayments of long-term debt	(3,726,410)	(6,641,722)	(5,485,894)
Proceeds from sales of treasury stock	15	256	1,316
Payments for acquisition of treasury stock (Note 18)	(200,053)	(217,803)	(201,102)
Payments for acquisition of shares of certain subsidiaries from noncontrolling interest shareholders	(4,398)	(1,612)	(318)
Payments for acquisition of shares of Mitsubishi UFJ NICOS from noncontrolling interest shareholders (Note 2)	—	—	(50,000)
Dividends paid	(251,448)	(246,345)	(240,514)
Dividends paid by subsidiaries to noncontrolling interests	(30,255)	(6,842)	(21,675)
Other—net	6,703	105,995	(87,067)
Net cash provided by financing activities	<u>14,168,679</u>	<u>9,145,300</u>	<u>9,362,206</u>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<u>(625,002)</u>	<u>(334,793)</u>	<u>(188,149)</u>
<b>Net increase in cash and cash equivalents</b>	<u>8,951,144</u>	<u>14,341,336</u>	<u>11,854,237</u>
<b>Cash and cash equivalents at beginning of fiscal year</b>	40,726,739	49,677,883	64,019,219
Cash and cash equivalents:			
Cash, due from banks and interest-earning deposits in other banks	49,673,901	64,009,770	75,858,049
Restricted cash included in other assets	3,982	9,449	15,407
<b>Cash and cash equivalents at end of fiscal year</b>	<u>¥49,677,883</u>	<u>¥64,019,219</u>	<u>¥75,873,456</u>
<b>Supplemental disclosure of cash flow information:</b>			
<b>Cash paid during the fiscal year for:</b>			
Interest	¥ 755,739	¥ 779,239	¥ 1,040,337
Income taxes, net of refunds	406,287	373,887	265,225
<b>Non-cash investing and financing activities:</b>			
Assets acquired under capital lease arrangements	4,831	7,065	7,111
Acquisition of Alternative Fund Services, a business of TB (Note 2):			
Fair value of assets acquired, excluding cash and cash equivalents	121,242	—	—
Fair value of liabilities assumed	342,411	—	—
Adoption of new guidance on consolidation of certain variable interest entities (Note 26):			
Increase in total assets, excluding cash and cash equivalents	—	598,236	—
Increase in total liabilities	—	32,254	—
Increase in noncontrolling interests	—	595,982	—
Acquisition of MUFG Capital Analytics LLC, a subsidiary of TB (Note 2):			
Fair value of assets acquired, excluding cash and cash equivalents	—	5,038	—
Fair value of liabilities assumed	—	884	—
Acquisition of MUFG Investor Services (US), LLC, a subsidiary of TB (Note 2):			
Fair value of assets acquired, excluding cash and cash equivalents	—	17,847	—
Fair value of liabilities assumed	—	672	—
Acquisition of Hattha Kaksekar Limited, a subsidiary of Krungsri (Note 2):			
Fair value of assets acquired, excluding cash and cash equivalents	—	54,186	—
Fair value of liabilities assumed	—	53,630	—

Note:

- (1) The MUFG Group early adopted new guidance on restricted cash retrospectively in the second half of the fiscal year ended March 31, 2018, and prior year amounts were revised. See Note 1 for further information.

See the accompanying notes to Consolidated Financial Statements.

## MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### 1. BASIS OF FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### *Description of Business*

Mitsubishi UFJ Financial Group, Inc. (“MUFG”) is a holding company for MUFG Bank, Ltd. (formerly, The Bank of Tokyo-Mitsubishi UFJ, Ltd., “MUFG Bank” or “BK”), Mitsubishi UFJ Trust and Banking Corporation (“Mitsubishi UFJ Trust and Banking” or “TB”), Mitsubishi UFJ Securities Holdings Co., Ltd. (“Mitsubishi UFJ Securities Holdings” or “SCHD”), Mitsubishi UFJ NICOS Co., Ltd. (“Mitsubishi UFJ NICOS”), and other subsidiaries. Mitsubishi UFJ Securities Holdings is an intermediate holding company for Mitsubishi UFJ Morgan Stanley Securities Co., Ltd. (“Mitsubishi UFJ Morgan Stanley Securities”). Through its subsidiaries and affiliated companies, MUFG engages in a broad range of financial operations, including commercial banking, investment banking, trust banking and asset management services, securities businesses, and credit card businesses, and it provides related services to individual and corporate customers. See Note 30 for more information by business segment.

##### *Basis of Financial Statements*

The accompanying consolidated financial statements are presented in Japanese yen, the currency of the country in which MUFG is incorporated and principally operates. The accompanying consolidated financial statements have been prepared on the basis of accounting principles generally accepted in the United States of America (“U.S. GAAP”). In certain respects, the accompanying consolidated financial statements reflect adjustments which are not included in the consolidated financial statements issued by MUFG and certain of its subsidiaries in accordance with applicable statutory requirements and accounting practices in their respective countries of incorporation. The major adjustments include those relating to (1) investment securities, (2) derivative financial instruments, (3) allowance for credit losses, (4) income taxes, (5) consolidation, (6) premises and equipment, (7) transfer of financial assets, (8) accrued severance indemnities and pension liabilities, (9) goodwill and other intangible assets and (10) lease transactions.

Fiscal years of certain subsidiaries, which end on December 31, and MUFG’s fiscal year, which ends on March 31, have been treated as coterminous. For the fiscal years ended March 31, 2016, 2017 and 2018, the effect of recording intervening events for the three-month periods ended March 31 on MUFG’s proportionate equity in net income of subsidiaries with fiscal years ended on December 31, would have resulted in an increase of ¥1.34 billion, an increase of ¥10.22 billion, and a decrease of ¥10.76 billion to net income attributable to Mitsubishi UFJ Financial Group, respectively. No intervening events occurred during each of the three-month periods ended March 31, 2016, 2017 and 2018 which, if recorded, would have had material effects on consolidated total assets, loans, total liabilities, deposits or total equity as of March 31, 2016, 2017 and 2018.

##### *Use of Estimates*

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to management judgment primarily relate to the allowance for credit losses, the valuation of deferred tax assets, the valuation of financial instruments, the accounting for goodwill and intangible assets, impairment of investment securities, the allowances for repayment of excess interest and accrued severance indemnities and pension liabilities.

**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

***Summary of Significant Accounting Policies***

Significant accounting policies applied in the accompanying consolidated financial statements are summarized below:

*Consolidation*—The accompanying consolidated financial statements include the accounts of MUFG, its subsidiaries and certain variable interest entities (“VIE”s) (together, the “MUFG Group”). In situations in which the MUFG Group has a controlling financial interest in other entities, including certain VIEs, such entities are consolidated and noncontrolling interests, if any, are recorded in Total equity. Intercompany transactions and balances have been eliminated. Investments in affiliated companies (companies over which the MUFG Group has the ability to exercise significant influence) are accounted for by the equity method of accounting and are reported in Other assets. The MUFG Group’s equity interest in the earnings of these equity investees and other-than-temporary impairment (“OTTI”) are reported in Equity in earnings of equity method investees-net. The MUFG Group recognizes an impairment loss on investments in equity method investees that is other-than-temporary. The MUFG Group determines whether loss on investments is other-than-temporary, through consideration of various factors, such as inability to recover the carrying amount of the investment, the inability of the investee to sustain an earnings capacity that would justify the carrying amount of the investment, 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 the intent and ability to retain its investment in the investees for a period of time sufficient to allow for any anticipated recovery in the fair value. The MUFG Group also evaluates additional factors, such as the condition and trend of the economic cycle, and trends in the general market.

The MUFG Group consolidates VIEs if it has the power to direct the activities of a VIE which most significantly impact the VIE’s economic performance and has the obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE. To assess whether a VIE should be consolidated or not, the MUFG Group considers all factors, such as the purpose and design of the VIE, contractual arrangements, and the MUFG Group’s involvement in both the establishment of the VIE and day-to-day activities of the VIE. The MUFG Group considers a right to make the most significant decisions affecting a VIE to determine whether it is deemed to have the power to direct the activities of the VIE. Furthermore, the MUFG Group considers its economic interests in the VIE, including investments in debt or equity instruments issued by the VIE, liquidity and credit enhancement, and guarantees to determine whether such interests are potentially significant to the VIE or not.

Assets that the MUFG Group holds in an agency, fiduciary or trust capacity are not assets of the MUFG Group and, accordingly, are not included in the accompanying consolidated balance sheets.

*Cash Flows*—For the purposes of reporting cash flows, cash and cash equivalents consist of Cash and due from banks, Interest-earning deposits in other banks, and certain restricted cash included in Other assets. Restricted cash included in cash and cash equivalents represents cash or deposits subject to withdrawal or usage restrictions, and mainly consist of reserves on deposits with the Bank of Japan and similar reserves required for foreign offices and subsidiaries engaged in banking businesses in foreign countries. Cash flows from qualified hedging activities are classified in the same category as the items being hedged.

*Translation of Foreign Currency Financial Statements and Foreign Currency Transactions*—Financial statements of overseas entities are translated into Japanese yen using the respective fiscal year-end exchange rates for assets and liabilities. Income and expense items are translated at average rates of exchange for the respective fiscal years.

Foreign currency translation gains and losses related to the financial statements of overseas entities of the MUFG Group, net of related income tax effects, are credited or charged directly to Foreign currency translation adjustments, a component of Accumulated other comprehensive income (“Accumulated OCI”). Tax effects of

**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

gains and losses on foreign currency translation of the financial statements of overseas entities are not recognized unless it is apparent that the temporary differences will reverse in the foreseeable future.

Foreign currency-denominated assets and liabilities are translated into the functional currencies of the individual entities included in consolidation at the respective fiscal year-end foreign exchange rates. Foreign currency-denominated income and expenses are translated using average rates of exchange for the respective fiscal years. Gains and losses from such translation are included in Foreign exchange gains (losses)—net, as appropriate.

*Repurchase Agreements, Securities Lending and Other Secured Financing Transactions*—Securities sold with agreements to repurchase (“repurchase agreements”), securities purchased with agreements to resell (“resale agreements”) and securities lending and borrowing transactions are accounted for as secured financing or lending transactions, if the transferor has not surrendered control over the securities. Repurchase agreements and resale agreements are generally carried at the amounts at which the securities will be subsequently sold or repurchased, and securities lending and borrowing transactions are generally carried at the amount of cash collateral advanced or received. If they meet the relevant conditions for the surrender of control, they are accounted for as sales of securities with related off-balance sheet forward repurchase commitments or purchases of securities with related off-balance sheet forward resale commitments. For the fiscal years ended March 31, 2016, 2017 and 2018, there were no such transactions accounted for as sales or purchases.

*Collateral*—For secured lending transactions, including resale agreements, securities borrowing transactions, commercial lending and derivative transactions, the MUFG Group, as a secured party, generally has the right to require the counterparties to provide collateral, including letters of credit, cash, securities and other financial assets. For most secured lending transactions, the MUFG Group maintains strict levels of collateralization governed by a daily mark-to-market analysis. Financial assets pledged as collateral are generally negotiable financial instruments and are permitted to be sold or repledged by secured parties. If the MUFG Group sells these financial assets received as collateral, it recognizes the proceeds from the sale and its obligation to return the collateral. For secured borrowing transactions, principally repurchase agreements and securities lending transactions and derivative transactions, where the secured party has the right to sell or repledge financial assets pledged as collateral, the MUFG Group separately discloses those financial assets pledged as collateral in the accompanying consolidated balance sheets.

*Trading Account Securities*—Securities and money market instruments held in anticipation of short-term market movements and for resale to customers are included in Trading account assets, and short trading positions of these instruments are included in Trading account liabilities. Trading positions are carried at fair value in the accompanying consolidated balance sheets and recorded on a trade date basis. Changes in the fair value of trading positions are recognized in Trading account profits (losses). The MUFG Group has elected the fair value option for certain foreign securities. See Note 32 for a further discussion of fair value option.

*Investment Securities*—Debt securities for which the MUFG Group has both the ability and positive intent to hold to maturity are classified as Held-to-maturity securities and are carried at amortized cost. Debt securities that the MUFG Group may not hold to maturity and marketable equity securities, other than those classified as Trading account securities, are classified as Available-for-sale securities, and are carried at their fair values, with unrealized gains and losses reported on a net-of-tax basis within Accumulated OCI, net of taxes, which is a component of equity. Other investment securities include nonmarketable equity securities carried at their acquisition cost and investment securities held by subsidiaries that are investment companies or brokers and dealers. Such securities held by those subsidiaries are subject to the specialized industry accounting principles for investment companies and brokers and dealers applicable for those subsidiaries. Securities of those subsidiaries are carried at their fair values.

**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

For marketable equity securities, an OTTI is recognized in earnings when a decline in fair value below the cost is deemed other-than-temporary. For debt securities, an OTTI is recognized in earnings for a security if the MUFG Group has intent to sell such a debt security or if it is more likely than not the MUFG Group will be required to sell such a debt security before recovery of its amortized cost basis. If not, the credit component of an OTTI is recognized in earnings, but the noncredit component is recognized in Accumulated OCI. In determining other-than-temporary declines in fair value to be recognized as an impairment loss on investment securities, the MUFG Group generally considers factors such as the ability and positive intent to hold the investments for a period of time sufficient to allow for anticipated recovery in fair value, the financial condition of the issuer, the extent of decline in fair value, and the length of time that the decline in fair value below cost has existed. Interest and dividends on investment securities are reported in Interest income. Dividends are recognized when the shareholder right to receive the dividend is established. Gains and losses on disposition of investment securities are computed using the average cost method and are recognized on the trade date.

*Derivative Financial Instruments*—The MUFG Group engages in derivative activities involving swaps, forwards, futures, options, and other types of derivative contracts. Derivatives are used in trading activities to generate trading revenues and fee income for its own account and to respond to customers' financial needs. Derivatives are also used to manage counterparty credit risk and market risk exposures to fluctuations in interest and foreign exchange rates, equity and commodity prices.

Derivatives entered into for trading purposes are carried at fair value and are reported as Trading account assets or Trading account liabilities, as appropriate. The fair values of derivative contracts executed with the same counterparty under legally enforceable master netting agreements are presented on a gross basis. Changes in the fair value of such contracts are recognized currently in Foreign exchange gains (losses)—net with respect to foreign exchange contracts and in Trading account profits (losses)—net with respect to interest rate contracts and other types of contracts.

Embedded features that are not clearly and closely related to the host contracts and meet the definition of derivatives are separated from the host contracts and measured at fair value unless the contracts embedding the derivatives are measured at fair value in their entirety.

Derivatives are also used to manage exposures to fluctuations in interest and foreign exchange rates arising from mismatches of asset and liability positions. Certain of those derivatives are designated as hedging instruments and qualify for hedge accounting. The MUFG Group designates a derivative as a hedging instrument at the inception of each such hedge relationship, and it documents, for such individual hedging relationships, the risk management objective and strategy, including the item being hedged, the specific risk being hedged and the method used to assess the hedge effectiveness. In order for a hedging relationship to qualify for hedge accounting, the changes in the fair value of the derivative instruments must be highly effective in achieving offsetting changes in fair values or variable cash flows of the hedged items attributable to the risk being hedged. Any ineffectiveness, which arises during the hedging relationship, is recognized in Non-interest income or expense in the period in which it arises. All qualifying hedging derivatives are valued at fair value and included in Other assets or Other liabilities, as appropriate. For cash flow hedges, the unrealized changes in fair value to the extent effective are recognized in Accumulated OCI. Amounts realized on cash flow hedges related to variable rate loans are recognized in Net interest income in the period when the cash flow from the hedged item is realized. The fair value of cash flow hedges related to forecasted transactions, if any, is recognized in Non-interest income or expense in the period when the forecasted transaction occurs. Any difference that arises from gains or losses on hedging derivatives offsetting corresponding gains or losses on the hedged items, and gains and losses on derivatives attributable to the risks excluded from the assessment of hedge effectiveness are recognized in Non-interest income or expense.

**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

*Loans*—Loans originated by the MUFG Group (“originated loans”) are carried at the principal amount outstanding, adjusted for unearned income and deferred net nonrefundable loan fees and costs. Originated loans held and intended for dispositions or sale in secondary markets are transferred to the held-for-sale classification and carried at the lower of cost or estimated fair value generally on an individual loan basis. Loan origination fees, net of certain direct origination costs, are deferred and recognized over the contractual life of the loan as an adjustment to yield using a method that approximates the interest method. Interest income on loans that are not impaired is accrued and credited to interest income as it is earned. Unearned income and discounts or premiums on purchased loans are deferred and recognized over the remaining contractual terms of the loans using a method that approximates the interest method when such purchased loans are outside the scope of the guidance on loans and debt securities acquired with deteriorated credit quality as described below.

The MUFG Group classifies its loan portfolio into the following portfolio segments—Commercial, Residential, Card, MUFG Americas Holdings Corporation (“MUFG Americas Holdings ” or “MUAH”), and Bank of Ayudhya Public Company Limited (“Krungsri”) based on the grouping used by the MUFG Group to determine the allowance for credit losses. The MUFG Group further classifies the Commercial segment into classes based on initial measurement attributes, risk characteristics, and its method of monitoring and assessing credit risk.

Originated loans are considered impaired when, based on current information and events, it is probable that the MUFG Group will be unable to collect all the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Past due status is determined based on the contractual terms of the loan and the actual number of days since the last payment date, and is considered in determining impairment. Originated loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower’s prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is generally evaluated on a loan-by-loan basis by either the present value of expected future cash flows discounted at the loan’s effective interest rate, the loan’s observable market price, or the fair value of the collateral if the loan is collateral dependent.

Originated loans are generally placed on nonaccrual status when substantial doubt exists as to the full and timely collection of either principal or interest, specifically 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. A nonaccrual loan may be restored to an accrual status when interest and principal payments become current and management expects that the borrower will make future contractual payments as scheduled. When a loan is placed on nonaccrual status, interest accrued but not received is generally reversed against interest income. Cash receipts on nonaccrual loans, for which the ultimate collectibility of principal is uncertain, are applied as principal reductions; otherwise, such collections are credited to income.

The MUFG Group modifies certain loans in conjunction with its 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 (“TDRs”).



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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, the borrower is not delinquent under the modified terms, and demonstrates that its financial condition has improved, the MUFG Group 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. Once a nonaccrual loan is deemed to be a TDR, the MUFG Group 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. Because loans modified in TDRs are considered to be impaired, these loans are measured for impairment using the MUFG Group's established asset-specific allowance methodology, which considers the expected default rates for the modified loans. See "*Allowance for Credit Losses*" for a discussion for each portfolio segment.

In accordance with the guidance on loans and debt securities acquired with deteriorated credit quality, impaired loans acquired for which it is probable that the MUFG Group will be unable to collect all contractual receivables are initially recorded at the present value of amounts expected to be received. For these impaired loans, the related valuation allowances are not carried over or created initially. Accretable yield is limited to the excess of the investor's estimate of undiscounted cash flows over the investor's initial investment in the loan. Subsequent increases in cash flows expected to be collected are recognized prospectively through adjustment of the loan's yield over its remaining life after reduction of any remaining allowance for credit losses for the loan established after its acquisition, if any, while any decrease in such cash flows below those initially expected at acquisition plus additional cash flows expected to be collected arising from changes in estimate after acquisition is recognized as an impairment.

*Loan Securitization*—The MUFG Group securitizes and services commercial, industrial, and residential loans in the normal course of business. The MUFG Group accounts for a transfer of loans in a securitization transaction as a sale if it meets relevant conditions for the surrender of control. Otherwise, the transfer is accounted for as a collateralized borrowing transaction. When a securitization is accounted for as a sale, the proceeds from a sale of financial assets consist of the cash and any other assets obtained, including beneficial interests and separately recognized servicing assets, in the transfer less any liabilities incurred, including separately recognized servicing liabilities. All proceeds and reductions of proceeds from a sale shall be initially measured at fair value.

*Allowance for Credit Losses*—The MUFG Group maintains an allowance for credit losses to absorb probable losses inherent in the loan portfolio. Actual credit losses (amounts deemed uncollectible, in whole or in part), net of recoveries, are generally determined based on detailed loan reviews and a credit assessment by management at each balance sheet date, and are deducted from the allowance for credit losses as net charge-offs. The MUFG Group generally applies its charge-off policy to all loans in its portfolio regardless of the type of borrower. Management believes that the provision for credit losses is adequate and the allowance is at the appropriate amount to absorb probable losses inherent in the loan portfolio. During the fiscal year ended March 31, 2018, the MUFG Group did not make any significant changes to the methodologies or policies used to determine its allowance for credit losses.

Key elements relating to the policies and discipline used in determining the allowance for credit losses are credit classification and the related borrower categorization process. 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

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industry segments or existing economic conditions. In determining the appropriate level of the allowance, the MUFG Group evaluates the probable loss by collateral value, historical loss experience, probability of insolvency and category of loan based on its type and characteristics. The MUFG Group calculates the allowance for credit losses over the loss emergence period that is a time between a loss occurring event and the subsequent confirmation of a loss. The MUFG Group updates these conditions and probable loss on a regular basis and upon the occurrence of unexpected change in the economic environment.

The methodologies used to estimate the allowance and the charge-off policy for each portfolio segment are as follows:

*Commercial segment*

In the Commercial segment, the methodology for assessing the appropriateness of the allowance consists of several key elements, which include the allocated allowance for loans individually evaluated for impairment, the formula allowance, and the allocated allowance for large groups of smaller-balance homogeneous loans.

The allocated allowance for loans individually evaluated for impairment represents the impairment allowance determined in accordance with the guidance on accounting by creditors for the impairment of a loan. The factors considered by management in determining impairment are the internal credit rating assigned to each borrower which represents the borrower's creditworthiness determined based on payment status, the number of delinquencies, and the probability of collecting principal and interest payments when due. The impairment of a loan is measured based on the present value of expected future cash flows discounted at the loan's original effective interest rate, or the loan's observable market price, or the fair value of the collateral if the loan is collateral dependent.

The formula allowance is applied to loans that are categorized as Normal or Close Watch, excluding loans identified as a TDR, based on the internal credit rating and historical loss factors which are based on the loss experience. See Note 4 for the information on loans to borrowers categorized based on the internal borrower rating. Estimated losses inherent in the loans at the balance sheet date are calculated by multiplying the default ratio by the nonrecoverable ratio (determined as a complement of the recovery ratio). The default ratio is determined by each internal credit rating, taking into account the historical number of defaults of borrowers within each internal credit rating divided by the total number of borrowers. The recovery ratio is mainly determined by the historical experience of collections against loans in default. The default ratio, the recovery ratio and other indicators are continually reviewed to determine the appropriate level of the allowance. Because the evaluation of inherent loss for these loans involves an uncertainty, subjectivity and judgment, the estimation of the formula allowance is back-tested by comparing the allowance with the actual results subsequent to the balance sheet date. The results of such back-testing are evaluated by management to determine whether the manner and level of the formula allowance needs to be changed in subsequent years.

The allocated allowance for large groups of smaller-balance homogeneous loans is established through a process that begins with estimates of probable losses inherent in the portfolio. These estimates are based upon various analyses, including historical delinquency and historical loss experience.

Loans that have been modified into a TDR are treated as impaired loans. For nonaccrual TDRs, the allowance for credit losses is provided for these loans using the discounted cash flow method, or based on the fair value of the collateral. For TDRs accounted for as accruing loans, the allowance for credit losses is determined by discounting the estimated future cash flows using the original effective interest rate of the loans prior to modification.

In relation to loans categorized as Legally/Virtually Bankrupt, the carrying amount of loans less estimated value of the collateral and guaranteed amount is generally considered uncollectible, and is charged off.

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*Residential segment*

In the Residential segment, the loans are comprised of smaller-balance homogeneous loans that are pooled by their internal credit ratings-based on the number of delinquencies. The loans in this segment are generally secured by collateral. Collateral values are based on internal valuation sources, and the allowance is determined for unsecured amounts. The allowance for the nondelinquent group of loans is determined based on historical loss experience. For delinquent groups of loans, the MUFG Group determines the allowance based on the probability of insolvency by the number of actual delinquencies and historical loss experience.

Loans that have been modified into a TDR are treated as impaired loans. For nonaccrual TDRs, the allowance for credit losses is provided for these loans using the discounted cash flow method, or based on the fair value of the collateral. For TDRs accounted for as accruing loans, the allowance for credit losses is determined by discounting the estimated future cash flows using the original effective interest rate of the loans prior to modification.

In relation to loans that are in past due status over a certain period of time and deemed uncollectible, the carrying amount of loans less estimated value of the collateral and guaranteed amount is generally considered uncollectible and charged off.

*Card segment*

In the Card segment, the loans are smaller-balance homogeneous loans that are pooled by their internal credit rating based on the number of delinquencies. The allowance for loans in this segment is generally determined based on the probability of insolvency by the number of actual delinquencies and historical loss experience. For calculating the allocated allowance for loans specifically identified for evaluation, impaired loans are aggregated for the purpose of measuring impairment using historical loss factors.

Loans that have been modified into a TDR are treated as impaired loans, and the allowance for credit losses is determined using the discounted cash flow method whereby the estimated future cash flows are discounted using the original effective interest rate of the loans prior to modification.

In relation to loans that are in past due status over a certain period of time and deemed uncollectible, the amount of loans is generally fully charged off.

*MUFG Americas Holdings segment*

In the MUFG Americas Holdings segment, the methodology for assessing the appropriateness of the allowance consists of several key elements, which include the allocated allowance for loans individually evaluated for impairment, the formula allowance, the allocated allowance for large groups of smaller-balance homogeneous loans, and the unallocated allowance.

The allocated allowance for loans individually evaluated for impairment is established for loans when management determines that the MUFG Group will be unable to collect all amounts due according to the contractual terms of the loan agreement, including interest payments. Impaired loans are carried at the lower of the recorded investment in the loan, the present value of expected future cash flows discounted at the loan's effective rate, the loan's observable market price, or the fair value of the collateral, if the loan is collateral dependent.

The formula allowance is calculated by applying historical loss factors to outstanding loans. Historical loss factors are based on the historical loss experience and may be adjusted for significant factors that, in management's judgment, affect the collectibility of the portfolio as of the balance sheet date.

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The allocated allowance for large groups of smaller-balance homogeneous loans is established for consumer loans as well as for smaller balance commercial loans. These loans are managed on a pool basis, and loss factors are based on expected net charge-off ranges.

The unallocated allowance represents an estimate of additional losses inherent in the loan portfolio and is composed of attribution factors, which are based upon management's evaluation of various conditions that are not directly measured in the determination of the allocated allowance. The conditions used for consideration of the unallocated allowance at each balance sheet date include factors, such as existing general economic and business conditions affecting the key lending areas and products of the MUFG Group, credit quality trends and risk identification, collateral values, loan volumes, underwriting standards and concentrations, specific industry conditions, recent loss experience and the duration of the current business cycle. The MUFG Group reviews these conditions and has an internal discussion with senior credit officers on a quarterly basis.

Loans that have been modified into a TDR are treated as impaired loans. For nonaccrual TDRs, the allowance for credit losses is provided for these loans using the discounted cash flow method, or based on the fair value of the collateral. For TDRs accounted for as accruing loans, the allowance for credit losses is determined by using the discounted cash flow method whereby the estimated future cash flows are discounted using the original effective interest rate of the loans prior to modification.

Commercial loans are generally considered uncollectible based on an evaluation of the financial condition of a borrower as well as the value of any collateral and, when considered to be uncollectible, loans are charged off in whole or in part. Consumer loans are generally considered uncollectible based on past due status and the value of any collateral and, when considered to be uncollectible, loans are charged off in whole or in part.

*Krungsri segment*

In the Krungsri segment, the methodology for assessing the appropriateness of the allowance consists of several key elements, which include the allocated allowance for loans individually evaluated for impairment, the formula allowance, and the allocated allowance for large groups of smaller-balance homogeneous loans.

The allocated allowance for loans individually evaluated for impairment is established for loans when management determines that the MUFG Group will be unable to collect all amounts due according to the contractual terms of the loan agreement, including interest payments. Impaired loans are carried at the lower of the recorded investment in the loan, the present value of expected future cash flows discounted at the loan's effective rate, the loan's observable market price, or the fair value of the collateral, if the loan is collateral dependent.

The formula allowance is calculated by applying historical loss factors to outstanding loans. Historical loss factors are based on the historical loss experience and may be adjusted for significant factors that, in management's judgment, affect the collectibility of the portfolio as of the balance sheet date.

The allocated allowance for large groups of smaller-balance homogeneous loans is established for smaller balance loans such as housing loans, credit card loans, and personal loans. These loans are managed on a pool basis, and loss factors are based on expected net charge-off ranges.

Loans that have been modified into a TDR are treated as impaired loans. For nonaccrual TDRs, the allowance for credit losses is provided for these loans using the discounted cash flow method, or based on the fair value of the collateral. For TDRs accounted for as accruing loans, the allowance for credit losses is determined

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by using the discounted cash flow method whereby the estimated future cash flows are discounted using the original effective interest rate of the loans prior to modification.

Loans to customers are charged off when they are determined to be uncollectible considering the financial condition of a borrower.

*Allowance for Off-Balance Sheet Credit Instruments*—The MUFG Group maintains 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 recorded as a liability in Other liabilities. The MUFG Group adopts the same methodology used in determining the allowance for credit losses on loans. Potential credit losses related to derivatives are considered in the fair value of the derivatives.

*Premises and Equipment*—Premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is charged to operations over the estimated useful lives of the related assets. Leasehold improvements are depreciated over the terms of the respective leases or the estimated useful lives of the improvements, whichever is shorter. MUFG, MUFG Bank and Mitsubishi UFJ Trust and Banking apply the declining-balance method in depreciating their premises and equipment, while other subsidiaries mainly apply the straight-line method, at rates principally based on the following estimated useful lives:

	<u>Years</u>
Buildings .....	15 to 50
Equipment and furniture .....	2 to 20
Leasehold improvements .....	5 to 39

Maintenance, repairs and minor improvements are charged to operations as incurred. Major improvements are capitalized. Net gains or losses on dispositions of premises and equipment are included in Other non-interest income or expense, as appropriate.

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of an asset to be held and used is measured by a comparison of the carrying amount to future undiscounted net cash flows expected to be generated by the asset. If an asset is considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds the fair value. For purposes of recognition and measurement of an impairment loss, a long-lived asset or assets are grouped with other assets and liabilities at the lowest level with independent and identifiable cash flows. Assets to be disposed of by sale are reported at the lower of the carrying amount or fair value less estimated cost to sell.

Asset retirement obligations related to restoration of certain leased properties upon lease termination are recorded in Other liabilities with a corresponding increase in leasehold improvements. The amounts represent the present value of expected future cash flows associated with returning such leased properties to their original condition. The difference between the gross and present value of expected future cash flows is accreted over the life of the related leases as a non-interest expense.

*Goodwill*—The MUFG Group recognizes goodwill, as of the acquisition date, measured as the excess of the purchase price over the fair value of the net assets acquired. Goodwill related to investments in equity method investees is included in Other assets as a part of the carrying amount of investments in equity method investees.

Goodwill arising from a business combination is not amortized but is tested at least annually for impairment. Goodwill is recorded at a designated reporting unit level for the purpose of assessing impairment.

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A reporting unit is an operating segment, or an identified business unit one level below an operating segment. An impairment loss is recognized to the extent that the carrying amount of goodwill exceeds its implied fair value.

*Intangible assets*—Intangible assets consist of software, core deposit intangibles, customer relationships, trade names and other intangible assets. These are amortized over their estimated useful lives unless they have indefinite useful lives. Amortization of intangible assets is computed in a manner that best reflects the economic benefits of the intangible assets as follows:

	<u>Useful lives (years)</u>	<u>Amortization method</u>
Software . . . . .	2 to 10	Straight-line
Core deposit intangibles . . . . .	10 to 16	Straight-line
Customer relationships . . . . .	7 to 27	Straight-line, Declining-balance
Trade names . . . . .	7 to 40	Straight-line

Intangible assets having indefinite useful lives are not amortized but are subject to annual impairment tests. An impairment exists if the carrying value of an indefinite-lived intangible 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.

The MUFG Group capitalizes certain costs associated with the acquisition or development of internal-use software. Costs subject to capitalization are salaries and employee benefits for employees who are directly associated with and who devote time to the internal-use computer software project, to the extent of time spent directly on the project. Once the software is ready for its intended use, the MUFG Group begins to amortize capitalized costs on a straight-line basis.

*Accrued Severance and Pension Liabilities*—The MUFG Group has defined benefit pension plans and other postretirement benefit plans, including severance indemnities plans (“SIPs”). The liabilities related to these plans are computed and recognized based on actuarial computations. Net actuarial gains and losses that arise from differences between actual experience and assumptions are generally amortized over the average remaining service period of participating employees if it exceeds the corridor, which is defined as the greater of 10% of plan assets or the projected benefit obligation. Under the guidance related to employers’ accounting for defined benefit pension and other postretirement plans, the MUFG Group recognizes a net liability or asset to report the funded status of its defined benefit pension and other postretirement plans in the accompanying consolidated balance sheets and mainly recognizes changes in the funded status of defined benefit pension and other postretirement plans in the year in which the changes occur in Accumulated OCI. The costs of the plans, based on actuarial computations of current and future employee benefits, are charged to Salaries and employee benefits. The MUFG Group measures plan assets and benefit obligations as of the date of the consolidated balance sheets.

*Long-Term Debt*—Premiums, discounts and issuance costs of long-term debt are amortized based on the method that approximates the interest method over the term of the long-term debt.

*Obligations under Guarantees*—The MUFG Group provides customers with a variety of guarantees and similar arrangements, including standby letters of credit, financial and performance guarantees, credit protection, and liquidity facilities. The MUFG Group recognizes guarantee fee income over the guarantee period based on the contractual terms of the guarantee contracts. It is the MUFG Group’s business practice to receive a guarantee fee at the inception of the guarantee, which approximates market value of the guarantee and is initially recorded as a liability, which is then recognized as guarantee fee income over the guarantee period.

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*Allowance for Repayment of Excess Interest*—The MUFG Group maintains an allowance for repayment of excess interest based on an analysis of past experience of reimbursement of excess interest, borrowers' profile, recent trend of borrowers' claims for reimbursement, and management's future forecasts. The allowance is recorded as a liability in Other liabilities.

*Fees and Commissions*—Revenue recognition of major components of fees and commissions is as follows:

- Fees and commissions on deposits, fees and commissions on remittances and transfers, fees and commissions on foreign trading business, fees and commissions on security-related services, fees and commissions on administration and management service for investment funds, insurance commissions, fees and commissions on real estate business and fees and commissions from other services are generally recognized as revenue when the related services are performed or recognized over the period that the service is provided.
- Fees from trade-related financing services are recognized over the period of the financing.
- Trust fees are recognized on an accrual basis, generally based on the volume of trust assets under management and/or the operating performance for the accounting period of each trust account. With respect to the trust accounts with guarantee of trust principal, trust fees are determined based on the profits earned by individual trust accounts during the trust accounting period, less deductions, including provision for reserve, impairment for individual investments and dividends paid to beneficiary certificate holders. The trust fees for these trust accounts are accrued based on the amounts expected to be earned during the accounting period of each trust account.
- Annual fees and royalty and other service charges related to the credit card business are recorded on a straight-line basis as services are provided.
- Interchange income from the credit card business is recognized as billed.
- Guarantee fees are generally recognized over the contractual periods of the respective guarantees. Amounts initially recorded as a liability corresponding to the obligations at fair value are generally recognized as revenue over the terms of the guarantees as the MUFG Group is deemed to be released from the risk under guarantees.

*Income Taxes*—The MUFG Group accounts for income taxes under the asset and liability method, which requires the recognition of deferred tax assets and deferred tax liabilities for the expected future tax consequences of events that have been included in the accompanying consolidated financial statements. Under this method, deferred tax assets and deferred tax liabilities are determined based on the differences between the financial statements and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and deferred tax liabilities is recognized in income in the period that includes the enactment date.

The MUFG Group records net deferred tax assets to the extent these assets will more likely than not be realized. In making such determination, all available positive and negative evidence is considered, including future reversals of existing taxable temporary differences, projected future taxable income, tax planning strategies and recent financial operations. In the event the MUFG Group were to determine that it would be able to realize deferred tax assets in the future in excess of their net recorded amount, the MUFG Group would make an adjustment to the valuation allowance, which would reduce the provision for income taxes.

Uncertain tax positions are recorded on the basis of a two-step process whereby (1) it is determined whether it is more likely than not that the tax position will be sustained on the basis of its technical merits, and (2) for

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those tax positions that meet the more-likely-than-not recognition threshold, the MUFG Group recognizes the largest amount of tax benefit that is more than 50% likely to be realized upon ultimate settlement with the related tax authority. The MUFG Group recognizes interest and penalties related to unrecognized tax benefits within income tax expense. Accrued interest and penalties are included within Other liabilities.

*Free Distributions of Common Shares*—As permitted by the Companies Act of Japan (the “Companies Act”), Japanese companies, upon approval by the Board of Directors, may make a free distribution of shares, in the form of a “stock split” as defined, to shareholders. In accordance with generally accepted accounting practice in Japan, such distribution does not give rise to any change in capital stock or capital surplus accounts. Common shares distributed are recorded as shares issued on the distribution date. See Note 18 for further information.

*Earnings per Common Share*—Basic earnings per share (“EPS”) excludes dilutive effects of potential common shares and is computed by dividing earnings applicable to common stock shareholders by the weighted average number of common shares outstanding for the period, while diluted EPS gives effect to all dilutive potential common shares that were outstanding during the period. See Note 23 for the computation of basic and diluted EPS.

*Treasury Stock*—The MUFG Group presents its treasury stock, including shares of MUFG owned by its subsidiaries and affiliated companies, as a reduction of equity on the accompanying consolidated balance sheets at cost and accounts for treasury stock transactions under an average cost method. Gains (losses) on sales of treasury stock are charged to capital surplus and unappropriated retained earnings.

*Comprehensive Income*—Comprehensive income includes net income before attribution to noncontrolling interests and other comprehensive income (“OCI”). All changes in unrealized gains and losses on investment securities, unrealized gains and losses on derivatives qualifying for cash flow hedges, defined benefit plans and foreign currency translation adjustments constitute OCI and are presented, with related income tax effects, in the accompanying consolidated statements of comprehensive income. OCI also includes changes in the instrument-specific credit risk on financial liabilities (“debt valuation adjustments” or “DVA”) accounted for under the fair value option of a foreign affiliated company. See Note 14 for information about the DVA.

*Stock-Based Compensation*—MUFG and certain of its subsidiaries have a stock compensation-type stock option plan (“Stock Option Plan”) for directors (excluding outside directors and directors serving as audit committee members), corporate executives, executive officers and senior fellows (collectively, “officers”). Compensation costs under the Stock Option Plan are recognized based on the grant date fair value of the stock option (“Stock Acquisition Rights”) over the period during officers are required to provide service in accordance with the terms of the plan. MUFG and certain of its subsidiaries also have performance-based stock compensation plan (“the Board Incentive Plan”). The awards granted under the Board Incentive Plan are classified as either liability for the part of award which are provided to officers in cash or equity for the part of award which are provided to officers in the common shares of MUFG. Compensation costs are recognized over the requisite service period for the entire awards. For awards classified as liability, compensation costs are measured based on the fair value calculated by the quoted price of common shares of MUFG at the date of fiscal year-end and remeasured at the end of each reporting period. Changes in quoted prices of common shares of MUFG between the date of grant and the settlement of awards are recognized in the period which the changes occur. For awards classified as equity, compensation costs are measured based on the grant date fair value by the quoted price of the common shares of MUFG for employees or the fair value as of earlier of the date the performance commitment is reached or the date of completion of officers’ performance for nonemployees. See Note 33 for further discussion of stock-based compensation plans.



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***Reclassifications***

Certain reclassifications and format changes have been made to the consolidated financial statements for the fiscal years ended March 31, 2016 and 2017 to conform to the presentation for the fiscal year ended March 31, 2018. These reclassifications and format changes include 1) the presentation of “Increase in cash collateral for use of Bank of Japan’s settlement infrastructure” as a separate line item which had previously been included within the “Other-net” line in cash flows from operating activities in the consolidated statements of cash flows and 2) the reclassifications of long-term repurchase agreements from “Long-term debt” to “Payables under repurchase agreements” in the consolidated balance sheets, the related interest expense from “Long-term debt” to “Payables under repurchase agreements and securities lending transactions” within interest expense in the consolidated statements of income, and the related cash flows from “Proceeds from issuance of long-term debt” and “Repayments of long-term debt” to “Net increase (decrease) in call money, funds purchased, and payables under repurchase agreements and securities lending transactions” in cash flows from financing activities in the consolidated statements of cash flows. These reclassifications and format changes did not result in a change to previously reported financial positions, results of operations and cash flows. In addition, certain reclassifications and format changes were made to notes to the consolidated financial statements. See Notes 12, 31 and 32 for these changes in notes.

***Accounting Changes***

*Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships*—In March 2016, the Financial Accounting Standards Board (“FASB”) issued new guidance which clarifies that a change in the counterparty to a derivative instrument that has been designated as the hedging instrument does not, in and of itself, require dedesignation of that hedging relationship provided that all other hedge accounting criteria continue to be met. This guidance is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. The MUFG Group adopted this guidance on April 1, 2017, and there was no material impact on its financial position and results of operations.

*Contingent Put and Call Options in Debt Instruments*—In March 2016, the FASB issued new guidance which clarifies the requirements for assessing whether contingent call (put) options that can accelerate the payment of principal on debt instruments are clearly and closely related to their debt hosts. An entity performing the assessment under this guidance is required to assess the embedded call (put) options solely in accordance with the four-step decision sequence, and does not have to assess whether the event that triggers the ability to exercise a call (put) option is related to interest rates or credit risks. This guidance is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. The MUFG Group adopted this guidance on April 1, 2017, and there was no material impact on its financial position and results of operations.

*Simplifying the Transition to the Equity Method of Accounting*—In March 2016, the FASB issued new guidance which eliminates the requirement for retrospective application of the equity method and instead requires investors to apply the equity method prospectively from the date on which significant influence is obtained. This guidance also requires the equity method investor to add the cost of acquiring the additional interest in the investee to the current basis of the investor’s previously held interest, and recognize through earnings the unrealized holding gain or loss of an available-for-sale equity security at the date on which that equity security becomes qualified for use of the equity method, if applicable. This guidance is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Early application is permitted. The MUFG Group adopted this guidance on April 1, 2017, and there was no material impact on its financial position and results of operations.

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*Improvements to Employee Share-Based Payment Accounting*—In March 2016, the FASB issued new guidance which amends several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. Under this guidance, an entity can make an entity-wide accounting policy election to either estimate the number of awards that are expected to vest or account for forfeitures when they occur. This guidance is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted in any interim or annual period. The MUFG Group adopted this guidance on April 1, 2017, and elected to account for forfeitures as they occur, which represents a change from the previous requirement to estimate forfeitures when recognizing compensation expense. There was no material impact on its financial position and results of operations.

*Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*—In February 2018, the FASB issued new guidance which allows a reclassification from Accumulated OCI to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. This guidance also requires certain disclosures about stranded tax effects. This guidance is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted, including adoption in any interim period, for which financial statements have not yet been issued. The MUFG Group early adopted this guidance and elected to reclassify ¥29,071 million from Accumulated OCI to retained earnings in the fiscal year ended March 31, 2018.

*Restricted Cash*—In November 2016, the FASB issued new guidance which requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents, and amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. This guidance also requires an entity to disclose how the statement of cash flows reconciles to the balance sheet when cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents are presented in more than one line item within the balance sheet, and information about the nature of the restrictions on its cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. This guidance is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted. The MUFG Group early adopted this guidance in the second half of the fiscal year ended March 31, 2018 retrospectively. The adoption of the guidance resulted in reclassification of restricted cash balances into cash and cash equivalents on the consolidated statements of cash flows. In addition, the MUFG Group included cash and due from banks and interest-earning deposits in other banks in cash and cash equivalents in the consolidated statements of cash flows, resulting in interest-earning deposits in other banks no longer being reflected in investing activities. Upon adoption, the MUFG Group recorded a decrease of ¥(4,845) million and an increase of ¥5,235 million in Net cash provided by (used in) operating activities for the fiscal year ended March 31, 2016 and 2017, respectively, and an increase of ¥4,226,248 million and a decrease of ¥(2,407,935) million in Net cash provided by (used in) investing activities for the fiscal year ended March 31, 2016 and 2017, respectively.

***Recently Issued Accounting Pronouncements***

*Revenue from Contracts with Customers*—In May 2014, the FASB issued new guidance which supersedes the current revenue recognition requirements, including most industry-specific guidance. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance also requires additional disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers, including significant judgments and

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changes in judgments, and assets recognized from the costs incurred to obtain or fulfill a contract. In March 2016, the FASB issued further guidance related to the principal-versus-agent assessment which requires an entity to determine the nature of the promise to the customer by identifying each specified good or service to be provided and assessing whether an entity controls each specified good or service before that good or service is transferred to the customer. In addition, in April 2016, the FASB issued guidance clarifying certain aspects of identification of promised goods or services and provides implementation guidance on licensing of intellectual property. Furthermore, in May 2016, the FASB issued guidance which amends the guidance on assessing collectibility, presentation of sales taxes, noncash consideration, and contract modifications and completed contracts at transition, and on disclosure around transition. In December 2016, the FASB issued additional guidance which amends the new revenue standard to clarify certain aspects, including the scope and disclosure requirements. This guidance is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. The guidance does not apply to revenue relating to financial instruments, including trading account assets, investment securities, and loans that are accounted for in accordance with other applicable guidance. The MUFG Group adopted the guidance on April 1, 2018 using the modified retrospective method. The MUFG Group assessed the impact of the new guidance by evaluating its contracts, identifying the related performance obligations, determining when the performance obligations were satisfied, and determining the amount of revenue to recognize. As a result of this analysis, the adoption of this guidance does not have a material impact on its consolidated financial position and result of operations. The MUFG Group is currently developing the quantitative and qualitative disclosures required by the guidance.

*Recognition and Measurement of Financial Assets and Financial Liabilities*—In January 2016, the FASB issued new guidance which requires equity investments, except those accounted for under the equity method of accounting or those that result in consolidation of the investee, to be measured at fair value with changes in fair value recognized in net income. However, for equity investments that do not have readily determinable fair values, the fair value may be measured at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer, and the impairment assessment is simplified by performing a qualitative assessment to identify impairments. For financial liabilities which were elected to measure at fair value in accordance with the fair value option, this guidance also requires an entity to present separately in other comprehensive income the position of the changes in the fair value of financial liabilities resulting from a change in the instrument-specific credit risk. In addition, this guidance eliminates the requirement to disclose the methods and significant assumptions used to estimate the fair value for financial instruments measured at amortized cost, and clarifies, for disclosure purposes, the requirement for the use of an exit price notion in the determination of the fair value of financial instruments measured at amortized cost. This guidance also clarifies that an entity must evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets. This guidance is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Early adoption is not permitted except for the amendments related to the accounting for financial liabilities under the fair value option. As a result of adopting this new guidance, the MUFG Group estimates an increase in the beginning balance of retained earnings as of April 1, 2018 of ¥2,710 billion, with a corresponding decrease in Accumulated OCI on equity investments at fair value, net of taxes. Other amendments required under the new guidance are not expected to have a material impact on the MUFG Group's consolidated financial statements.

*Leases*—In February 2016, the FASB issued new guidance which requires that lessees recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. The accounting applied by lessors is largely unchanged, but the accounting model for leveraged leases is not retained for leases that commence after the effective date of this guidance. This guidance also requires entities to provide qualitative and quantitative disclosures about the amount, timing and uncertainty of cash flows arising from leases. This guidance is effective

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for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early application is permitted. The MUFG Group will continue to evaluate what effect this guidance will have on its financial statements and related disclosures. The MUFG Group expects a gross-up on its consolidated balance sheet as a result of the adoption of this guidance, recognizing lease liabilities and right-of-use assets, although the extent of such a gross-up is under evaluation. The MUFG Group is in the technology development phase of this project to support the ongoing lessee accounting required under the new guidance. The MUFG Group's implementation efforts include reviewing its existing lease contracts and service contracts that may include embedded leases.

*Recognition of Breakage for Certain Prepaid Stored-Value Products*—In March 2016, the FASB issued new guidance which clarifies that liabilities related to the sale of certain prepaid stored-value products are financial liabilities. The guidance also provides a narrow scope exception to the guidance on extinguishments of liabilities to require that breakage for those liabilities be accounted for consistent with the breakage model required by the guidance on revenue from contracts with customers for non-financial liabilities. This guidance is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early application is permitted, including adoption in an interim period. The MUFG Group does not expect that the adoption of this guidance will have a material impact on its consolidated financial statements and related disclosures.

*Measurement of Credit Losses on Financial Instruments*—In June 2016, the FASB issued new guidance which replaces the incurred loss impairment methodology in current U.S. GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to estimate credit losses. Under this guidance, the measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectibility of the reported amount of the financial asset (or a group of financial assets) measured at amortized cost basis. For available-for-sale debt securities, a credit loss is recorded through an allowance for credit losses and the amount of the allowance is limited to the amount by which fair value is below amortized cost. For purchased financial assets with a more-than-insignificant amount of credit deterioration since origination that are measured at amortized cost basis, the initial allowance for credit losses is added to the purchase price rather than being reported as a credit loss expense, only subsequent changes in the allowance are recorded as a credit loss expense, and interest income is recognized based on the effective interest rate, excluding the discount embedded in the purchase price that is attributable to the acquirer's assessment of credit losses at acquisition. This guidance also expands the disclosure requirements regarding an entity's assumptions, models, and methods for estimating the allowance, and requires the entity to disclose the amortized cost balance for each class of financial asset by credit quality indicator, disaggregated by the year of origination. This guidance is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The MUFG Group is currently evaluating what effect the guidance above will have on its consolidated financial statements and related disclosures. The MUFG Group's implementation efforts include identifying key interpretive issues and assessing existing credit forecasting models and processes against this guidance to determine what modifications may be required.

*Classification of Certain Cash Receipts and Cash Payments*—In August 2016, the FASB issued new guidance which provides specific guidance on eight cash flow classification issues to reduce diversity in practice. This guidance is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted. Since this guidance only impacts classification in the statement of cash flows, adoption will not affect the MUFG Group's consolidated statements of income or consolidated balance sheets. The MUFG Group is currently evaluating what effect the guidance will have on its consolidated financial statements.

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*Intra-Entity Transfers of Assets Other Than Inventory*—In October 2016, the FASB issued new guidance which simplifies the accounting for the income tax consequences of intra-entity transfers of assets other than inventory. Under current U.S. GAAP, the recognition of current and deferred income taxes for an intra-entity asset transfer is prohibited until the asset has been sold to an outside party. This guidance eliminates this exception for all intra-entity sales of assets other than inventory. This guidance is effective for annual reporting periods beginning after December 15, 2017, including interim periods within those annual reporting periods. Early adoption is permitted. The MUFG Group does not expect that the adoption of this guidance will have a material impact on its consolidated financial statements and related disclosures.

*Clarifying the Definition of a Business*—In January 2017, the FASB issued new guidance which clarifies the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. This guidance requires that when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets, an integrated set of assets and activities is not a business. This guidance also requires that to be considered a business, an integrated set of assets and activities must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs, provides a framework to evaluate whether both an input and a substantive process are present, and removes the current requirement to assess if a market participant could replace any missing elements. Furthermore, this guidance narrows the definition of outputs so that the term is consistent with how outputs are described in the new revenue standard. This guidance is effective for annual periods beginning after December 15, 2017, including interim periods within those periods. Early application is permitted for transactions that occur in a period for which financial statements have not been issued. The impact of this guidance will depend on the MUFG Group's acquisition and disposal activities after adoption.

*Simplifying the Test for Goodwill Impairment*—In January 2017, the FASB issued new guidance which simplifies how an entity is required to test goodwill for impairment by eliminating Step 2 from the goodwill impairment test. Under Step 2, an entity had to perform procedures to determine the fair value at the impairment testing date of its assets and liabilities (including unrecognized assets and liabilities) following the procedure that would be required in determining the fair value of assets acquired and liabilities assumed in a business combination. This guidance eliminates Step 2 and instead requires an entity to perform its goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. This guidance also eliminates the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and, if it fails that qualitative test, to perform Step 2 of the goodwill impairment test, and instead requires the disclosure of the amount of goodwill allocated to each reporting unit with a zero or negative carrying amount of net assets. This guidance is effective for its annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The MUFG Group is currently evaluating what effect the guidance will have on its consolidated financial statements and related disclosures.

*Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets*—In February 2017, the FASB issued new guidance which clarifies the scope of the guidance on derecognition of nonfinancial assets and provides guidance on the accounting for partial sales of nonfinancial assets. This guidance defines an in substance nonfinancial asset, unifies guidance related to partial sales of nonfinancial assets, eliminates rules specifically addressing sales of real estate, removes exceptions to the financial asset derecognition model, and clarifies the accounting for contributions of nonfinancial assets to joint venture. The effective date and early adoption of this guidance will be the same as the effective date and early adoption of the new revenue standard, which is not yet effective. The MUFG Group does not expect that the adoption of this guidance will have a material impact on its consolidated financial statements and related disclosures.

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*Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*—In March 2017, the FASB issued new guidance which requires that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. This guidance also allows only the service cost component to be eligible for capitalization when applicable. This guidance is effective for annual periods beginning after December 15, 2017, including interim periods within those annual periods. Early adoption is permitted as of the beginning of an annual period for which financial statements (interim or annual) have not been issued. The MUFG Group does not expect that the adoption of this guidance will have a material impact on its consolidated financial statements.

*Premium Amortization on Purchased Callable Debt Securities*—In March 2017, the FASB issued new guidance which shortens the amortization period for certain callable debt securities held at a premium, specifically requiring the premium to be amortized to the earliest call date. This guidance does not require an accounting change for securities held at a discount, and the discount continues to be amortized to maturity. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted, including adoption in an interim period. The MUFG Group is currently evaluating what effect the guidance will have on its consolidated financial statements and related disclosures.

*Scope of Modification Accounting*—In May 2017, the FASB issued new guidance which clarifies when to account for a change to the terms or conditions of a share-based payment award as a modification. Under this guidance, modification accounting is required only if the fair value, the vesting conditions, or the classification of the award changes as a result of the change in terms or conditions. This guidance is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. Early adoption is permitted, including adoption in any interim period, for which financial statements have not yet been issued. The MUFG Group does not expect that the adoption of this guidance will have a material impact on its consolidated financial statements and related disclosures.

*Targeted Improvements to Accounting for Hedging Activities*—In August 2017, the FASB issued new guidance which better aligns an entity's risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. To meet that objective, this guidance expands and refines hedge accounting for both nonfinancial and financial risk components and aligns the recognition and presentation of the effects of the hedging instrument and the hedged item in the financial statements. In addition, this guidance includes certain targeted improvements to ease the application of current guidance related to the assessment of hedge effectiveness. This guidance also modifies the requirement to disclose the effect on the income statement of fair value and cash flow hedges, eliminates the requirement to disclose the ineffective portion of the change in fair value of hedging instruments, and requires new tabular disclosures related to cumulative basis adjustments for fair value hedges. This guidance is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early application is permitted in any interim period after issuance of this guidance. The MUFG Group is currently evaluating what effect the guidance will have on its consolidated financial statements and related disclosures.

*Improvements to Nonemployee Share-Based Payment Accounting*—In June 2018, the FASB issued new guidance which largely aligns the accounting for share-based payment awards issued to employees and nonemployees. Under this guidance, equity-classified share-based payment awards issued to nonemployees are measured at the grant date, instead of the previous requirement to measure the awards at the earlier of the date at which the performance commitment is reached or the date of performance completion. For awards issued to nonemployees with performance conditions, compensation cost associated with the awards is recognized when achievement of the performance condition is probable, instead of the previous requirement to recognize the costs

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based on the lowest aggregate fair value. This guidance also eliminates the previous requirement to reassess the classification for certain nonemployee awards upon vesting. This guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within that fiscal year. Early adoption is permitted, but no earlier than an entity's adoption date of the new revenue standard. The MUFG Group is currently evaluating what effect the guidance will have on its consolidated financial statements and related disclosures.

**2. BUSINESS DEVELOPMENTS**

***Mitsubishi UFJ Fund Services's Acquisition of UBS Global Asset Management's Alternative Fund Services Business***

On December 11, 2015, Mitsubishi UFJ Fund Services Holdings Limited ("Mitsubishi UFJ Fund Services"), a global asset servicing subsidiary of Mitsubishi UFJ Trust and Banking, acquired the alternative fund services business of UBS Global Asset Management for ¥24,601 million in cash, and thereby recorded goodwill of ¥2,732 million and intangible assets of ¥7,622 million. UBS Global Asset Management is a global fund administrator providing professional services for hedge funds, funds of hedge funds, private equity funds and real estate structures. Mitsubishi UFJ Fund Services has focused on strengthening its operational abilities, to further improve the quality of services, and to expand its global network through acquisitions and investments. The purpose of this acquisition is to enhance the MUFG Group's competitiveness and scale of operations in the global fund administration market with the aim to be a global industry-leading fund administrator. The assets acquired and liabilities assumed were recorded at their estimated fair values on the acquisition date. During the fiscal year ended March 31, 2017, no measurement period adjustments were applied to the acquisition date fair values, resulting in no change in goodwill and intangible assets.

***MUFG Bank's Acquisition of Security Bank Corporation's shares***

On April 1, 2016, MUFG Bank acquired newly issued common shares and preferred shares with voting rights of Security Bank Corporation ("Security Bank"), representing in the aggregate approximately 20.0% of Security Bank's equity interest for ¥91,993 million. Security Bank is listed on the Philippines Stock Exchange and is not part of any local conglomerate in the Philippines. Considering both MUFG Bank's ownership of the common stock and preferred stock and representation on the board of directors, the MUFG Group has determined that MUFG Bank has the ability to exercise significant influence over the operating and financial policies of Security Bank and applied the equity method of accounting for its investment.

***Mitsubishi UFJ Trust and Banking's Acquisition of Capital Analytics II LLC***

On April 30, 2016, Mitsubishi UFJ Trust and Banking acquired 100% ownership of Capital Analytics II LLC for ¥4,494 million in cash, and thereby recorded goodwill of ¥2,858 million and intangible assets of ¥1,388 million. Capital Analytics II LLC is an overseas fund management company that mainly provides fund administration services for private equity funds. The purpose of this acquisition is to meet the diversified global fund administration needs of its Japanese and overseas customers through the utilization of Capital Analytics II LLC's unparalleled operational expertise and the MUFG Group's extensive network. Upon conclusion of the acquisition, Capital Analytics II LLC was renamed MUFG Capital Analytics LLC. During the fiscal year ended March 31, 2017, measurement period adjustments were applied to the acquisition date fair values, which decreased goodwill by ¥115 million.

***Krungsri's Acquisition of Hattha Kaksekar Limited***

On September 12, 2016, Krungsri acquired 100% ownership of Hattha Kaksekar Limited for ¥15,703 million in cash, and thereby recorded goodwill of ¥8,280 million and intangible assets of ¥476 million.

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Hattha Kaksekar Limited is a financial institution in Cambodia providing financial services primarily to sole proprietors. The purpose of this acquisition is to enable the MUFG Group to tap into the growth of the Cambodian market by leveraging the knowhow of Ngern Tid Lor Co., Ltd., a subsidiary of Krungsri engaged in microfinance in Thailand, with an aim to promote and develop the microfinance business.

***MUFG's Acquisition of Hitachi Capital Corporation's shares***

On October 3, 2016, MUFG acquired 23.0% of the common shares of Hitachi Capital Corporation (“Hitachi Capital”) for ¥91,877 million from Hitachi, Ltd. Considering both MUFG’s ownership of the common stock and representation on the board of directors, the MUFG Group has determined that MUFG has the ability to exercise significant influence over the operating and financial policies of Hitachi Capital and applied the equity method of accounting for its investment.

***Mitsubishi UFJ Trust and Banking's Acquisition of Rydex Fund Services, LLC***

On October 4, 2016, Mitsubishi UFJ Trust and Banking acquired 100% ownership of Rydex Fund Services, LLC for ¥17,431 million in cash, and thereby recorded goodwill of ¥5,232 million and intangible assets of ¥11,507 million. Rydex Fund Services, LLC is an overseas fund management company that mainly provides fund administration services for funds established under the 1940 Investment Companies Act of the United States. The purpose of this acquisition is to meet the diversified global fund administration needs of its Japanese and overseas customers through the utilization of Rydex Fund Services, LLC’s unparalleled operational expertise and the MUFG Group’s extensive network. Upon conclusion of the acquisition, Rydex Fund Services, LLC was renamed MUFG Investor Services (US), LLC.

***Mitsubishi UFJ NICOS Became a Wholly-Owned Subsidiary***

On May 15, 2017, MUFG and its subsidiary Mitsubishi UFJ NICOS entered into a share exchange agreement for MUFG to acquire the remaining 15.02% ownership of Mitsubishi UFJ NICOS by agreeing, on October 2, 2017, to pay ¥50,000 million cash to the only holder of Mitsubishi UFJ NICOS common stock other than MUFG. The transaction was accounted for as a non-cancellable forward purchase contract. Accordingly, a liability of ¥50,000 million was recognized in Other liabilities on the accompanying consolidated balance sheet with a corresponding reduction in Noncontrolling interests of ¥15,390 million and Capital surplus of ¥34,751 million, and an increase in Accumulated OCI, net of taxes of ¥141 million. On October 2, 2017, MUFG settled Other liabilities of ¥50,000 million. The purpose of making a wholly-owned subsidiary is to effect a shift in posture enabling a more flexible response to changes in the business environment and the swift pursuit of group synergies.

***Acquisition of shares in Bank Danamon in Indonesia***

On December 26, 2017, MUFG Bank entered into conditional share purchase agreements with Asia Financial (Indonesia) Pte. Ltd. (“AFI”) and other affiliated entities (the “Sellers”) to acquire their 73.8% equity interests in an Indonesian bank, PT Bank Danamon Indonesia, Tbk. (“Danamon”), subject to applicable regulatory approvals.

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 (“SME”) and corporate customers, with a network of around 1,800 offices in Indonesia.

MUFG Bank intends to establish an integrated and comprehensive services platform that serves as a gateway for clients wishing to make inroads into Indonesia’s growing economy as well as local companies



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seeking to expand into the region. This investment is also expected to strategically allow MUFG Bank to benefit from Danamon's foothold in the developing local retail and SME segments to deepen its banking franchise in Indonesia.

This strategic investment by MUFG Bank will be executed through three steps (the "Proposed Transaction"), and the completion of the Proposed Transaction will result in MUFG Bank becoming the largest shareholder in Danamon and Danamon becoming a consolidated subsidiary of MUFG Bank.

In Step 1, MUFG Bank acquired an initial 19.9% equity interest in Danamon from the Sellers on December 29, 2017, based on a price of IDR 8,323 (approximately ¥70<sup>(1)</sup>) per share, for an investment amount of IDR 15,875 billion (approximately ¥133 billion<sup>(1)</sup>). The price was based on a price book-value ratio of 2.0 calculated on the basis of Danamon's net assets as of September 30, 2017 with certain adjustments applied. AFI continues to be the majority shareholder in Danamon after closing of Step 1. MUFG Bank classified Danamon's equity securities as Available-for-sale securities.

In Step 2, MUFG Bank is expected to acquire an additional 20.1% to increase its equity interest in Danamon to 40% with regulatory approvals and other relevant approvals. This step is expected to close by September 2018. The price for Danamon's shares in Step 2 will be based on a similar approach to Step 1.

In Step 3, upon completion of Step 2, MUFG Bank intends to seek the necessary approvals to increase its equity interest in Danamon beyond the 40%, and this will provide an opportunity for all other existing Danamon shareholders to either remain as shareholders or receive cash from MUFG Bank. With the closing of Step 3, MUFG Bank's final equity interest in Danamon is expected to be above 73.8%. The prices for Danamon's shares in Step 3 will be based on a similar approach as Step 1.

Note:

(1) Calculated based on the exchange rate of IDR1 = ¥0.0084

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**3. INVESTMENT SECURITIES**

The following tables present the amortized cost, gross unrealized gains and losses and fair value of Available-for-sale securities and Held-to-maturity securities at March 31, 2017 and 2018:

<u>At March 31, 2017:</u>	<u>Amortized cost</u>	<u>Gross unrealized gains</u>	<u>Gross unrealized losses</u>	<u>Fair value</u>
	(in millions)			
Available-for-sale securities:				
Debt securities:				
Japanese national government and Japanese government agency bonds . . . . .	¥25,435,570	¥ 396,057	¥ 5,339	¥25,826,288
Japanese prefectural and municipal bonds . . . . .	1,010,336	9,598	4,445	1,015,489
Foreign governments and official institutions bonds . . . . .	2,162,897	14,006	26,974	2,149,929
Corporate bonds . . . . .	1,121,967	20,854	1,089	1,141,732
Residential mortgage-backed securities . . . . .	1,203,685	551	15,318	1,188,918
Commercial mortgage-backed securities . . . . .	80,564	454	750	80,268
Asset-backed securities . . . . .	1,374,754	5,416	1,898	1,378,272
Other debt securities <sup>(1)</sup> . . . . .	169,185	4,899	3,295	170,789
Marketable equity securities . . . . .	<u>2,736,976</u>	<u>3,407,915</u>	<u>6,477</u>	<u>6,138,414</u>
Total . . . . .	<u>¥35,295,934</u>	<u>¥3,859,750</u>	<u>¥65,585</u>	<u>¥39,090,099</u>
Held-to-maturity securities:				
Debt securities:				
Japanese national government and Japanese government agency bonds . . . . .	¥ 1,100,955	¥ 43,115	¥ —	¥ 1,144,070
Foreign governments and official institutions bonds . . . . .	61,135	1,113	—	62,248
Corporate bonds . . . . .	100	—	—	100
Residential mortgage-backed securities . . . . .	962,492	4,009	11,196 <sup>(2)</sup>	955,305
Commercial mortgage-backed securities . . . . .	184,336	5,065	768 <sup>(2)</sup>	188,633
Asset-backed securities . . . . .	<u>1,278,303</u>	<u>9,277</u>	<u>185</u>	<u>1,287,395</u>
Total . . . . .	<u>¥ 3,587,321</u>	<u>¥ 62,579</u>	<u>¥12,149</u>	<u>¥ 3,637,751</u>

Notes:

- (1) Other debt securities in the table above include ¥160,479 million of private placement debt conduit bonds.
- (2) MUFG Americas Holdings reclassified residential mortgage-backed securities and commercial mortgage-backed securities from Available-for-sale securities to Held-to-maturity securities during the fiscal year ended March 31, 2014. As a result of the reclassification of residential mortgage-backed securities and commercial mortgage-backed securities, the unrealized losses before taxes at the date of reclassification remaining in Accumulated OCI in the accompanying consolidated balance sheets were ¥4,662 million and ¥7,295 million, respectively, at March 31, 2017 and are not included in the table above.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

<u>At March 31, 2018:</u>	<u>Amortized cost</u>	<u>Gross unrealized gains</u>	<u>Gross unrealized losses</u>	<u>Fair value</u>
	(in millions)			
Available-for-sale securities:				
Debt securities:				
Japanese national government and Japanese government agency bonds . . . . .	¥24,272,345	¥ 299,402	¥ 3,843	¥24,567,904
Japanese prefectural and municipal bonds . . . . .	1,532,143	7,808	2,520	1,537,431
Foreign governments and official institutions bonds . . . . .	2,207,662	8,938	44,908	2,171,692
Corporate bonds . . . . .	1,104,799	15,589	1,028	1,119,360
Residential mortgage-backed securities . . . . .	1,632,346	752	15,563	1,617,535
Commercial mortgage-backed securities . . . . .	95,383	473	620	95,236
Asset-backed securities . . . . .	1,546,989	12,775	1,415	1,558,349
Other debt securities <sup>(1)</sup> . . . . .	165,002	3,635	3,030	165,607
Marketable equity securities . . . . .	2,789,392	3,925,680	43,488	6,671,584
<b>Total . . . . .</b>	<u>¥35,346,061</u>	<u>¥4,275,052</u>	<u>¥116,415</u>	<u>¥39,504,698</u>
Held-to-maturity securities:				
Debt securities:				
Japanese national government and Japanese government agency bonds . . . . .	¥ 1,100,807	¥ 40,212	¥ —	¥ 1,141,019
Foreign governments and official institutions bonds . . . . .	59,330	383	103	59,610
Residential mortgage-backed securities . . . . .	885,965	1,660	14,726 <sup>(2)</sup>	872,899
Commercial mortgage-backed securities . . . . .	171,647	4,107	1,018 <sup>(2)</sup>	174,736
Asset-backed securities . . . . .	1,365,192	8,438	1,222	1,372,408
<b>Total . . . . .</b>	<u>¥ 3,582,941</u>	<u>¥ 54,800</u>	<u>¥ 17,069</u>	<u>¥ 3,620,672</u>

Notes:

- (1) Other debt securities in the table above include ¥152,374 million of private placement debt conduit bonds.
- (2) MUFG Americas Holdings reclassified residential mortgage-backed securities and commercial mortgage-backed securities from Available-for-sale securities to Held-to-maturity securities during the fiscal year ended March 31, 2014. As a result of the reclassification of residential mortgage-backed securities and commercial mortgage-backed securities, the unrealized losses before taxes at the date of reclassification remaining in Accumulated OCI in the accompanying consolidated balance sheets were ¥3,457 million and ¥5,932 million, respectively, at March 31, 2018 and are not included in the table above.

**Other Securities**

Investment securities other than Available-for-sale securities or Held-to-maturity securities (i.e., nonmarketable equity securities presented in Other investment securities) were primarily carried at cost of ¥529,869 million and ¥538,251 million at March 31, 2017 and 2018, respectively, because their fair values were not readily determinable.

The remaining balances were investment securities held by certain subsidiaries subject to specialized industry accounting principles for investment companies and broker-dealers and carried at fair value of ¥26,292 million and ¥28,359 million at March 31, 2017 and 2018, respectively. See Note 32 for the valuation techniques and inputs used to estimate the fair values.

With respect to cost-method investments of ¥97,774 million and ¥97,586 million at March 31, 2017 and 2018, respectively, the MUFG Group estimated a fair value using commonly accepted valuation techniques to

**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES**  
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determine whether the investments were impaired in each reporting period. See Note 32 for the details of these commonly accepted valuation techniques. If the fair value of the investment is less than the cost of the investment, the MUFG Group proceeds to evaluate whether the impairment is other-than-temporary.

With respect to cost-method investments of ¥432,095 million and ¥440,665 million at March 31, 2017 and 2018, respectively, the MUFG Group performed a test to determine whether any impairment indicators existed for each investment in each reporting period. If an impairment indicator exists, the MUFG Group estimates the fair value of the cost-method investment. If the fair value of the investment is less than the cost of the investment, the MUFG Group performs an evaluation of whether the impairment is other-than-temporary. The primary method the MUFG Group uses to identify impairment indicators is a comparison of the MUFG Group's share of an investee's net assets to the cost of the MUFG Group's investment in the investee. The MUFG Group also considers whether significant adverse changes in the regulatory, economic or technological environment have occurred with respect to the investee. The MUFG Group periodically monitors the status of each investee including the credit rating, which is generally updated once a year based on the annual financial statements of the issuer. In addition, if an event that could impact the credit rating of an investee occurs, the MUFG Group reassesses the appropriateness of the credit rating assigned to the issuer in order to maintain an updated credit rating. The MUFG Group did not estimate the fair value of cost-method investments, which had aggregated costs of ¥429,313 million and ¥437,486 million at March 31, 2017 and 2018, respectively, since it was not practical and the MUFG Group identified no impairment indicators.

Based on the procedures described above, the MUFG Group recognized OTTI losses on the cost-method investments of ¥14,242 million, ¥1,044 million and ¥1,422 million for the fiscal years ended March 31, 2016, 2017 and 2018, respectively. The OTTI losses of ¥14,242 million for the fiscal year ended March 31, 2016 was derived from a limited number of companies categorized in the manufacturing industry. Each impairment loss was recognized based on the specific circumstances of each individual company.

***Contractual Maturities***

The amortized cost and fair values of Held-to-maturity debt securities and the fair values of Available-for-sale debt securities at March 31, 2018 by contractual maturity are shown below. Expected maturities may be shorter than contractual maturities because issuers of debt securities may have the right to call or prepay obligations with or without penalties. Debt securities not due at a single maturity date and securities embedded with call or prepayment options, such as mortgage-backed securities, are included in the table below based on their contractual maturities.

	<u>Held-to-maturity debt securities</u>		<u>Available-for-sale debt securities</u>
	<u>Amortized cost</u>	<u>Fair value</u>	<u>Fair value</u>
	(in millions)		
Due in one year or less . . . . .	¥ —	¥ —	¥11,911,681
Due from one year to five years . . . . .	212,879	216,474	10,652,390
Due from five years to ten years . . . . .	1,599,219	1,639,974	6,012,689
Due after ten years . . . . .	<u>1,770,843</u>	<u>1,764,224</u>	<u>4,256,354</u>
Total . . . . .	<u>¥3,582,941</u>	<u>¥3,620,672</u>	<u>¥32,833,114</u>

**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

***Realized Gains and Losses and Transfers of Investment Securities***

For the fiscal years ended March 31, 2016, 2017 and 2018, gross realized gains on sales of Available-for-sale securities were ¥317,454 million, ¥367,548 million and ¥330,508 million, respectively, and gross realized losses on sales of Available-for-sale securities were ¥52,904 million, ¥63,031 million and ¥49,290 million, respectively.

For the fiscal year ended March 31, 2017, the MUFG Group transferred certain securities which had a carrying value of ¥14,142 million from Held-to-maturity securities to Available-for-sale securities in response to the Volcker Rule of the Dodd-Frank Act. These securities were sold and the MUFG Group recorded a profit of ¥669 million for the fiscal year ended March 31, 2017. The transfer was in accordance with the circumstances consistent with a Held-to-maturity classification, therefore, management has determined the transfer out of Held-to-maturity is consistent with the original designation and does not taint the remaining portfolio.

***Other-than-temporary Impairments of Investment Securities***

For the fiscal years ended March 31, 2016, 2017 and 2018, losses resulting from impairment of investment securities to reflect the decline in value considered to be other-than-temporary were ¥37,153 million, ¥33,823 million and ¥8,196 million, respectively, which were included in Investment securities gains—net in the accompanying consolidated statements of income. The losses of ¥37,153 million for the fiscal year ended March 31, 2016 included losses of ¥21,948 million from marketable equity securities, ¥963 million from Available-for-sale debt securities which mainly comprised of corporate bonds, and ¥14,242 million from nonmarketable equity securities. The losses of ¥33,823 million for the fiscal year ended March 31, 2017 included losses of ¥32,038 million from marketable equity securities, ¥741 million from Available-for-sale debt securities which mainly comprised of corporate bonds, and ¥1,044 million from nonmarketable equity securities. The losses of ¥8,196 million for the fiscal year ended March 31, 2018 included losses of ¥6,660 million from marketable equity securities, ¥114 million from Available-for-sale debt securities which mainly comprised of corporate bonds, and ¥1,422 million from nonmarketable equity securities.

**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

***Gross Unrealized Losses and Fair Value***

The following tables show the gross unrealized losses and fair value of Available-for-sale securities and Held-to-maturity securities at March 31, 2017 and 2018 by length of time that individual securities in each category have been in a continuous loss position:

<b>At March 31, 2017:</b>	<b>Less than 12 months</b>		<b>12 months or more</b>		<b>Total</b>		
	<b>Fair value</b>	<b>Gross unrealized losses</b>	<b>Fair value</b>	<b>Gross unrealized losses</b>	<b>Fair value</b>	<b>Gross unrealized losses</b>	<b>Number of securities</b>
	(in millions, except number of securities)						
Available-for-sale securities:							
Debt securities:							
Japanese national government and Japanese government agency bonds . . . . .	¥6,088,856	¥ 5,339	¥ —	¥ —	¥6,088,856	¥ 5,339	107
Japanese prefectural and municipal bonds . . . . .	579,684	4,445	—	—	579,684	4,445	139
Foreign governments and official institutions bonds . . . . .	1,034,336	26,677	115,053	297	1,149,389	26,974	142
Corporate bonds . . . . .	277,394	933	15,613	156	293,007	1,089	160
Residential mortgage-backed securities . . . . .	754,557	14,086	81,065	1,232	835,622	15,318	412
Commercial mortgage-backed securities . . . . .	51,360	748	1,298	2	52,658	750	65
Asset-backed securities . . . . .	80,059	1,269	128,372	629	208,431	1,898	85
Other debt securities . . . . .	35,375	1,488	50,845	1,807	86,220	3,295	26
Marketable equity securities . . . . .	222,950	6,449	554	28	223,504	6,477	111
Total . . . . .	¥9,124,571	¥61,434	¥392,800	¥4,151	¥9,517,371	¥65,585	1,247
Held-to-maturity securities:							
Debt securities:							
Residential mortgage-backed securities . . . . .	¥ 523,237	¥10,736	¥161,453	¥ 460	¥ 684,690	¥11,196	263
Commercial mortgage-backed securities . . . . .	12,906	125	168,724	643	181,630	768	31
Asset-backed securities . . . . .	25,679	13	101,345	172	127,024	185	5
Total . . . . .	¥ 561,822	¥10,874	¥431,522	¥1,275	¥ 993,344	¥12,149	299

**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES**  
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<u>At March 31, 2018:</u>	Less than 12 months		12 months or more		Total		
	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Number of securities
	(in millions, except number of securities)						
Available-for-sale securities:							
Debt securities:							
Japanese national government and Japanese government agency bonds . . . . .	¥4,767,893	¥ 2,701	¥ 187,000	¥ 1,142	¥4,954,893	¥ 3,843	140
Japanese prefectural and municipal bonds . . . . .	400,705	453	353,047	2,067	753,752	2,520	193
Foreign governments and official institutions bonds . . .	846,818	16,955	818,937	27,953	1,665,755	44,908	157
Corporate bonds . . . . .	312,993	856	74,717	172	387,710	1,028	150
Residential mortgage-backed securities . . . . .	438,545	2,644	623,285	12,919	1,061,830	15,563	503
Commercial mortgage-backed securities . . . . .	50,898	386	9,067	234	59,965	620	60
Asset-backed securities . . . . .	144,073	1,403	5,345	12	149,418	1,415	29
Other debt securities . . . . .	12,341	367	56,117	2,663	68,458	3,030	23
Marketable equity securities . . . . .	448,489	43,482	28	6	448,517	43,488	116
Total . . . . .	¥7,422,755	¥69,247	¥2,127,543	¥47,168	¥9,550,298	¥116,415	1,371
Held-to-maturity securities:							
Debt securities:							
Foreign governments and official institution bonds . . . .	¥ 55,837	¥ 103	¥ —	¥ —	¥ 55,837	¥ 103	10
Residential mortgage-backed securities . . . . .	299,286	3,487	451,968	11,239	751,254	14,726	332
Commercial mortgage-backed securities . . . . .	2,150	2	169,065	1,016	171,215	1,018	32
Asset-backed securities . . . . .	275,814	1,222	—	—	275,814	1,222	11
Total . . . . .	¥ 633,087	¥ 4,814	¥ 621,033	¥12,255	¥1,254,120	¥ 17,069	385

***Evaluating Investment Securities for Other-than-temporary Impairments***

The following describes the nature of the MUFG Group's investments and the conclusions reached in determining whether the unrealized losses were temporary or other-than-temporary.

*Japanese national government and Japanese government agency bonds, Foreign governments and official institutions bonds and commercial mortgage-backed securities*

As of March 31, 2018, unrealized losses associated with these securities were deemed to be attributable to changes in market interest rates rather than a deterioration in the creditworthiness of the underlying obligor. Based on a consideration of factors, including cash flow analysis, the MUFG Group expects to recover the entire amortized cost basis of these securities. Accordingly, such changes are considered to be temporary and no impairment loss has been recorded.

*Corporate bonds*

As of March 31, 2018, unrealized losses associated with corporate bonds were primarily related to private placement bonds issued by Japanese non-public companies. The credit loss component recognized in earnings is identified as the amount of principal cash flows not expected to be received over the remaining terms of the

**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES**  
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bonds as estimated using the MUFG Group’s cash flow projections. The key assumptions include probability of default based on credit ratings of the bond issuers and loss given default.

The following table presents a roll-forward of the credit loss component recognized in earnings. The balance at the beginning of each fiscal year represents the credit loss component for which OTTI occurred on debt securities in prior periods. The additions represent the first time a debt security was credit impaired or when subsequent credit impairment has occurred. The credit loss component is reduced when the corporate bonds mature or are sold.

	<u>2016</u>	<u>2017</u>	<u>2018</u>
	(in millions)		
Balance at beginning of fiscal year . . . . .	¥ 8,814	¥ 6,691	¥4,125
Additions:			
Initial credit impairments . . . . .	915	645	111
Subsequent credit impairments . . . . .	48	96	3
Reductions:			
Securities sold or matured . . . . .	<u>(3,086)</u>	<u>(3,307)</u>	<u>(740)</u>
Balance at end of fiscal year . . . . .	<u>¥ 6,691</u>	<u>¥ 4,125</u>	<u>¥3,499</u>

The cumulative declines in fair value of the credit impaired debt securities, which were mainly corporate bonds, held at March 31, 2017 and 2018 were ¥3,450 million and ¥2,992 million, respectively. Of which, the credit loss components recognized in earnings were ¥4,125 million and ¥3,499 million, and the remaining amounts related to all other factors recognized in Accumulated OCI before taxes were ¥675 million and ¥507 million at March 31, 2017 and 2018, respectively.

*Residential mortgage-backed securities*

As of March 31, 2018, unrealized losses on these securities were primarily driven by securities guaranteed by a U.S. government agency or a government-sponsored agency which are collateralized by residential mortgage loans. Unrealized losses mainly resulted from changes in interest rates and not from changes in credit quality. The MUFG Group analyzed that no OTTI was identified on such securities as of March 31, 2018 and no impairment loss has been recorded because the strength of the issuers’ guarantees through direct obligations or support from the U.S. government is expected to be sufficient to recover the entire amortized cost basis of these securities.

*Asset-backed securities*

As of March 31, 2018, unrealized losses on these securities were primarily driven by certain collateralized loan obligations (“CLOs”), highly illiquid securities for which fair values are difficult to determine. Unrealized losses arise from widening credit spreads, deterioration of the credit quality of the underlying collateral, uncertainty regarding the valuation of such securities and the market’s view of the performance of the fund managers. When the fair value of a security is lower than its amortized cost or when any security is subject to a deterioration in credit rating, the MUFG Group undertakes a cash flow analysis of the underlying collateral to estimate the OTTI and confirms the intent and ability to hold these securities until recovery. Based on the analysis performed, no OTTI was identified as of March 31, 2018 and no impairment loss has been recorded.



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*Other debt securities*

As of March 31, 2018, other debt securities primarily consist of private placement debt conduit bonds, which are not rated by external credit rating agencies. The unrealized losses on these bonds result from a higher return on capital expected by the secondary market compared with the return on capital required at the time of origination when the bonds were purchased. The MUFG Group estimates loss projections for each security by assessing the underlying collateral of each security. The MUFG Group estimates the portion of loss attributable to credit based on the expected cash flows of the underlying collateral using estimates of current key assumptions such as probability of default and loss severity. Cash flow analysis of the underlying collateral provides an estimate of OTTI, which is performed when the fair value of a security is lower than its amortized cost and potential impairment is identified. Based on the analysis, no OTTI losses were recorded in the accompanying consolidated statements of income.

*Marketable equity securities*

The MUFG Group determines whether unrealized losses on marketable equity securities are temporary based on its ability and positive intent to hold the investments for a period of time sufficient to allow for any anticipated recovery and the results of its review conducted to identify and evaluate investments that have indications of possible impairment. Impairment is evaluated considering various factors, and their relative significance varies from case to case. The MUFG Group's review includes, but is not limited to, consideration of the following factors:

*The length of time that the fair value of the investment has been below cost*—The MUFG Group generally deems a continued decline of fair value below cost for six months or more to be other-than-temporary.

*The extent to which the fair value of investments has been below cost as of the end of the reporting period*—The MUFG Group's investment portfolio is exposed to volatile equity prices affected by many factors including investors' perspectives as to future economic prospects and the issuers' performance. The MUFG Group generally deems the decline in fair value below cost of 20% or more as an indicator of an other-than-temporary decline in fair value.

*The financial condition and near-term prospects of the issuer*—The MUFG Group considers the financial condition and near-term prospects of the issuer primarily based on the credit standing of the issuers as determined by its credit rating system.

At March 31, 2018, unrealized losses on marketable equity securities which have been in a continuous loss position are considered temporary based on the evaluation as described above.

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**4. LOANS AND ALLOWANCE FOR CREDIT LOSSES**

Loans at March 31, 2017 and 2018 by domicile and industry of the borrower are summarized below. Classification of loans by industry is based on the industry segment loan classifications as defined by the Bank of Japan.

	<u>2017</u>	<u>2018</u>
	(in millions)	
<b>Domestic:</b>		
Manufacturing . . . . .	¥ 11,796,803	¥ 10,876,625
Construction . . . . .	819,262	781,262
Real estate . . . . .	11,622,372	11,763,769
Services . . . . .	2,549,300	2,689,086
Wholesale and retail . . . . .	7,970,579	7,989,080
Banks and other financial institutions <sup>(1)</sup> . . . . .	5,223,906	4,818,364
Communication and information services . . . . .	1,634,584	1,551,533
Other industries . . . . .	8,898,712	8,939,291
Consumer . . . . .	16,491,010	16,287,332
Total domestic . . . . .	<u>67,006,528</u>	<u>65,696,342</u>
<b>Foreign:</b>		
Governments and official institutions . . . . .	1,037,795	920,538
Banks and other financial institutions <sup>(1)</sup> . . . . .	13,844,964	12,851,570
Commercial and industrial . . . . .	30,279,641	30,591,173
Other . . . . .	6,334,551	7,270,928
Total foreign . . . . .	<u>51,496,951</u>	<u>51,634,209</u>
Unearned income, unamortized premiums—net and deferred loan fees—net . . . .	(288,507)	(294,656)
Total <sup>(2)</sup> . . . . .	<u>¥118,214,972</u>	<u>¥117,035,895</u>

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 ¥185,940 million and ¥226,923 million at March 31, 2017 and 2018, respectively.

The MUFG Group classifies its loan portfolio into the following portfolio segments—Commercial, Residential, Card, MUFG Americas Holdings, and Krungsri based on the grouping used by the MUFG Group to determine the allowance for credit losses. See Note 1 for further information.

***Nonaccrual Loans***

Originated loans are generally placed on nonaccrual status when substantial doubt exists as to the full and timely collection of either principal or interest, 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. See Note 1 for further information.

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The nonaccrual loans by class at March 31, 2017 and 2018 is shown below:

	2017	2018
	(in millions)	
<b>Commercial</b>		
Domestic	¥471,148	¥332,994
Manufacturing	185,095	77,163
Construction	15,202	10,791
Real estate	44,374	33,317
Services	38,602	30,717
Wholesale and retail	131,213	108,175
Banks and other financial institutions	2,432	1,145
Communication and information services	18,685	13,815
Other industries	10,034	37,549
Consumer	25,511	20,322
Foreign-excluding MUAH and Krungsri	191,889	109,516
<b>Residential</b>	75,399	69,464
<b>Card</b>	61,424	61,387
<b>MUAH</b>	82,150	52,282
<b>Krungsri</b>	94,902	121,286
Total <sup>(1)</sup>	<u>¥976,912</u>	<u>¥746,929</u>

Note:

(1) The above table does not include loans held for sale of nil and ¥61 million at March 31, 2017 and 2018, respectively, and loans acquired with deteriorated credit quality of ¥9,720 million and ¥6,659 million at March 31, 2017 and 2018, respectively.

**Impaired Loans**

The MUFG Group's impaired loans primarily include nonaccrual loans and TDRs. The following table shows information about impaired loans by class at March 31, 2017 and 2018:

	Recorded Loan Balance			Unpaid Principal Balance	Related Allowance for Credit Losses
	Requiring an Allowance for Credit Losses	Not Requiring an Allowance for Credit Losses <sup>(1)</sup>	Total <sup>(2)</sup>		
At March 31, 2017:	(in millions)				
<b>Commercial</b>					
Domestic	¥ 875,977	¥187,738	¥1,063,715	¥1,107,203	¥608,122
Manufacturing	555,009	39,587	594,596	602,038	411,787
Construction	15,007	9,068	24,075	24,907	9,107
Real estate	53,048	30,274	83,322	90,797	14,987
Services	48,304	23,162	71,466	78,097	31,074
Wholesale and retail	160,422	53,760	214,182	224,141	115,673
Banks and other financial institutions	1,836	607	2,443	2,443	1,674
Communication and information services	14,166	10,652	24,818	26,641	10,565
Other industries	10,714	5,806	16,520	17,403	7,226
Consumer	17,471	14,822	32,293	40,736	6,029
Foreign-excluding MUAH and Krungsri	262,887	23,019	285,906	309,975	164,682
Loans acquired with deteriorated credit quality	8,013	—	8,013	11,513	3,619
<b>Residential</b>	120,465	6,557	127,022	154,006	46,971
<b>Card</b>	71,849	462	72,311	80,392	20,523
<b>MUAH</b>	77,160	16,292	93,452	113,414	19,173
<b>Krungsri</b>	44,679	20,752	65,431	71,075	19,118
Total <sup>(3)</sup>	<u>¥1,461,030</u>	<u>¥254,820</u>	<u>¥1,715,850</u>	<u>¥1,847,578</u>	<u>¥882,208</u>

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

<b>At March 31, 2018:</b>	<b>Recorded Loan Balance</b>			<b>Unpaid Principal Balance</b>	<b>Related Allowance for Credit Losses</b>
	<b>Requiring an Allowance for Credit Losses</b>	<b>Not Requiring an Allowance for Credit Losses<sup>(1)</sup></b>	<b>Total<sup>(2)</sup></b>		
	(in millions)				
<b>Commercial</b>					
Domestic	¥ 626,469	¥188,984	¥ 815,453	¥ 875,795	¥331,851
Manufacturing	361,268	36,566	397,834	408,124	166,098
Construction	10,936	7,172	18,108	18,490	7,921
Real estate	43,553	23,053	66,606	71,809	10,665
Services	38,097	16,600	54,697	59,335	25,890
Wholesale and retail	128,661	49,628	178,289	189,404	94,832
Banks and other financial institutions	1,125	26	1,151	1,151	972
Communication and information services	18,782	7,852	26,634	28,082	16,041
Other industries	12,978	34,282	47,260	67,525	5,350
Consumer	11,069	13,805	24,874	31,875	4,082
Foreign-excluding MUAH and Krungsri	122,243	40,249	162,492	190,518	82,855
Loans acquired with deteriorated credit quality	7,837	—	7,837	15,470	4,324
<b>Residential</b>	105,089	6,261	111,350	134,777	16,928
<b>Card</b>	66,964	388	67,352	74,840	21,223
<b>MUAH</b>	48,895	33,650	82,545	94,565	7,743
<b>Krungsri</b>	58,529	25,565	84,094	90,957	29,402
<b>Total<sup>(3)</sup></b>	<b>¥1,036,026</b>	<b>¥295,097</b>	<b>¥1,331,123</b>	<b>¥1,476,922</b>	<b>¥494,326</b>

Notes:

- (1) These loans do not require an allowance for credit losses because the recorded loan balance equals, or does not exceed, the present value of expected future cash flows discounted at the loans' original 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 at March 31, 2017 and 2018 are accrual TDRs as follows: ¥688,746 million and ¥536,748 million—Commercial; ¥50,213 million and ¥40,734 million—Residential; ¥32,564 million and ¥28,541 million—Card; ¥24,708 million and ¥39,333 million—MUFU Americas Holdings; and ¥23,588 million and ¥24,899 million—Krungsri, respectively.
- (3) In addition to impaired loans presented in the above table, there were impaired loans held for sale of ¥9,879 million and ¥61 million at March 31, 2017 and 2018, respectively.

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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, 2016, 2017 and 2018:

	2016		2017		2018	
	Average Recorded Loan Balance	Recognized Interest Income	Average Recorded Loan Balance	Recognized Interest Income	Average Recorded Loan Balance	Recognized Interest Income
	(in millions)					
<b>Commercial</b>						
Domestic	¥1,066,585	¥16,572	¥1,137,501	¥14,116	¥ 918,093	¥ 9,441
Manufacturing	464,157	5,530	601,256	5,845	472,081	3,787
Construction	29,548	708	26,684	434	19,465	281
Real estate	123,203	2,169	96,229	1,593	74,087	1,146
Services	91,339	1,967	81,967	1,236	59,916	794
Wholesale and retail	249,656	4,333	238,798	3,466	186,356	2,347
Banks and other financial institutions	3,982	51	2,272	11	1,729	8
Communication and information services	29,547	677	27,531	570	25,461	388
Other industries	29,018	301	24,709	397	50,377	215
Consumer	46,135	836	38,055	564	28,621	475
Foreign-excluding MUAH and Krungsri	230,018	3,235	291,612	5,132	209,297	4,244
Loans acquired with deteriorated credit quality	11,549	495	9,974	432	8,591	492
<b>Residential</b>	154,760	2,918	133,876	1,883	119,409	1,563
<b>Card</b>	85,006	3,330	75,809	2,483	69,831	1,993
<b>MUAH</b>	71,966	1,550	91,690	1,664	83,504	1,993
<b>Krungsri</b>	40,037	2,252	51,597	2,201	75,370	3,899
<b>Total</b>	¥1,659,921	¥30,352	¥1,792,059	¥27,911	¥1,484,095	¥23,625

Interest income on nonaccrual loans for all classes was recognized on a cash basis when ultimate collectibility of principal was certain. Otherwise, cash receipts were applied as principal reductions. Interest income on accruing impaired loans, including TDRs, was recognized on an accrual basis to the extent that the collectibility of interest income was reasonably certain based on management's assessment.

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The following table shows a roll-forward of accrual TDRs and other impaired loans (including nonaccrual TDRs) for the fiscal years ended March 31, 2016, 2017 and 2018:

	<u>2016</u>	<u>2017</u>	<u>2018</u>
		(in millions)	
<b>Accrual TDRs:</b>			
Balance at beginning of fiscal year . . . . .	¥ 867,090	¥ 613,844	¥ 819,819
Additions (new accrual TDR status) <sup>(1)</sup> . . . . .	175,178	492,269	144,368
Transfers to other impaired loans (including nonaccrual TDRs) . . . .	(164,016)	(40,182)	(25,122)
Loans sold . . . . .	(9)	(1,637)	(39,378)
Principal payments and other . . . . .	<u>(264,399)</u>	<u>(244,475)</u>	<u>(229,432)</u>
Balance at end of fiscal year <sup>(1)</sup> . . . . .	<u>¥ 613,844</u>	<u>¥ 819,819</u>	<u>¥ 670,255</u>
<b>Other impaired loans (including nonaccrual TDRs):</b>			
Balance at beginning of fiscal year . . . . .	¥ 819,716	¥1,111,306	¥ 896,031
Additions (new other impaired loans (including nonaccrual TDRs) status) <sup>(1)(2)</sup> . . . . .	617,481	541,789	281,275
Charge-off . . . . .	(65,198)	(106,097)	(98,355)
Transfers to accrual TDRs . . . . .	(32,190)	(333,478)	(43,858)
Loans sold . . . . .	(12,224)	(44,984)	(31,581)
Principal payments and other . . . . .	<u>(216,279)</u>	<u>(272,505)</u>	<u>(342,644)</u>
Balance at end of fiscal year <sup>(1)</sup> . . . . .	<u>¥1,111,306</u>	<u>¥ 896,031</u>	<u>¥ 660,868</u>

Notes:

- (1) For the fiscal year ended March 31, 2016, lease receivables of ¥3,124 million and ¥240 million in the Krungsri segment, which were accrual TDRs and nonaccrual TDRs, respectively, are excluded from the additions of accrual TDRs and other impaired loans, respectively, and the related ending balances of such TDRs amounting to ¥4,172 million and ¥567 million, are also excluded from the balance of accrual TDRs and other impaired loans, respectively, as of March 31, 2016. For the fiscal year ended March 31, 2017, lease receivables of ¥875 million and ¥74 million in the Krungsri segment, which were accrual TDRs and nonaccrual TDRs, respectively, are excluded from the additions of accrual TDRs and other impaired loans, respectively, and the related ending balances of such TDRs amounting to ¥4,065 million and ¥389 million, are also excluded from the balance of accrual TDRs and other impaired loans, respectively, as of March 31, 2017. For the fiscal year ended March 31, 2018, lease receivables of ¥1,809 million and ¥113 million in the Krungsri segment, which were accrual TDRs and nonaccrual TDRs, respectively, are excluded from the additions of accrual TDRs and other impaired loans, respectively, and the related ending balances of such TDRs amounting to ¥4,282 million and ¥1,286 million, are also excluded from the balance of accrual TDRs and other impaired loans, respectively, as of March 31, 2018.
- (2) Included in the additions of other impaired loans for the fiscal years ended March 31, 2016, 2017 and 2018 are nonaccrual TDRs as follows: ¥10,954 million, ¥11,699 million and ¥12,002 million—Card; ¥19,725 million, ¥25,023 million and ¥12,799 million—MUFG Americas Holdings; and ¥7,989 million, ¥7,471 million and ¥12,280 million—Krungsri, respectively.

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***Troubled Debt Restructurings***

The following table summarizes the MUFG Group's TDRs by class for the fiscal years ended March 31, 2016, 2017 and 2018:

	2016		2017		2018	
	Pre- Modification Outstanding Recorded Investment	Post- Modification Outstanding Recorded Investment	Pre- Modification Outstanding Recorded Investment	Post- Modification Outstanding Recorded Investment	Pre- Modification Outstanding Recorded Investment	Post- Modification Outstanding Recorded Investment
	(in millions)					
<b>Commercial<sup>(1)(3)</sup></b>						
Domestic	¥116,299	¥ 76,530	¥377,563	¥377,563	¥ 70,380	¥ 69,021
Manufacturing	63,304	23,535	335,347	335,347	35,954	35,954
Construction	2,881	2,881	1,377	1,377	1,020	1,020
Real estate	7,167	7,167	7,457	7,457	1,269	1,269
Services	12,226	12,226	5,268	5,268	4,139	4,139
Wholesale and retail	27,545	27,545	22,868	22,868	16,280	14,921
Banks and other financial institutions	—	—	—	—	246	246
Communication and information services	869	869	2,405	2,405	9,643	9,643
Other industries	1,240	1,240	1,493	1,493	761	761
Consumer	1,067	1,067	1,348	1,348	1,068	1,068
Foreign-excluding MUAH and Krungsri	23,849	23,849	58,178	58,178	25,522	25,522
Loans acquired with deteriorated credit quality	—	—	1,030	1,030	—	—
<b>Residential<sup>(1)(3)</sup></b>	19,316	19,316	13,092	13,092	9,763	9,763
<b>Card<sup>(2)(3)</sup></b>	16,002	15,670	17,256	16,759	17,436	16,912
<b>MUAH<sup>(2)(3)</sup></b>	64,064	64,064	38,558	38,449	40,578	38,224
<b>Krungsri<sup>(2)(3)</sup></b>	17,869	17,781	32,340	32,340	24,015	23,929
<b>Total</b>	<b>¥257,399</b>	<b>¥217,210</b>	<b>¥538,017</b>	<b>¥537,411</b>	<b>¥187,694</b>	<b>¥183,371</b>

**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES**  
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	2016	2017	2018
	<b>Troubled Debt Restructurings That Subsequently defaulted</b>		
	<b>Recorded Investment</b>		
	(in millions)		
<b>Commercial<sup>(1)(3)</sup></b>			
Domestic . . . . .	¥150,142	¥ 4,587	¥ 4,067
Manufacturing . . . . .	147,025	1,373	839
Construction . . . . .	6	11	—
Real estate . . . . .	745	38	10
Services . . . . .	1,193	217	822
Wholesale and retail . . . . .	1,090	2,530	2,231
Banks and other financial institutions . . . . .	—	—	—
Communication and information services . . . . .	20	385	140
Other industries . . . . .	40	—	—
Consumer . . . . .	23	33	25
Foreign-excluding MUAH and Krungsri . . . . .	—	11,268	—
Loans acquired with deteriorated credit quality . . . . .	—	—	—
<b>Residential<sup>(1)(3)</sup></b> . . . . .	284	231	159
<b>Card<sup>(2)(3)</sup></b> . . . . .	4,479	3,661	4,191
<b>MUAH<sup>(2)(3)</sup></b> . . . . .	3,925	6,624	2,565
<b>Krungsri<sup>(2)(3)</sup></b> . . . . .	6,219	3,984	4,789
<b>Total</b> . . . . .	<u>¥165,049</u>	<u>¥30,355</u>	<u>¥15,771</u>

Notes:

- (1) TDRs for the Commercial and Residential segments include accruing loans, and do not include nonaccrual loans.
- (2) TDRs for the Card, MUFG Americas Holdings and Krungsri segments include accrual and nonaccrual loans.
- (3) For the fiscal year ended March 31, 2016, extension of the stated maturity date of loans was the primary concession type in the Commercial, Residential and Krungsri segments, reduction in the stated rate was the primary concession type in the Card segment and payment deferrals were the primary concession type in the MUFG Americas Holdings segment. For the fiscal year ended March 31, 2017, extension of the stated maturity date of loans was the primary concession type in the Residential segment, reduction in the stated rate was the primary concession type in the Commercial and Card segments and payment deferrals were the primary concession type in the MUFG Americas Holdings and Krungsri segments. For the fiscal year ended March 31, 2018, extension of the stated maturity date of loans was the primary concession type in the Commercial, Residential and Krungsri segments, reduction in the stated rate was the primary concession type in the Card segment, payment deferrals were the primary concession type in the MUFG Americas Holdings segment.



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The following table summarizes outstanding recorded investment balances of TDRs by class at March 31, 2017 and 2018:

	2017	2018
	(in millions)	
<b>Commercial<sup>(1)</sup></b>		
Domestic .....	¥ 592,578	¥ 482,566
Manufacturing .....	409,500	320,702
Construction .....	8,881	7,362
Real estate .....	38,953	33,289
Services .....	32,864	23,987
Wholesale and retail .....	82,968	70,119
Banks and other financial institutions .....	11	6
Communication and information services .....	6,133	12,837
Other industries .....	6,486	9,712
Consumer .....	6,782	4,552
Foreign-excluding MUAH and Krungsri .....	96,168	54,182
<b>Residential<sup>(1)</sup></b> .....	50,213	40,734
<b>Card<sup>(2)</sup></b> .....	72,311	67,352
<b>MUAH<sup>(2)</sup></b> .....	69,830	65,373
<b>Krungsri<sup>(2)</sup></b> .....	46,651	54,036
<b>Total</b> .....	<u>¥ 927,751</u>	<u>¥ 764,243</u>

Notes:

- (1) TDRs for the Commercial and Residential segments include accruing loans, and do not include nonaccrual loans.
- (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: ¥39,747 million and ¥38,811 million—Card; ¥45,122 million and ¥26,040 million—MUFG Americas Holdings; and ¥18,998 million and ¥24,855 million—Krungsri, respectively.

A modification of terms of a loan under a TDR mainly involves: (i) a reduction in the stated interest rate applicable to the loan, (ii) an extension of the stated maturity date of the loan, (iii) a partial forgiveness of the principal of the loan, or (iv) a combination of all of these. Those loans are also considered impaired loans, and hence the allowance for credit losses is separately established for each loan. As a result, the amount of allowance for credit losses increases in many cases upon classification as a TDR loan. The amount of pre-modification outstanding recorded investment and post-modification outstanding recorded investment may differ due to write-offs made as part of the concession. The impact of write-offs associated with TDRs on the MUFG Group's results of operations for the fiscal years ended March 31, 2016, 2017 and 2018 was not material.

TDRs for the Commercial and Residential segments in the above tables include accruing loans, and do not include nonaccrual loans. 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.

TDRs that subsequently defaulted in the Commercial and Residential segments in the above tables include those accruing loans that became past due one month or more within the Commercial segment and six months or

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more within the Residential segment, and those accruing loans reclassified to nonaccrual loans due to financial difficulties even without delinquencies. This is because classification as a nonaccrual loan is regarded as default under the MUFG Group's credit policy. Also, the MUFG Group defines default as payment default for the purpose of the disclosure.

In regards to the Card, MUFG Americas Holdings and Krungsri segments, the TDRs in the above tables represent nonaccrual and accruing loans, and the defaulted loans in the above table represent nonaccruing and accruing loans that became past due one month or more within the Card segment, 60 days or more within the MUFG Americas Holdings segment, and six months or more within the Krungsri segment.

Historical payment defaults are one of the factors considered when projecting future cash flows in determining the allowance for credit losses for each segment.

The MUFG Group provided commitments to extend credit to customers with TDRs. The amounts of such commitments were ¥168,840 million and ¥172,159 million at March 31, 2017 and 2018, respectively. See Note 25 for further discussion of commitments to extend credit.

**Credit Quality Indicator**

Credit quality indicators of loans by class at March 31, 2017 and 2018 are shown below:

**At March 31, 2017:**

	Normal	Close Watch	Likely to become Bankrupt or Legally/Virtually Bankrupt	Total <sup>(1)</sup>
	(in millions)			
<b>Commercial</b>				
Domestic	¥49,572,413	¥2,161,965	¥296,961	¥52,031,339
Manufacturing	10,882,533	821,062	65,112	11,768,707
Construction	753,879	53,255	11,550	818,684
Real estate	11,137,637	352,785	42,382	11,532,804
Services	2,267,272	237,067	31,202	2,535,541
Wholesale and retail	7,403,680	462,577	98,423	7,964,680
Banks and other financial institutions	5,207,774	14,341	892	5,223,007
Communication and information services	1,573,518	45,342	15,357	1,634,217
Other industries	8,725,914	125,725	8,086	8,859,725
Consumer	1,620,206	49,811	23,957	1,693,974
Foreign-excluding MUAH and Krungsri	36,134,401	971,228	189,599	37,295,228
Loans acquired with deteriorated credit quality	16,503	12,572	5,065	34,140
<b>Total</b>	<u>¥85,723,317</u>	<u>¥3,145,765</u>	<u>¥491,625</u>	<u>¥89,360,707</u>
		<u>Accrual</u>	<u>Nonaccrual</u>	<u>Total<sup>(1)</sup></u>
			(in millions)	
<b>Residential</b>		¥14,256,263	¥76,185	¥14,332,448
<b>Card</b>		¥ 531,331	¥61,822	¥ 593,153

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	Credit Quality Based on the Number of Delinquencies		Credit Quality Based on Internal Credit Ratings			Total <sup>(1)(2)</sup>
	Accrual	Nonaccrual	Pass	Special Mention	Classified	
MUAH . . . . .	¥ 3,837,763	¥ 22,949	¥ 4,879,158	¥ 133,032	¥ 151,553	¥ 9,024,455
			(in millions)			
			Normal	Special Mention	Substandard or Doubtful or Doubtful of Loss	Total <sup>(1)</sup>
Krungsri . . . . .			¥ 4,672,435	¥ 195,472	¥ 98,335	¥ 4,966,242
			(in millions)			
<b>At March 31, 2018:</b>			Normal	Close Watch	Likely to become Bankrupt or Legally/Virtually Bankrupt	Total <sup>(1)</sup>
			(in millions)			
<b>Commercial</b>						
Domestic . . . . .			¥49,050,274	¥1,690,924	¥271,456	¥51,012,654
Manufacturing . . . . .			10,215,497	596,662	57,730	10,869,889
Construction . . . . .			727,932	43,673	9,116	780,721
Real estate . . . . .			11,379,291	279,931	32,692	11,691,914
Services . . . . .			2,467,540	175,733	24,081	2,667,354
Wholesale and retail . . . . .			7,518,383	374,706	77,870	7,970,959
Banks and other financial institutions . . . . .			4,800,281	10,923	1,145	4,812,349
Communication and information services . . . . .			1,491,093	48,153	11,958	1,551,204
Other industries . . . . .			8,780,517	120,466	36,951	8,937,934
Consumer . . . . .			1,669,740	40,677	19,913	1,730,330
Foreign-excluding MUAH and Krungsri . . . . .			36,049,123	569,137	108,276	36,726,536
Loans acquired with deteriorated credit quality . . . . .			12,035	11,728	3,562	27,325
Total . . . . .			¥85,111,432	¥2,271,789	¥383,294	¥87,766,515
				Accrual	Nonaccrual	Total <sup>(1)</sup>
				(in millions)		
<b>Residential</b> . . . . .				¥14,012,978	¥ 67,258	¥14,080,236
<b>Card</b> . . . . .				¥ 528,108	¥ 61,707	¥ 589,815
	Credit Quality Based on the Number of Delinquencies		Credit Quality Based on Internal Credit Ratings			
	Accrual	Nonaccrual	Pass	Special Mention	Classified	Total <sup>(1)(2)</sup>
MUAH . . . . .	¥4,360,445	¥14,238	¥4,509,044	¥ 59,890	¥116,842	¥ 9,060,459
			(in millions)			
			Normal	Special Mention	Substandard or Doubtful or Doubtful of Loss	Total <sup>(1)</sup>
Krungsri . . . . .			¥5,284,018	¥ 198,526	¥123,106	¥ 5,605,650
			(in millions)			

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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 which are not individually rated totaling ¥40,534 million and ¥953 million as of March 31, 2017 and 2018, respectively. The MUFG Group will be reimbursed for a substantial portion of any future losses on FDIC covered loans under the terms of the FDIC loss share agreements.

The MUFG Group classifies 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 the MUFG Group's 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, the MUFG Group evaluates 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, the MUFG Group also conducts 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 collectibility 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.

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. See Note 1 for further details of categorization of Accrual and Nonaccrual.

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 further downgrade. Classified credits are those that are internally risk graded as Substandard or

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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, Substandard, Doubtful, and Doubtful of Loss primarily based on their delinquency status. Loans categorized as Special Mention generally represent those that have the 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 the 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.

**Past Due Analysis**

Ages of past due loans by class at March 31, 2017 and 2018 are shown below:

<u>At March 31, 2017:</u>	<u>1-3 months Past Due</u>	<u>Greater Than 3 months</u>	<u>Total Past Due</u>	<u>Current</u>	<u>Total Loans<sup>(1)(2)</sup></u>	<u>Recorded Investment &gt; 90 Days and Accruing</u>
	(in millions)					
<b>Commercial</b>						
Domestic .....	¥ 12,410	¥ 19,468	¥ 31,878	¥ 51,999,461	¥ 52,031,339	¥ 5,817
Manufacturing .....	1,427	1,671	3,098	11,765,609	11,768,707	20
Construction .....	281	235	516	818,168	818,684	—
Real estate .....	2,655	5,058	7,713	11,525,091	11,532,804	1,542
Services .....	1,294	3,225	4,519	2,531,022	2,535,541	4
Wholesale and retail .....	1,932	1,883	3,815	7,960,865	7,964,680	149
Banks and other financial institutions .....	3	21	24	5,222,983	5,223,007	—
Communication and information services .....	583	216	799	1,633,418	1,634,217	—
Other industries .....	337	99	436	8,859,289	8,859,725	—
Consumer .....	3,898	7,060	10,958	1,683,016	1,693,974	4,102
Foreign-excluding MUAH and Krungsri .....	5,268	50,105	55,373	37,239,855	37,295,228	2,244
<b>Residential</b> .....	78,227	42,335	120,562	14,202,076	14,322,638	31,382
<b>Card</b> .....	17,490	31,298	48,788	533,484	582,272	—
<b>MUAH</b> .....	25,162	14,212	39,374	8,998,049	9,037,423	1,165
<b>Krungsri</b> .....	103,055	73,261	176,316	4,780,709	4,957,025	—
<b>Total</b> .....	<u>¥241,612</u>	<u>¥230,679</u>	<u>¥472,291</u>	<u>¥117,753,634</u>	<u>¥118,225,925</u>	<u>¥40,608</u>

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<u>At March 31, 2018:</u>	<u>1-3 months Past Due</u>	<u>Greater Than 3 months</u>	<u>Total Past Due</u>	<u>Current</u>	<u>Total Loans<sup>(1)(2)</sup></u>	<u>Recorded Investment &gt; 90 Days and Accruing</u>
	(in millions)					
<b>Commercial</b>						
Domestic .....	¥ 13,290	¥ 43,913	¥ 57,203	¥ 50,955,451	¥ 51,012,654	¥ 6,419
Manufacturing .....	1,495	1,300	2,795	10,867,094	10,869,889	—
Construction .....	359	437	796	779,925	780,721	—
Real estate .....	2,090	3,225	5,315	11,686,599	11,691,914	1,633
Services .....	1,025	620	1,645	2,665,709	2,667,354	26
Wholesale and retail .....	3,886	4,198	8,084	7,962,875	7,970,959	1,349
Banks and other financial institutions .....	—	21	21	4,812,328	4,812,349	—
Communication and information services .....	657	328	985	1,550,219	1,551,204	—
Other industries .....	251	28,315	28,566	8,909,368	8,937,934	—
Consumer .....	3,527	5,469	8,996	1,721,334	1,730,330	3,411
Foreign-excluding MUAH and Krungsri .....	12,512	19,655	32,167	36,694,369	36,726,536	1,083
<b>Residential</b> .....	<b>78,073</b>	<b>19,399</b>	<b>97,472</b>	<b>13,974,118</b>	<b>14,071,590</b>	<b>10,806</b>
<b>Card</b> .....	<b>18,887</b>	<b>32,218</b>	<b>51,105</b>	<b>528,284</b>	<b>579,389</b>	<b>—</b>
<b>MUAH</b> .....	<b>23,145</b>	<b>13,648</b>	<b>36,793</b>	<b>9,009,426</b>	<b>9,046,219</b>	<b>771</b>
<b>Krungsri</b> .....	<b>116,665</b>	<b>99,315</b>	<b>215,980</b>	<b>5,383,477</b>	<b>5,599,457</b>	<b>—</b>
<b>Total</b> .....	<b>¥262,572</b>	<b>¥228,148</b>	<b>¥490,720</b>	<b>¥116,545,125</b>	<b>¥117,035,845</b>	<b>¥19,079</b>

Notes:

- (1) Total loans in the above table do not include loans held for sale and 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 ¥438 million and ¥5 million of FDIC covered loans at March 31, 2017 and 2018, respectively, which are not subject to the guidance on loans and debt securities acquired with deteriorated credit quality.

***Allowance for Credit Losses***

Changes in the allowance for credit losses by portfolio segment for the fiscal years ended March 31, 2016, 2017 and 2018 are shown below:

<u>Fiscal year ended March 31, 2016:</u>	<u>Commercial</u>	<u>Residential</u>	<u>Card</u>	<u>MUAH</u>	<u>Krungsri</u>	<u>Total</u>
	(in millions)					
Allowance for credit losses:						
Balance at beginning of fiscal year .....	¥807,716	¥72,366	¥35,670	¥ 64,769	¥74,958	¥1,055,479
Provision for (reversal of) credit losses .....	117,024	(9,478)	885	47,429	76,002	231,862
Charge-offs .....	116,620	6,691	8,323	5,721	61,416	198,771
Recoveries .....	21,110	2,401	2,955	2,412	12,934	41,812
Net charge-offs .....	95,510	4,290	5,368	3,309	48,482	156,959
Others <sup>(1)</sup> .....	(12,671)	—	—	(435)	(6,146)	(19,252)
Balance at end of fiscal year .....	<u>¥816,559</u>	<u>¥58,598</u>	<u>¥31,187</u>	<u>¥108,454</u>	<u>¥96,332</u>	<u>¥1,111,130</u>

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

<u>Fiscal year ended March 31, 2017:</u>	<u>Commercial</u>	<u>Residential</u>	<u>Card</u>	<u>MUAH</u>	<u>Krungsri</u>	<u>Total</u>
	(in millions)					
Allowance for credit losses:						
Balance at beginning of fiscal year . . . .	¥ 816,559	¥ 58,598	¥31,187	¥108,454	¥ 96,332	¥1,111,130
Provision for (reversal of) credit losses . . . . .	177,295	12,224	13,289	(62)	50,942	253,688
Charge-offs . . . . .	108,262	5,339	16,309	32,074	51,774	213,758
Recoveries . . . . .	21,124	1,853	1,998	2,916	16,058	43,949
Net charge-offs . . . . .	87,138	3,486	14,311	29,158	35,716	169,809
Others <sup>(1)</sup> . . . . .	(6,030)	—	—	(5,501)	(1,290)	(12,821)
Balance at end of fiscal year . . . . .	<u>¥ 900,686</u>	<u>¥ 67,336</u>	<u>¥30,165</u>	<u>¥ 73,733</u>	<u>¥110,268</u>	<u>¥1,182,188</u>
<u>Fiscal year ended March 31, 2018:</u>	<u>Commercial</u>	<u>Residential</u>	<u>Card</u>	<u>MUAH</u>	<u>Krungsri</u>	<u>Total</u>
	(in millions)					
Allowance for credit losses:						
Balance at beginning of fiscal year . . . .	¥ 900,686	¥ 67,336	¥30,165	¥ 73,733	¥110,268	¥1,182,188
Provision for (reversal of) credit losses . . . . .	(297,401)	(22,291)	23,422	(9,309)	64,732	(240,847)
Charge-offs . . . . .	134,807	3,838	22,696	14,701	56,067	232,109
Recoveries . . . . .	24,913	1,339	1,228	6,140	17,490	51,110
Net charge-offs . . . . .	109,894	2,499	21,468	8,561	38,577	180,999
Others <sup>(1)</sup> . . . . .	(2,293)	—	—	(2,098)	8,173	3,782
Balance at end of fiscal year . . . . .	<u>¥ 491,098</u>	<u>¥ 42,546</u>	<u>¥32,119</u>	<u>¥ 53,765</u>	<u>¥144,596</u>	<u>¥ 764,124</u>

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 at March 31, 2017 and 2018 are shown below:

<u>At March 31, 2017:</u>	<u>Commercial</u>	<u>Residential</u>	<u>Card</u>	<u>MUAH</u>	<u>Krungsri</u>	<u>Total</u>
	(in millions)					
Allowance for credit losses:						
Individually evaluated for						
impairment . . . . .	¥ 772,804	¥ 46,520	¥ 20,523	¥ 19,174	¥ 19,035	¥ 878,056
Collectively evaluated for						
impairment . . . . .	115,489	19,255	9,632	54,096	91,137	289,609
Loans acquired with deteriorated						
credit quality . . . . .	12,393	1,561	10	463	96	14,523
Total . . . . .	<u>¥ 900,686</u>	<u>¥ 67,336</u>	<u>¥ 30,165</u>	<u>¥ 73,733</u>	<u>¥ 110,268</u>	<u>¥ 1,182,188</u>
Loans:						
Individually evaluated for						
impairment . . . . .	¥ 1,349,621	¥ 125,611	¥ 71,879	¥ 93,452	¥ 65,028	¥ 1,705,591
Collectively evaluated for						
impairment . . . . .	87,976,946	14,197,027	510,393	8,944,409	4,891,997	116,520,772
Loans acquired with deteriorated						
credit quality . . . . .	34,140	9,810	10,881	27,128	9,217	91,176
Total <sup>(1)</sup> . . . . .	<u>¥89,360,707</u>	<u>¥14,332,448</u>	<u>¥593,153</u>	<u>¥9,064,989</u>	<u>¥4,966,242</u>	<u>¥118,317,539</u>
 <u>At March 31, 2018:</u>	<u>Commercial</u>	<u>Residential</u>	<u>Card</u>	<u>MUAH</u>	<u>Krungsri</u>	<u>Total</u>
	(in millions)					
Allowance for credit losses:						
Individually evaluated for						
impairment . . . . .	¥ 414,706	¥ 16,644	¥ 21,223	¥ 7,743	¥ 29,402	¥ 489,718
Collectively evaluated for						
impairment . . . . .	64,375	24,718	10,884	45,571	115,161	260,709
Loans acquired with deteriorated						
credit quality . . . . .	12,017	1,184	12	451	33	13,697
Total . . . . .	<u>¥ 491,098</u>	<u>¥ 42,546</u>	<u>¥ 32,119</u>	<u>¥ 53,765</u>	<u>¥ 144,596</u>	<u>¥ 764,124</u>
Loans:						
Individually evaluated for						
impairment . . . . .	¥ 977,945	¥ 110,197	¥ 66,957	¥ 82,545	¥ 84,094	¥ 1,321,738
Collectively evaluated for						
impairment . . . . .	86,761,245	13,961,393	512,432	8,963,679	5,515,363	115,714,112
Loans acquired with deteriorated						
credit quality . . . . .	27,325	8,646	10,426	15,188	6,193	67,778
Total <sup>(1)</sup> . . . . .	<u>¥87,766,515</u>	<u>¥14,080,236</u>	<u>¥589,815</u>	<u>¥9,061,412</u>	<u>¥5,605,650</u>	<u>¥117,103,628</u>

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.



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Nonperforming loans were actively disposed of by sales during recent years. The allocated allowance for credit losses for such loans was removed from the allowance for credit losses and transferred to the valuation allowance for loans held for sale upon a decision to sell. Net charge-offs in the above table include a decrease in the allowance for credit losses due to loan disposal activity amounting to ¥0.8 billion, ¥11.0 billion and ¥12.2 billion for the fiscal years ended March 31, 2016, 2017 and 2018, respectively.

The MUFG Group sold ¥640 billion, ¥833 billion and ¥1,409 billion of loans within the Commercial segment during the fiscal years ended March 31, 2016, 2017 and 2018, respectively.

***Loans Acquired in a Transfer***

In accordance with the guidance on loans and debt securities acquired with deteriorated credit quality, the following table sets forth information regarding loans acquired in connection with mergers, for which it is probable, at acquisition, that the MUFG Group will be unable to collect all contractually required payments receivable.

	<u>2017</u>	<u>2018</u>
	(in millions)	
<b>Loans acquired during the fiscal year:</b>		
Contractually required payments receivable at acquisition . . . . .	¥ 2,624	¥ 537
Cash flows expected to be collected at acquisition . . . . .	398	197
Fair value of loans at acquisition . . . . .	398	197
<b>Accretable yield for loans within the scope of the guidance on loans and debt securities acquired with deteriorated credit quality:</b>		
Balance at beginning of fiscal year . . . . .	¥ 53,018	¥ 40,917
Additions . . . . .	—	—
Accretion . . . . .	(17,025)	(14,067)
Disposals . . . . .	(69)	(11)
Reclassifications from nonaccretable difference . . . . .	6,462	3,267
Foreign currency translation adjustments . . . . .	(1,469)	(434)
Balance at end of fiscal year . . . . .	<u>¥ 40,917</u>	<u>¥ 29,672</u>
<b>Loans within the scope of the guidance on loans and debt securities acquired with deteriorated credit quality:</b>		
Outstanding balance at beginning of fiscal year . . . . .	¥301,447	¥223,695
Outstanding balance at end of fiscal year . . . . .	223,695	180,011
Carrying amount at beginning of fiscal year . . . . .	124,806	91,176
Carrying amount at end of fiscal year . . . . .	91,176	67,778
<b>Nonaccruing loans within the scope of the guidance on loans and debt securities acquired with deteriorated credit quality:</b>		
Carrying amount at acquisition date during fiscal year . . . . .	¥ 398	¥ 197
Carrying amount at end of fiscal year . . . . .	9,720	6,659
<b>Allowance for credit losses within the scope of the guidance on loans and debt securities acquired with deteriorated credit quality:</b>		
Balance of allowance for credit losses at beginning of fiscal year . . . . .	¥ 15,731	¥ 14,523
Additional provisions during fiscal year . . . . .	3,020	2,285
Reductions of allowance during fiscal year . . . . .	1,250	732
Balance of allowance for credit losses at end of fiscal year . . . . .	14,523	13,697

**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

The MUFG Group considered prepayments in the determination of contractual cash flows and cash flows expected to be collected based on historical results.

***Lease Receivables***

As part of its financing activities, the MUFG Group enters into leasing arrangements with customers. The MUFG Group's leasing operations are conducted through leasing subsidiaries and consist principally of direct financing leases involving various types of data processing equipment, office equipment and transportation equipment.

As of March 31, 2017 and 2018, the components of the investment in direct financing leases were as follows:

	<u>2017</u>	<u>2018</u>
	(in millions)	
Minimum lease payments receivable	¥1,672,338	¥1,862,664
Estimated residual values of leased property	29,314	31,650
Less—unearned income	(234,874)	(279,081)
Net investment in direct financing leases	<u>¥1,466,778</u>	<u>¥1,615,233</u>

Future minimum lease payment receivables under noncancelable leasing agreements as of March 31, 2018 were as follows:

	<b>Direct Financing Leases</b>
	(in millions)
Fiscal year ending March 31:	
2019	¥ 507,905
2020	442,369
2021	325,821
2022	243,682
2023	140,914
2024 and thereafter	<u>201,973</u>
Total minimum lease payment receivables	<u>¥1,862,664</u>

***Sales of Loans***

The MUFG Group originates various types of loans to corporate and individual borrowers in Japan and overseas in the normal course of business. In order to improve its loan quality, MUFG Bank and Mitsubishi UFJ Trust and Banking actively disposed of nonperforming loans. Most of the nonperforming loans were disposed of by sales to third parties without any continuing involvement. Management of MUFG Bank and Mitsubishi UFJ Trust and Banking generally approves disposals after significant sales terms, including prices, are negotiated. As such, loans are disposed of by sales shortly after the loans are transferred to the held-for-sale classification. The net gains on the sales of loans were ¥12,094 million, ¥19,466 million and ¥2,976 million for the fiscal years ended March 31, 2016, 2017 and 2018, respectively.

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***Related Party Loans***

In some cases, the banking subsidiaries of MUFG make loans to related parties, including their directors and executive officers, in the course of their normal commercial banking business. At March 31, 2017 and 2018, outstanding loans to such related parties were not material.

In the opinion of management, these related party loans were made on substantially the same terms, including interest rates and collateral requirements, as those terms prevailing at the date these loans were made. For the fiscal years ended March 31, 2016, 2017 and 2018, there were no loans to related parties that were charged off. Additionally, at March 31, 2016, 2017, and 2018, there were no loans to related parties that were impaired.

**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**5. PREMISES AND EQUIPMENT**

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

	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

Premises and equipment include capitalized leases, principally related to data processing equipment, which amounted to ¥26,871 million and ¥31,458 million at March 31, 2017 and 2018, respectively. Accumulated depreciation on such capitalized leases at March 31, 2017 and 2018 amounted to ¥14,750 million and ¥17,298 million, respectively.

MUFG Bank has entered into sales agreements to sell its buildings and land and, under separate agreements, leased those properties back for its business operations, including bank branches. MUFG Bank either provided nonrecourse financing to the buyers for the sales proceeds or invested in the equity or common stock of the buyers. As a result, MUFG Bank was considered to have continuing involvement with the properties. For accounting and reporting purposes, these transactions were accounted for under the financing method with the sales proceeds recognized as a financing obligation. The properties were reported on the accompanying consolidated balance sheets and depreciated. The financing obligation at March 31, 2017 and 2018 was ¥43,031 million and ¥41,892 million, respectively.

For the fiscal years ended March 31, 2016, 2017 and 2018, the MUFG Group recognized ¥7,016 million, ¥5,964 million and ¥39,358 million, respectively, of impairment losses for long-lived assets, primarily real estate which was either formerly used for its banking operations and is no longer used or real estate that is being used where recovery of the carrying amount is doubtful. In addition, ¥541 million, ¥901 million and ¥213 million of impairment losses were recognized for real estate held for sale for the fiscal years ended March 31, 2016, 2017 and 2018, respectively. These losses are included in Other non-interest expenses. In computing the amount of impairment losses, fair value was determined primarily based on market prices, if available, or the estimated price based on an appraisal.

Impairment losses for the fiscal year ended March 31, 2018 included ¥34,016 million of losses on long-lived assets used for MUFG Bank's operations. In relation to a restructuring of operating divisions of MUFG Bank, which is a transformation of Corporate Banking Business Group and Retail Banking Business Group into Retail & Commercial Banking Business Group and Japanese Corporate & Investment Banking Business Group, based on an MUFG Re-Imagining Strategy published on May 15, 2017, and the new medium-term business plan, MUFG Bank reevaluated the profitability of some of its domestic operating assets. As a result of the reevaluation, it was determined that carrying amounts of these operating assets were unlikely to be recovered, and the impairment losses were recorded.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**6. GOODWILL AND OTHER INTANGIBLE ASSETS**

*Goodwill*

The table below presents the movement in the carrying amount of goodwill by business segment during the fiscal years ended March 31, 2017 and 2018:

	Customer Business				Total	Global Markets Business Group	Total
	Retail Banking Business Group	Corporate Banking Business Group	Global Business Group	Trust Assets Business Group			
	(in millions)						
<b>Balance at March 31, 2016:</b>							
Goodwill	¥ 840,055	¥ 885,234	¥ 769,585	¥ 42,700	¥ 2,537,574	¥2,300	¥2,539,874
Accumulated impairment losses	(840,055)	(885,234)	(329,953)	(30,257)	(2,085,499)	—	(2,085,499)
	—	—	439,632	12,443	452,075	2,300	454,375
Goodwill acquired during the fiscal year <sup>(2)</sup>	—	—	8,280	7,975	16,255	—	16,255
Impairment loss	—	—	—	(6,638)	(6,638)	—	(6,638)
Foreign currency translation adjustments and other	—	—	(13,835)	(14)	(13,849)	—	(13,849)
<b>Balance at March 31, 2017:</b>							
Goodwill	840,055	885,234	764,030	50,661	2,539,980	2,300	2,542,280
Accumulated impairment losses	(840,055)	(885,234)	(329,953)	(36,895)	(2,092,137)	—	(2,092,137)
	—	—	434,077	13,766	447,843	2,300	450,143
Foreign currency translation adjustments and other	—	—	(8,399)	(410)	(8,809)	—	(8,809)
<b>Balance at March 31, 2018:</b>							
Goodwill	840,055	885,234	755,631	50,251	2,531,171	2,300	2,533,471
Accumulated impairment losses	(840,055)	(885,234)	(329,953)	(36,895)	(2,092,137)	—	(2,092,137)
	¥ —	¥ —	¥ 425,678	¥ 13,356	¥ 439,034	¥2,300	¥ 441,334

Notes:

- (1) See Note 30 for the business segment information of the MUFG Group.  
(2) See Note 2 for the goodwill acquired in connection with acquisition.

U.S. GAAP requires 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, which is to be compared with the carrying amount of the reporting unit including goodwill, to identify potential impairment of goodwill. If the carrying amount of a reporting unit including goodwill exceeds its estimated fair value, the second step of the goodwill impairment test is performed to measure the amount of impairment loss recorded in the consolidated statements of income. This test requires comparison of the implied fair value of the reporting unit's goodwill with the carrying amount of its goodwill.

For the fiscal years ended March 31, 2016 and 2017, the MUFG Group recognized ¥4,298 million and ¥6,638 million, respectively, in impairment of goodwill relating to reporting units within the Trust Assets Business Group segment. There were no impairment losses recognized for the fiscal year ended March 31, 2018. The MUFG Group readjusted its future cash flow projection of the reporting units in this segment, considering the subsidiaries' recent business performance. Due to the situation, the fair value of the reporting units, which were based on discounted future cash flows, fell below the carrying amounts of the reporting units. Accordingly, the second step of the goodwill impairment test was performed for the reporting units. As a result, the carrying

**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES**  
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amounts of the reporting units' goodwill exceeded the implied fair value of the reporting units' goodwill, and the impairment losses were recognized on the related goodwill.

For the fiscal year ended March 31, 2016, the MUFG Group recognized a total of ¥329,421 million in impairment of goodwill relating to the reporting unit Other than MUFG Americas Holdings/Krungsri and the Krungsri reporting unit, both of which were within the Global Business Group segment.

The MUFG Group recognized ¥151,671 million in impairment of goodwill relating to the reporting unit Other than MUFG Americas Holdings/Krungsri within the Global Business Group segment. The Bank of Japan introduced Quantitative and Qualitative Monetary Easing with Negative Interest Rates in January 2016, and the benchmark yield turned and stayed negative through to the end of the fiscal year. Share prices have fallen and the Japanese yen appreciated since the start of the calendar year as a reflection of heightened risk aversion around the globe. It led MUFG's stock price to decline from ¥743.7 at March 31, 2015 to ¥521.5 at March 31, 2016. Since the fair value of the reporting unit Other than MUFG Americas Holdings/Krungsri within the Global Business Group segment was estimated based on MUFG's stock price, this decline led to a decrease in the market capitalization and negatively affected the fair value of the reporting unit. Due to the situation, the fair value of the reporting unit fell below the carrying amount of the reporting unit. Accordingly, the second step of the goodwill impairment test was performed for this reporting unit. As a result, the carrying amount of the reporting unit's goodwill exceeded the implied fair value of the reporting unit's goodwill, and the impairment loss was recognized on the related goodwill.

The MUFG Group recognized ¥177,750 million in impairment of goodwill relating to the Krungsri reporting unit within the Global Business Group segment. The economy in China continued to slow down due to the suppressed investment environment, while weak exports weighed on other Asian economies. It led to a slow down in economic growth in Thailand causing Krungsri's stock price to decline from Thai baht 44.75 at December 31, 2014 to Thai baht 29.75 at December 31, 2015. Since the fair value of the Krungsri reporting unit within the Global Business Group segment was estimated based on Krungsri's stock price, this decline led to a decrease in the market capitalization and negatively affected the fair value of the reporting unit. Due to the situation, the fair value of the reporting unit fell below the carrying amount of the reporting unit. Accordingly, the second step of the goodwill impairment test was performed for this reporting unit. As a result, the carrying amount of the reporting unit's goodwill exceeded the implied fair value of the reporting unit's goodwill, and the impairment loss was recognized on the related goodwill.

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***Other Intangible Assets***

The table below presents the gross carrying amount, accumulated amortization and net carrying amount, in total and by major class of other intangible assets at March 31, 2017 and 2018:

	2017			2018		
	Gross carrying amount	Accumulated amortization	Net carrying amount	Gross carrying amount	Accumulated amortization	Net carrying amount
	(in millions)					
Intangible assets subject to amortization:						
Software . . . . .	¥2,386,754	¥1,675,564	¥ 711,190	¥2,585,161	¥1,852,333	¥ 732,828
Core deposit intangibles . . . . .	126,728	76,628	50,100	128,679	83,382	45,297
Customer relationships . . . . .	395,136	203,144	191,992	391,832	227,079	164,753
Trade names . . . . .	77,024	27,210	49,814	77,821	30,801	47,020
Other . . . . .	12,068	3,929	8,139	9,706	3,977	5,729
Total . . . . .	<u>¥2,997,710</u>	<u>¥1,986,475</u>	1,011,235	<u>¥3,193,199</u>	<u>¥2,197,572</u>	995,627
Intangible assets not subject to amortization:						
Other . . . . .			9,124			15,492 <sup>(1)</sup>
Total . . . . .			<u>¥1,020,359</u>			<u>¥1,011,119</u>

Note:

(1) Intangible assets not subject to amortization includes ¥7,268 million of mortgage servicing rights accounted for at fair value at March 31, 2018.

Intangible assets subject to amortization acquired during the fiscal year ended March 31, 2017 amounted to ¥254,064 million, which primarily consisted of ¥234,882 million of software and ¥19,086 million of customer relationships. The weighted average amortization periods for these assets are 5 years and 20 years, respectively. There is no significant residual value estimated for these assets. Intangible assets not subject to amortization acquired during the fiscal year ended March 31, 2017 amounted to ¥1 million.

Intangible assets subject to amortization acquired during the fiscal year ended March 31, 2018 amounted to ¥242,017 million, which primarily consisted of ¥239,460 million of software and ¥2,200 million of customer relationships. The weighted average amortization periods for these assets are 5 years and 22 years, respectively. There is no significant residual value estimated for these assets. Intangible assets not subject to amortization acquired during the fiscal year ended March 31, 2018 amounted to ¥28 million.

For the fiscal years ended March 31, 2016, 2017 and 2018, the MUFG Group recognized ¥117,726 million, ¥5,803 million and ¥21,900 million, respectively, of impairment losses for intangible assets whose carrying amounts exceeded their fair value. In computing the amount of impairment losses, fair value was determined primarily based on the present value of expected future cash flows, the estimated value based on appraisals, or market prices.

The impairment loss for the fiscal year ended March 31, 2016 included a loss of ¥8,043 million relating to customer relationship under the Trust Asset Business Group segment. The fair value of the customer relationship was calculated based on the present value of expected future cash flows, which could be affected by the amount of the assets under management and fluctuation of the markets. Estimated future cash flows of the above

**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES**  
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customer relationship were readjusted downwards due to instability in bond markets and large fluctuations in foreign exchange markets. Accordingly, the MUFG Group reevaluated the fair value of the customer relationship and recognized an impairment loss. Also, for the fiscal year ended March 31, 2016, the MUFG Group recognized an impairment loss of ¥8,923 million related to software for internal use.

The impairment loss for the fiscal year ended March 31, 2016 included a loss of ¥99,981 million relating to a core deposit intangible acquired in connection with the merger with UFJ Holdings. The fair value of this core deposit intangible was calculated based on the present value of expected future cash flows in 2005. As a result of the negative interest rate policy by the Bank of Japan, estimated future cost savings became negative due to the decrease of the spread between the interest rate of the core deposit funding and the decreased alternative interest rate of the market funding, and the estimated future cash flows were revised downwards. Accordingly, the MUFG Group reevaluated the core deposit intangible and recognized an impairment loss.

The impairment loss for the fiscal year ended March 31, 2018 included a loss of ¥11,121 million relating to the foreign subsidiary's customer relationships under the Trust Asset Business Group segment. The intangible assets were valued based on discounted expected future cash flows. The estimated future cash flows of the above customer relationships were revised downward due to a decrease in acquired customer base. Accordingly, the MUFG group revaluated the intangible assets and recognized impairment losses.

The estimated aggregate amortization expense for intangible assets for the next five fiscal years is as follows:

	<u>(in millions)</u>
Fiscal year ending March 31:	
2019 .....	¥250,234
2020 .....	213,606
2021 .....	171,934
2022 .....	133,685
2023 .....	90,383

**7. INCOME TAXES**

***Income before Income Tax Expense***

Income before income tax expense by jurisdiction for the fiscal years ended March 31, 2016, 2017 and 2018 was as follows:

	<b>2016</b>	<b>2017</b>	<b>2018</b>
		<b>(in millions)</b>	
Domestic income (loss) .....	¥ 735,128	¥(413,499)	¥ 803,057
Foreign income .....	427,542	686,042	858,762
Total .....	¥1,162,670	¥ 272,543	¥1,661,819



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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

***Income Tax Expense (Benefit)***

The detail of current and deferred income tax expense (benefit) for the fiscal years ended March 31, 2016, 2017 and 2018 was as follows:

	<u>2016</u>	<u>2017</u>	<u>2018</u>
	(in millions)		
Current:			
Domestic .....	¥ 293,337	¥ 176,415	¥180,109
Foreign .....	<u>137,040</u>	<u>130,406</u>	<u>107,119</u>
Total .....	<u>430,377</u>	<u>306,821</u>	<u>287,228</u>
Deferred:			
Domestic .....	(22,019)	(217,485)	116,873
Foreign .....	<u>(38,926)</u>	<u>5,117</u>	<u>3,722</u>
Total .....	<u>(60,945)</u>	<u>(212,368)</u>	<u>120,595</u>
Income tax expense .....	369,432	94,453	407,823
Income tax expense (benefit) reported in Accumulated OCI relating to:			
Investment securities .....	(162,535)	20,237	120,588
Debt valuation adjustments (Note 14) .....	1,793	(3,926)	(960)
Derivatives qualifying for cash flow hedges .....	1,226	(9,443)	(4,421)
Defined benefit plans .....	(67,877)	48,504	50,774
Foreign currency translation adjustments .....	<u>(43,988)</u>	<u>(1,957)</u>	<u>(34,527)</u>
Total .....	<u>(271,381)</u>	<u>53,415</u>	<u>131,454</u>
Total .....	<u>¥ 98,051</u>	<u>¥ 147,868</u>	<u>¥539,277</u>

The MUFG Group has changed to filing on a consolidated basis for corporate income taxes within Japan beginning with the fiscal year ended March 31, 2015. A consolidated basis for corporate income taxes results in the reporting of taxable income or loss based upon the combined profits or losses of the parent company and its wholly-owned domestic subsidiaries.

On March 29, 2016, the Japanese Diet enacted the “2016 Tax Reform” which reduces in the effective statutory rate of corporate income tax from approximately 33.9% to 31.5% for the fiscal year beginning on or after April 1, 2016. In addition, this “2016 Tax Reform” partially amends the articles in the “2015 Tax Reform” relating to the limitation on the use of net operating loss carryforwards and the carryforward period of certain net operating loss carryforwards in order to equalize the tax burden of companies. That is, 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 one-year decrease in the carryforward period of certain net operating loss carryforwards from ten-year period to nine-year period for the period between April 1, 2017 and March 31, 2018. The change in tax law resulted in a decrease of ¥50,081 million in income tax expense for the fiscal year ended March 31, 2016.

In June 2016, the Tokyo Metropolitan Government Bureau of Taxation promulgated revisions to the local tax law. The revision reduces the effective statutory rate of corporate income tax from approximately 31.5% as of March 31, 2016 to 30.6% for the fiscal year beginning on or after April 1, 2017. The revision resulted in a decrease of ¥26,820 million in income tax expense for the fiscal year ended March 31, 2017.

In the United States of America, on December 22, 2017, the Tax Cuts & Jobs Act was signed into law reducing the federal corporate income tax rate from 35% to 21% effective January 1, 2018. As a result of the

**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES**  
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reduction in the corporate income tax rate, the MUFG Group revalued its net deferred tax liabilities at March 31, 2018, resulting in a one-time tax benefit of ¥10,395 million.

***Reconciliation of Effective Income Tax Rate***

Income taxes in Japan applicable to the MUFG Group are imposed by the national, prefectural and municipal governments, and in the aggregate resulted in a normal effective statutory rate of approximately 33.9%, 31.5%, and 30.6% for the fiscal years ended March 31, 2016, 2017 and 2018, respectively. Foreign subsidiaries are subject to income taxes of the countries in which they operate.

A reconciliation of the effective income tax rates reflected in the accompanying consolidated statements of income to the combined normal effective statutory tax rates for the fiscal years ended March 31, 2016, 2017 and 2018 is as follows:

	<u>2016</u>	<u>2017</u>	<u>2018</u>
Combined normal effective statutory tax rate . . . . .	33.9%	31.5%	30.6%
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
Effect of changes in tax laws . . . . .	(4.3)	(9.8)	(0.6)
Other—net . . . . .	<u>(0.4)</u>	<u>(1.2)</u>	<u>0.6</u>
Effective income tax rate . . . . .	<u>31.8%</u>	<u>34.7%</u>	<u>24.5%</u>

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

***Deferred Tax Assets and Liabilities***

Deferred tax assets and liabilities are computed for each tax jurisdiction using currently enacted tax rates applicable to periods when the temporary differences are expected to reverse. The tax effects of the items comprising the MUFG Group's net deferred tax assets at March 31, 2017 and 2018 were as follows:

	<u>2017</u>	<u>2018</u>
	(in millions)	
Deferred tax assets:		
Allowance for credit losses . . . . .	¥ 515,553	¥ 337,718
Operating loss carryforwards . . . . .	156,040	167,355
Loans . . . . .	13,345	3,483
Accrued liabilities and other . . . . .	174,945	133,728
Premises and equipment, including sale-and-leaseback transactions . . . . .	86,681	120,505
Derivative financial instruments . . . . .	96,048	111,677
Valuation allowance . . . . .	<u>(268,490)</u>	<u>(215,130)</u>
Total deferred tax assets . . . . .	<u>774,122</u>	<u>659,336</u>
Deferred tax liabilities:		
Investment securities (including trading account assets at fair value under the fair value option) . . . . .	869,931	973,390
Intangible assets . . . . .	66,692	52,396
Lease transactions . . . . .	94,255	83,445
Defined benefit plans . . . . .	8,483	15,484
Other . . . . .	<u>72,039</u>	<u>119,970</u>
Total deferred tax liabilities . . . . .	<u>1,111,400</u>	<u>1,244,685</u>
Net deferred tax assets (liabilities) . . . . .	<u>¥ (337,278)</u>	<u>¥ (585,349)</u>

The valuation allowance was provided primarily against deferred tax assets recorded at MUFG and its subsidiaries with operating loss carryforwards. The valuation allowance is determined to reduce the measurement of deferred tax assets not expected to be realized. Management considers all available evidence, both positive and negative, to determine whether the valuation allowance is necessary based on the weight of that evidence. Management determines the amount of the valuation allowance based on 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 the existence of significant amounts of operating loss carryforwards, cumulative losses and the expiration of unused operating loss carryforwards in recent years, a valuation allowance was recognized against the deferred tax assets as of March 31, 2017 and 2018 to the extent that it is more likely than not that they will not be realized.

For the fiscal year ended March 31, 2017, the MUFG Group recorded an additional valuation allowance of ¥60,208 million. This was mainly due to a decline in estimated future taxable income of a certain subsidiary resulting from the downturn in the consumer finance business. Management considered various factors, including the existence of significant amounts of operating loss carryforwards and cumulative operating results over the prior several years of the subsidiary as well as the outlook regarding prospective operating performance of the subsidiary, and determined that sufficient negative evidence existed as of March 31, 2017, to conclude that it was more likely than not that deferred tax assets would not be realizable.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

For the fiscal year ended March 31, 2018, the MUFG Group released a valuation allowance of ¥53,360 million which was mainly due to the commencement of a certain subsidiary's application of the consolidated corporate-tax system. Management believes that the net operating loss carryforwards related to Japanese corporate taxes will be fully utilized by the application of the consolidated corporate-tax system.

Income taxes are not provided on undistributed earnings of certain foreign subsidiaries that are considered to be indefinitely reinvested in the operations of such subsidiaries. At March 31, 2017 and 2018, the undistributed earnings of such foreign subsidiaries amounted to approximately ¥28,338 million and ¥38,358 million, respectively. Determination of the amount of unrecognized deferred tax liabilities with respect to these undistributed earnings is not practicable because of the complexity associated with its hypothetical calculation including foreign withholding taxes and foreign tax credits. MUFG has neither plans nor the intention to dispose of investments in such foreign subsidiaries and, accordingly, does not expect to record capital gains or losses, or otherwise monetize the undistributed earnings of such foreign subsidiaries.

Furthermore, under the Japanese tax law, 95% of a dividend received from a foreign company in which a domestic company has held generally at least 25% of the outstanding shares for a continuous period of six months or more ending on the date on which the dividend is declared can be excluded from the domestic company's taxable income. Therefore, if undistributed earnings of certain foreign subsidiaries are repatriated through dividends, only 5% of the amount of dividends will be included in taxable income.

***Operating Loss and Tax Credit Carryforwards***

At March 31, 2018, the MUFG Group had operating loss carryforwards for corporate tax of ¥506,650 million and tax credit carryforwards of ¥37,096 million for tax purposes. Such carryforwards, if not utilized, are scheduled to expire as follows:

	<u>Operating loss carryforwards</u>	<u>Tax credit carryforwards</u>
	(in millions)	
Fiscal year ending March 31:		
2019 .....	¥ 2,295	¥ 800
2020 .....	34,413	206
2021 .....	11,698	200
2022 .....	24,112	106
2023 .....	66,993	106
2024 .....	104,892	116
2025 and thereafter .....	242,696	31,758
No definite expiration date .....	<u>19,551</u>	<u>3,804</u>
Total .....	<u>¥506,650</u>	<u>¥37,096</u>

**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

***Uncertainty in Income Tax***

The following is a roll-forward of the MUFG Group's unrecognized tax benefits for the fiscal years ended March 31, 2016, 2017 and 2018:

	<u>2016</u>	<u>2017</u>	<u>2018</u>
	(in millions)		
Balance at beginning of fiscal year . . . . .	¥10,940	¥ 9,950	¥ 7,851
Gross amount of increases for current year's tax positions . . . . .	1,095	888	427
Gross amount of increases for prior years' tax positions . . . . .	162	1,014	6,642
Gross amount of decreases for prior years' tax positions . . . . .	—	(95)	(455)
Net amount of changes relating to settlements with tax authorities . . . . .	(1,299)	(39)	(1,074)
Decreases due to lapse of applicable statutes of limitations . . . . .	(296)	(3,437)	(253)
Foreign exchange translation and others . . . . .	(652)	(430)	(221)
Balance at end of fiscal year . . . . .	<u>¥ 9,950</u>	<u>¥ 7,851</u>	<u>¥12,917</u>

The total amounts of unrecognized tax benefits for the years ended March 31, 2016, 2017 and 2018 that, if recognized, would affect the effective tax rate are ¥1,065 million, ¥1,443 million and ¥6,518 million, respectively. The remainder of the uncertain tax positions have offsetting amounts in other jurisdictions or are temporary differences.

The MUFG Group classifies interest and penalties, if applicable, related to income taxes as Income tax expense. Accrued interest and penalties (not included in the "unrecognized tax benefits" above) are a component of Other liabilities. The following is a roll-forward of the interest and penalties recognized in the accompanying consolidated financial statements for the fiscal years ended March 31, 2016, 2017 and 2018:

	<u>2016</u>	<u>2017</u>	<u>2018</u>
	(in millions)		
Balance at beginning of fiscal year . . . . .	¥4,876	¥4,727	¥4,054
Total interest and penalties in the consolidated statements of income . . . . .	201	(591)	694
Total cash settlements, foreign exchange translation and others . . . . .	(350)	(82)	(184)
Balance at end of fiscal year . . . . .	<u>¥4,727</u>	<u>¥4,054</u>	<u>¥4,564</u>

The MUFG Group is subject to ongoing tax examinations by the tax authorities of the various jurisdictions in which it operates. The following are the major tax jurisdictions in which the MUFG Group operates and the status of years under audit or open to examination:

<u>Jurisdiction</u>	<u>Tax years</u>
Japan . . . . .	2017 and forward
United States—Federal . . . . .	2010 and forward
United States—California . . . . .	2014 and forward
Thailand . . . . .	2010 and forward
Indonesia . . . . .	2017 and forward

The MUFG Group is currently under continuous examinations by the tax authorities in various domestic and foreign jurisdictions and many of these examinations are resolved every year. The unrecognized tax benefits will decrease since resolved items will be removed from the balance regardless of whether their resolution results in payment or recognition. It is reasonably possible that the unrecognized tax benefits will decrease by approximately ¥4.0 billion during the next twelve months.

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**8. PLEDGED ASSETS AND COLLATERAL**

*Pledged Assets*

At March 31, 2018, assets mortgaged, pledged, or otherwise subject to lien were as follows:

	<b>2018</b>
	<b>(in millions)</b>
Trading account securities .....	¥ 7,848,387
Investment securities .....	12,670,178
Loans .....	13,682,588
Other .....	54,155
Total .....	¥34,255,308

The above pledged assets were classified by type of liabilities to which they related as follows:

	<b>2018</b>
	<b>(in millions)</b>
Deposits .....	¥ 252,233
Call money and funds purchased .....	4,931
Payables under repurchase agreements and securities lending transactions .....	18,643,579
Other short-term borrowings and long-term debt .....	15,330,630
Other .....	23,935
Total .....	¥34,255,308

At March 31, 2018, certain investment securities, principally Japanese national government and Japanese government agency bonds, loans, and other assets with a combined carrying value of ¥20,661,314 million were pledged for acting as a collection agent of public funds, for settlement of exchange at the Bank of Japan and Japanese Banks' Payment Clearing Network, for derivative transactions and for certain other purposes.

The MUFG Group engages in on-balance sheet securitizations. These securitizations of mortgage and apartment loans, which do not qualify for sales treatment, are accounted for as secured borrowings. The amount of loans in the table above represents the carrying amount of these transactions with the carrying amount of the associated liabilities included in Other short-term borrowings and Long-term debt.

Under Japanese law, Japanese banks are required to maintain certain reserves on deposit with the Bank of Japan based on the amount of deposit balances and certain other factors. There are similar reserve deposit requirements for foreign offices and subsidiaries engaged in banking businesses in foreign countries. At March 31, 2017 and 2018 the reserve funds required to be maintained by the MUFG Group, which are included in Cash and due from banks and Interest-earning deposits in other banks, were ¥2,765,966 million and ¥2,679,482 million, respectively.

*Collateral*

The MUFG Group accepts and provides financial assets as collateral for transactions, principally commercial loans, repurchase agreements and securities lending transactions, call money, and derivatives. Financial assets eligible for such collateral include, among others, marketable equity securities, trade and notes receivable and CDs.

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Secured parties, including creditors and counterparties to certain transactions with the MUFG Group, may sell or repledge financial assets provided as collateral. Certain contracts, however, may not be specific about the secured party's right to sell or repledge collateral under the applicable statutes and, therefore, whether or not the secured party is permitted to sell or repledge collateral would differ depending on the interpretations of specific provisions of the existing statutes, contract or certain market practices.

If the MUFG Group determines, based on available information, that a financial asset provided as collateral might not be sold or repledged by the secured parties, such collateral is not separately reported in the accompanying consolidated balance sheets. If a secured party is permitted to sell or repledge financial assets provided as collateral by contract or custom under the existing statutes, the MUFG Group reports such pledged financial assets separately on the face of the accompanying consolidated balance sheets. At March 31, 2018, the MUFG Group pledged ¥31,507 billion of assets that may not be sold or repledged by the secured parties.

Certain banking subsidiaries accept collateral for commercial loans and certain banking transactions under a standardized agreement with customers, which provides that these banking subsidiaries may require the customers to provide collateral or guarantees with respect to the loans and other banking transactions. Financial assets pledged as collateral are generally negotiable and transferable instruments, and such negotiability and transferability are authorized by applicable legislation. In principle, Japanese legislation permits these banking subsidiaries to repledge financial assets accepted as collateral unless otherwise prohibited by contract or relevant statutes. Nevertheless, the MUFG Group did not sell or repledge nor does it plan to sell or repledge such collateral accepted in connection with commercial loans before a debtor's default or other credit events specified in the agreements as it is not customary within the banking industry in Japan to dispose of collateral before a debtor's default and other specified credit events. Derivative agreements commonly used in the marketplace do not prohibit a secured party's disposition of financial assets received as collateral, and in resale agreements and securities borrowing transactions, securities accepted as collateral may be sold or repledged by the secured parties. At March 31, 2017 and 2018, the fair value of the collateral accepted by the MUFG Group that is permitted to be sold or repledged was ¥26,850 billion and ¥25,358 billion, respectively, of which ¥18,420 billion and ¥17,738 billion, respectively, was sold or repledged.

At March 31, 2017 and 2018, the cash collateral pledged for derivative transactions, which is included in Other assets, was ¥1,663,945 million and ¥1,473,109 million, respectively, and the cash collateral received for derivative transactions, which is included in Other liabilities, was ¥1,080,929 million and ¥1,158,053 million, respectively.

**9. DEPOSITS**

The balances of time deposits, including CDs, issued in amounts of ¥10 million (approximately U.S.\$ 94 thousand at the Federal Reserve Bank of New York's noon buying rate on March 30, 2018) or more with respect to domestic deposits and issued in amounts of U.S.\$100,000 or more with respect to foreign deposits were ¥27,891,132 million and ¥22,944,072 million, respectively, at March 31, 2017, and ¥27,381,920 million and ¥22,386,612 million, respectively, at March 31, 2018.

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The maturity information at March 31, 2018 for domestic and foreign time deposits, including CDs, is summarized as follows:

	<u>Domestic</u>	<u>Foreign</u>
	(in millions)	
Due in one year or less	¥34,905,906	¥21,978,687
Due after one year through two years	4,957,492	572,306
Due after two years through three years	3,103,698	251,116
Due after three years through four years	657,641	108,218
Due after four years through five years	590,870	121,550
Due after five years	840,071	31,462
Total	<u>¥45,055,678</u>	<u>¥23,063,339</u>

**10. CALL MONEY AND FUNDS PURCHASED**

A summary of funds transactions for the fiscal years ended March 31, 2017 and 2018 is as follows:

	<u>2017</u>	<u>2018</u>
	(in millions, except percentages and days)	
Outstanding at end of fiscal year:		
Amount	¥ 1,974,977	¥ 2,452,543
Principal range of maturities	1 day to 30 days	1 day to 30 days
Weighted average interest rate	0.20%	0.31%

**11. DUE TO TRUST ACCOUNT**

Mitsubishi UFJ Trust and Banking holds assets on behalf of its customers in an agent, fiduciary or trust capacity. Such trust account assets are not the MUFG Group's proprietary assets and are managed and accounted for separately.

However, excess cash funds of individual trust accounts are often placed with Mitsubishi UFJ Trust and Banking which manages the funds together with its own funds in its proprietary account. Due to trust account reflects a temporary placement of the excess funds from individual trust accounts and, in view of the MUFG Group's funding, due to trust account is similar to short-term funding, including demand deposits and other overnight funds purchased. The balance changes in response to the day-to-day changes in the excess funds placed by the trust accounts. A summary of due to trust account transactions at March 31, 2017 and 2018 is as follows:

	<u>2017</u>	<u>2018</u>
	(in millions, except percentages)	
Amount outstanding at end of fiscal year	¥3,335,155	¥3,386,158
Weighted average interest rate on outstanding balance at end of fiscal year	0.00%	0.00%

**12. SHORT-TERM BORROWINGS AND LONG-TERM DEBT**

At March 31, 2017 and 2018, the MUFG Group had unused lines of credit for short-term financing amounting to ¥3,234,066 million and ¥5,142,206 million, respectively. The amounts principally consist of non-interest-bearing collateralized intraday overdraft lines and collateralized overnight loans on bills at the official discount rate granted by the Bank of Japan, which are used to cover shortages in the Bank of Japan account and to meet liquidity needs. The MUFG Group may borrow from the Bank of Japan on demand up to the total amount of collateral eligible for credit extension.



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Other short-term borrowings at March 31, 2017 and 2018 were comprised of the following:

	<u>2017</u>	<u>2018</u>
	(in millions, except percentages)	
Domestic offices:		
Commercial paper . . . . .	¥1,080,838	¥1,094,487
Borrowings from the Bank of Japan . . . . .	1,499,653	305,520
Borrowings from other financial institutions . . . . .	262,985	243,968
Other . . . . .	46,518	84,620
Total domestic offices . . . . .	<u>2,889,994</u>	<u>1,728,595</u>
Foreign offices:		
Commercial paper . . . . .	4,675,653	4,275,278
Borrowings from other financial institutions . . . . .	216,596	784,949
Short-term debentures . . . . .	5,654	18,523
Other . . . . .	182,549	73,917
Total foreign offices . . . . .	<u>5,080,452</u>	<u>5,152,667</u>
Total . . . . .	7,970,446	6,881,262
Less unamortized discount . . . . .	925	138
Other short-term borrowings—net . . . . .	<u>¥7,969,521</u>	<u>¥6,881,124</u>
Weighted average interest rate on outstanding balance at end of fiscal year . . .	0.66%	1.29%

**mitsubishi UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

Long-term debt (with original maturities of more than one year) at March 31, 2017 and 2018 was comprised of the following:

	2017	2018
	(in millions)	
<b>MUFG:</b>		
Obligations under capital leases	¥ 15	¥ 1,973
Unsubordinated debt <sup>(1)</sup> :		
Fixed rate bonds, payable in US dollars, due 2021-2028, principally 2.19%-3.96%	1,265,620	1,737,809
Fixed rate bonds, payable in Euro, due 2021-2033, principally 0.40%-1.75%	23,958	230,629
Fixed rate bonds, payable in other currencies, due 2027, principally 3.77%-4.05% <sup>(2)</sup>	—	17,639
Floating rate bonds, payable in US dollars, due 2021-2023, principally 2.54%-3.89%	268,725	424,795
Total	1,558,303	2,410,872
Subordinated debt <sup>(1)</sup> :		
Fixed rate bonds, payable in Japanese yen, due 2024-2030, principally 0.37%-1.39%	412,783	482,662
Adjustable rate bonds, payable in Japanese yen, due 2024-2028, principally 0.35%-0.66%	426,838	795,944
Adjustable rate bonds, payable in Japanese yen, no stated maturity, principally 1.12%-4.42%	1,229,282	1,557,610
Adjustable rate borrowings, payable in Japanese yen, due 2025-2028, principally 0.46%-0.50%	16,000	32,500
Adjustable rate borrowings, payable in Japanese yen, no stated maturity, principally 4.78%	1,500	1,500
Floating rate bonds, payable in Japanese yen, no stated maturity, principally 3.03%	3,500	3,500
Floating rate borrowings, payable in Japanese yen, due 2025-2027, principally 0.58%-0.79%	53,000	76,000
Floating rate borrowings, payable in Euro, no stated maturity, principally 1.73%	599	—
Floating rate borrowings, payable in other currencies, no stated maturity, principally 2.49% <sup>(2)</sup>	420	—
Total	2,143,922	2,949,716
Total	3,702,240	5,362,561
<b>BK:</b>		
Obligations under capital leases	¥ 7,310	¥ 6,906
Obligation under sale-and-leaseback transactions	43,032	41,892
Unsubordinated debt <sup>(1)</sup> :		
Fixed rate bonds, payable in Japanese yen, due 2018-2027, principally 0.22%-2.69%	472,300	346,800
Fixed rate bonds, payable in US dollars, due 2018-2048, principally 0.00%-4.70%	1,761,868	1,451,745
Fixed rate bonds, payable in Euro, due 2022-2037, principally 0.88%-2.06%	92,708	111,956
Fixed rate bonds, payable in other currencies, due 2021-2047, principally 0.00%-5.30% <sup>(2)</sup>	23,550	19,502
Fixed rate borrowings, payable in Japanese yen, due 2018-2028, principally 0.00%-0.25%	10,064,790	9,561,784
Fixed rate borrowings, payable in US dollars, due 2018, principally 7.49%	124	38
Fixed rate borrowings, payable in Euro, due 2026, principally 0.00%	479	1,044
Adjustable rate bonds, payable in US dollars, due 2030, principally 3.00%	1,122	1,062
Floating rate bonds, payable in US dollars, due 2018, principally 3.13%	145,847	53,120
Floating rate bonds, payable in other currencies, due 2017, principally 2.90% <sup>(2)</sup>	55,796	—
Floating rate borrowings, payable in US dollars, due 2018-2031, principally 1.53%-2.91%	1,075,494	1,071,239
Floating rate borrowings, payable in Euro, due 2021-2022, principally 0.00%-0.06%	20,885	20,150
Total	13,714,963	12,638,440
Subordinated debt <sup>(1)</sup> :		
Fixed rate bonds, payable in Japanese yen, due 2019-2031, principally 1.31%-2.91%	706,677	520,350
Fixed rate borrowings, payable in Japanese yen, due 2022-2035, principally 0.38%-2.24%	230,400	98,400
Adjustable rate borrowings, payable in Japanese yen, due 2023-2028, principally 0.40%-2.86%	129,000	73,000
Adjustable rate borrowings, payable in Japanese yen, no stated maturity, principally 1.69%-4.78%	651,000	496,000
Adjustable rate borrowings, payable in Euro, no stated maturity, principally 1.73%	2,995	—
Adjustable rate borrowings, payable in other currencies, no stated maturity, principally 2.49% <sup>(2)</sup>	2,101	—
Floating rate borrowings, payable in Japanese yen, due 2027, principally 0.16%	15,000	15,000
Total	1,737,173	1,202,750
Obligations under loan securitization transaction accounted for as secured borrowings due 2018-2077, principally 0.42%-3.89%	605,709	622,061
Total	16,108,187	14,512,049

**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

	2017	2018
	(in millions)	
Other subsidiaries:		
Obligations under capital leases	¥ 9,348	¥ 9,835
Unsubordinated debt <sup>(1)</sup> :		
Fixed rate borrowings, bonds and notes, payable in Japanese yen, due 2018-2042, principally 0.00%-6.20%	2,688,264	3,453,352
Fixed rate borrowings, bonds and notes, payable in US dollars, due 2018-2037, principally 0.00%-8.00%	952,937	936,086
Fixed rate bonds and notes, payable in Euro, due 2020-2022, principally 1.10%-1.28%	1,079	2,619
Fixed rate bonds and notes, payable in Thai baht, due 2018-2024, principally 0.01%-9.00%	308,804	330,814
Fixed rate borrowings, bonds and notes, payable in other currencies, due 2018-2037, principally 0.50%-15.33% <sup>(2)</sup>	166,346	190,567
Floating/Adjustable rate borrowings, bonds and notes, payable in Japanese yen, due 2018-2048, principally 0.00%-20.00%	1,269,910	1,342,318
Floating rate borrowings, bonds and notes, payable in US dollars, due 2018-2027, principally 0.00%-38.00%	217,469	186,515
Floating rate bonds and notes, payable in Euro, due 2018, principally 1.00%	266	—
Floating rate borrowings, bonds and notes, payable in other currencies, due 2018-2020, principally 1.43%-9.63% <sup>(2)</sup>	2,761	5,420
Total	5,607,836	6,447,691
Subordinated debt <sup>(1)</sup> :		
Fixed rate borrowings, bonds and notes, payable in Japanese yen, due 2018-2030, principally 0.65%-2.89%	378,548	364,326
Fixed rate bonds and notes, payable in US dollars, due 2019-2027, principally 7.50%-10.85%	1,710	1,661
Fixed rate bonds and notes, payable in Thai baht, due 2020-2027, principally 3.40%-3.90%	80,560	144,900
Fixed rate borrowings, bonds and notes, payable in other currencies, due 2021, principally 0.00% <sup>(2)</sup>	6,847	7,428
Adjustable rate borrowings, bonds and notes, payable in Japanese yen, no stated maturity, principally 3.50%	104,500	104,500
Floating rate borrowings, bonds and notes, payable in Japanese yen, due 2018-2021, principally 0.45%-0.73%	112,985	72,493
Floating rate borrowings, bonds and notes, payable in US dollars, due 2019-2036, principally 3.29%-10.44%	5,393	5,250
Total	690,543	700,558
Obligations under loan securitization transaction accounted for as secured borrowings due 2018-2020, principally 0.23%-2.32%	26,831	50,551
Total	6,334,558	7,208,635
Total	26,144,985	27,083,245
Debt Issuance Cost	¥ (13,458)	¥ (13,689)
<b>Total</b>	<b>¥26,131,527</b>	<b>¥27,069,556</b>

Notes:

- (1) Adjustable rate debts are debts where interest rates are reset in accordance with the terms of the debt agreements, and floating rate debts are debts where interest rates are repriced in accordance with movements of markets indices.
- (2) Minor currencies, such as Australian dollars, British pounds, Indonesian rupiah, Brazilian real, Russian ruble, etc, have been summarized into the "other currencies" classification.
- (3) The table above reflects changes in presentation that were made to long-term repurchase agreements at March 31, 2017. Payables under long-term repurchase agreements are included in Payables under repurchase agreements in the accompanying consolidated balance sheets. See Note 1 for further information.

The MUFG Group uses derivative financial instruments to manage its interest rate and currency exposures for certain debts. The derivative financial instruments include swaps, forwards, options and other types of derivatives. As a result of these derivative instruments, the effective rates reflected in the table above may differ from the coupon rates. The interest rates for the adjustable and floating rate debt shown in the above table are those in effect at March 31, 2017 and 2018.

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Certain debt agreements permit the MUFG Group to redeem the related debt, in whole or in part, prior to maturity at the option of the issuer on terms specified in the respective agreements.

The following is a summary of maturities of long-term debt subsequent to March 31, 2018:

	<u>MUFG</u>	<u>BK</u>	<u>Other subsidiaries</u>	<u>Total</u>
	(in millions)			
Fiscal year ending March 31:				
2019 .....	¥ 415	¥ 1,549,014	¥1,452,406	¥ 3,001,835
2020 .....	407	1,068,804	1,500,799	2,570,010
2021 .....	346,342	7,827,519	1,397,405	9,571,266
2022 .....	444,581	1,458,833	1,016,093	2,919,507
2023 .....	620,845	339,743	394,862	1,355,450
2024 and thereafter .....	<u>3,949,971</u>	<u>2,268,136</u>	<u>1,447,070</u>	<u>7,665,177</u>
Total .....	<u>¥5,362,561</u>	<u>¥14,512,049</u>	<u>¥7,208,635</u>	<u>¥27,083,245</u>

***New Issuances of Bonds for Basel III***

For the fiscal year ended March 31, 2018, the MUFG Group issued to institutional investors in Japan ¥320,000 million aggregate principal amount of unsecured perpetual subordinated Additional Tier 1 notes. These notes are subject to the MUFG Group’s discretion to cease interest payments and a write-down of the principal upon the occurrence of certain events, including when the MUFG Group’s Common Equity Tier 1 ratio declines below 5.125%, when the MUFG Group is deemed to be at risk of becoming non-viable or when the MUFG Group becomes subject to bankruptcy proceedings.

For the fiscal year ended March 31, 2018, the MUFG Group issued \$7,680 million, €1,570 million and AU\$216 million of the bonds with an intent to count towards Total Loss-Absorbing Capacity (“TLAC”) to global institutional investors to meet the TLAC requirement under the standards issued by the Financial Stability Board (“FSB”). Under the FSB’s TLAC standard, the MUFG Group is required to hold TLAC debt in an amount not less than 16% of risk-weighted assets and 6% of the applicable Basel III leverage ratio denominator by January 1, 2019, and not less than 18% of risk-weighted assets and 6.75% of the applicable Basel III leverage ratio denominator by January 1, 2022.

**13. SEVERANCE INDEMNITIES AND PENSION PLANS**

***Defined Benefit Pension Plans***

The MUFG Group has funded non-contributory defined benefit pension plans, which cover substantially all of its employees and mainly provide for lifetime annuity payments commencing at age 65 (“pension benefits”) based on eligible compensation at the time of severance, rank, years of service and other factors.

MUFG Bank and certain domestic subsidiaries, Mitsubishi UFJ Trust and Banking, Mitsubishi UFJ Securities Holdings, Mitsubishi UFJ NICOS and some subsidiaries of MUFG have non-contributory Corporate Defined Benefit Pension plans which provide benefits to all their domestic employees.

The MUFG Group also offers qualified and nonqualified defined benefit pension plans in foreign offices and subsidiaries for their employees. The qualified plans are non-contributory defined pension plans, which provide benefits upon retirement based on years of service and average compensation and cover substantially all of the employees of such foreign offices and subsidiaries. With respect to the offices and subsidiaries in the United States of America, the qualified plans are funded on a current basis in compliance with the requirement of

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the Employee Retirement Income Security Act of the United States of America. The nonqualified plans are non-contributory defined benefit pension plans, under which certain employees earn pay and interest credits on compensation amounts above the maximum stipulated by applicable laws under the qualified plans.

***Severance Indemnities Plans***

The MUFG Group has SIPs under which their employees in Japan, other than those who are directors, are entitled, under most circumstances, upon mandatory retirement at normal retirement age or earlier termination of employment, to lump-sum severance indemnities based on eligible compensation at the time of severance, rank, years of service and other factors. Under SIPs, benefit payments in the form of a lump-sum cash payment with no option to receive annuity payments, upon mandatory retirement at normal retirement age or earlier termination of employment, are provided. When a benefit is paid in a single payment to a benefit payee under the plans, the payment represents final relief of the obligation.

***Other Postretirement Plans***

The MUFG Group's foreign offices and subsidiaries, primarily in the United States of America, provide their employees with certain postretirement medical and life insurance benefits ("other benefits").

Net periodic cost of pension benefits and other benefits for the fiscal years ended March 31, 2016, 2017 and 2018 include the following components:

	Domestic subsidiaries			Foreign offices and subsidiaries					
	2016	2017	2018	2016		2017		2018	
	Pension benefits and SIP	Pension benefits and SIP	Pension benefits and SIP	Pension benefits	Other benefits	Pension benefits	Other benefits	Pension benefits	Other benefits
	(in millions)								
Service cost—benefits earned during the fiscal year . . . . .	¥ 47,739	¥ 49,057	¥ 47,064	¥ 14,842	¥ 1,409	¥ 13,107	¥ 990	¥ 10,169	¥ 676
Interest cost on projected benefit obligation . . . . .	16,529	12,308	14,383	18,120	1,843	15,287	1,229	15,359	1,079
Expected return on plan assets . . . . .	(59,461)	(60,255)	(68,432)	(30,486)	(2,341)	(29,339)	(2,047)	(32,110)	(2,122)
Amortization of net actuarial loss . . . . .	7,698	17,764	7,309	11,743	1,810	12,707	1,366	8,847	1,124
Amortization of prior service cost . . . . .	(7,613)	(6,348)	(1,094)	(2,307)	(927)	(2,045)	(1,534)	(3,090)	(2,775)
Loss (gain) on settlements and curtailment . . . . .	(1,168)	(1,765)	(4,394)	11	—	(208)	—	52	—
Net periodic benefit cost (income) . . . . .	<u>¥ 3,724</u>	<u>¥ 10,761</u>	<u>¥ (5,164)</u>	<u>¥ 11,923</u>	<u>¥ 1,794</u>	<u>¥ 9,509</u>	<u>¥ 4</u>	<u>¥ (773)</u>	<u>¥(2,018)</u>

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

The following table summarizes the assumptions used in computing the present value of the projected benefit obligations and the net periodic benefit cost:

	Domestic subsidiaries			Foreign offices and subsidiaries					
	2016	2017	2018	2016		2017		2018	
	Pension benefits and SIP	Pension benefits and SIP	Pension benefits and SIP	Pension benefits	Other benefits	Pension benefits	Other benefits	Pension benefits	Other benefits
Weighted-average assumptions used:									
Discount rates in determining expense . . . . .	0.93%	0.68%	0.82%	3.87%	3.83%	3.90%	3.03%	3.52%	3.61%
Discount rates in determining benefit obligation . . . . .	0.68	0.82	0.76	4.17	4.09	3.81	3.86	3.38	3.43
Rates of increase in future compensation level for determining expense . . . . .	3.23	3.23	3.23	4.65	—	4.65	—	4.65	—
Rates of increase in future compensation level for determining benefit obligation . . . . .	3.23	3.23	3.21	4.65	—	4.65	—	4.65	—
Expected rates of return on plan assets . . . . .	2.60	2.75	2.87	6.81	7.50	6.80	7.50	6.71	7.50

The following tables present the assumed health care cost trend rates for foreign offices and subsidiaries, which are used to measure the expected cost of benefits for the next year, and the effect of a one-percentage-point change in the assumed health care cost trend rate:

	MUAH		Other than MUAH	
	2017 <sup>(1)</sup>	2018 <sup>(1)</sup>	2017 <sup>(1)</sup>	2018 <sup>(1)</sup>
Initial trend rate . . . . .	4.64%	4.44%	7.50%	7.00%
Ultimate trend rate . . . . .	3.96%	3.94%	4.50%	4.50%
Year the rate reaches the ultimate trend rate . .	2026	2026	2026	2026

	MUAH		Other than MUAH	
	One-percentage-point increase	One-percentage-point decrease	One-percentage-point increase	One-percentage-point decrease
(in millions)				
Effect on total of service and interest cost components . . . . .	¥ 226	¥ (226)	¥ 44	¥ (35)
Effect on postretirement benefit obligation . . .	3,729	(3,164)	779	(616)

Note:

(1) Fiscal years of MUFG Americas Holdings and foreign subsidiaries end on December 31. Therefore, the above tables present the rates and amounts at December 31, 2016 and 2017, respectively.

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The following table sets forth the combined funded status and amounts recognized in the accompanying consolidated balance sheets at March 31, 2017 and 2018:

	Domestic subsidiaries		Foreign offices and subsidiaries			
	2017	2018	2017		2018	
	Non-contributory pension benefits and SIP	Non-contributory pension benefits and SIP	Pension benefits	Other benefits	Pension benefits	Other benefits
(in millions)						
<b>Change in benefit obligation:</b>						
Benefit obligation at beginning of fiscal year	¥1,850,847	¥1,793,848	¥470,578	¥46,061	¥478,463	¥35,222
Service cost	49,057	47,064	13,107	990	10,169	676
Interest cost	12,308	14,383	15,287	1,229	15,359	1,079
Plan participants' contributions	—	—	13	866	28	455
Acquisitions/ Divestitures	(192)	(29)	—	—	—	—
Amendments	654	—	(8,311)	(8,562)	—	—
Actuarial loss (gain)	(35,868)	49,678	26,295	(489)	25,519	506
Benefits paid	(67,038)	(67,913)	(16,359)	(3,182)	(19,388)	(2,520)
Lump-sum payment	(15,920)	(15,237)	(724)	—	(861)	—
Translation adjustments and other	—	—	(21,423)	(1,691)	(7,233)	(1,071)
Benefit obligation at end of fiscal year	<u>1,793,848</u>	<u>1,821,794</u>	<u>478,463</u>	<u>35,222</u>	<u>502,056</u>	<u>34,347</u>
<b>Change in plan assets:</b>						
Fair value of plan assets at beginning of fiscal year	2,200,033	2,346,310	457,989	30,653	477,479	30,339
Actual return on plan assets	159,287	250,704	35,040	1,902	75,824	4,890
Employer contributions	54,000	74,181	21,648	1,099	16,969	190
Acquisitions/ Divestitures	28	47	—	—	—	—
Plan participants' contributions	—	—	13	866	28	455
Benefits paid	(67,038)	(67,913)	(16,359)	(3,182)	(19,388)	(2,520)
Translation adjustments and other	—	—	(20,852)	(999)	(8,266)	(888)
Fair value of plan assets at end of fiscal year	<u>2,346,310</u>	<u>2,603,329</u>	<u>477,479</u>	<u>30,339</u>	<u>542,646</u>	<u>32,466</u>
<b>Amounts recognized in the consolidated balance sheets:</b>						
Prepaid benefit cost	¥ 569,218	¥ 798,849	¥ 43,405	¥ —	¥ 83,578	¥ 2,552
Accrued benefit cost	(16,756)	(17,314)	(44,389)	(4,883)	(42,988)	(4,433)
Net amount recognized	<u>¥ 552,462</u>	<u>¥ 781,535</u>	<u>¥ (984)</u>	<u>¥ (4,883)</u>	<u>¥ 40,590</u>	<u>¥ (1,881)</u>

The aggregated accumulated benefit obligations of these plans at March 31, 2017 and 2018 were as follows:

	Domestic subsidiaries		Foreign offices and subsidiaries	
	2017	2018	2017	2018
(in millions)				
Aggregated accumulated benefit obligations	¥1,758,736	¥1,784,837	¥457,591	¥475,522

The projected benefit obligations, accumulated benefit obligations and fair value of plan assets for the plans with accumulated benefit obligations in excess of plan assets at March 31, 2017 and 2018 were as follows:

	Domestic subsidiaries		Foreign offices and subsidiaries	
	2017	2018	2017	2018
(in millions)				
Projected benefit obligations	¥21,625	¥22,445	¥90,315	¥62,511
Accumulated benefit obligations	21,625	22,445	80,258	52,012
Fair value of plan assets	4,988	5,272	45,925	19,521

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MUFG Bank, Mitsubishi UFJ Trust and Banking, Mitsubishi UFJ Securities Holdings, Mitsubishi UFJ NICOS and other subsidiaries paid special lump-sum termination benefits which are not a part of pension plans to certain early-terminated employees. The amounts charged to operations for such early termination benefits for the fiscal years ended March 31, 2016, 2017 and 2018 were ¥7,428 million, ¥7,722 million and ¥10,153 million, respectively.

The following table presents the amounts recognized in Accumulated OCI of the MUFG Group at March 31, 2017 and 2018:

	Domestic subsidiaries		Foreign offices and subsidiaries			
	2017	2018	2017		2018	
	Pension benefits and SIP	Pension benefits and SIP	Pension benefits	Other benefits	Pension benefits	Other benefits
	(in millions)					
Net actuarial loss . . . . .	¥ 271,164	¥135,656	¥143,070	¥11,229	¥111,820	¥ 7,449
Prior service cost . . . . .	(7,763)	(6,669)	(21,710)	(9,370)	(17,936)	(6,237)
Gross amount recognized in Accumulated OCI . . . . .	263,401	128,987	121,360	1,859	93,884	1,212
Taxes . . . . .	(122,871)	(81,747)	(47,387)	(534)	(25,251)	(358)
Net amount recognized in Accumulated OCI . . . . .	¥ 140,530	¥ 47,240	¥ 73,973	¥ 1,325	¥ 68,633	¥ 854

The following table presents OCI for the fiscal years ended March 31, 2017 and 2018:

	Domestic subsidiaries		Foreign offices and subsidiaries			
	2017	2018	2017		2018	
	Pension benefits and SIP	Pension benefits and SIP	Pension benefits	Other benefits	Pension benefits	Other benefits
	(in millions)					
Net actuarial loss (gain) arising during the year . . . . .	¥(134,902)	¥(132,593)	¥ 20,461	¥ (330)	¥(18,165)	¥(2,262)
Prior service cost arising during the year . . .	654	—	(8,311)	(8,562)	—	—
Losses (gains) due to amortization:						
Net actuarial loss . . . . .	(17,764)	(7,309)	(12,707)	(1,366)	(8,847)	(1,124)
Prior service cost . . . . .	6,348	1,094	2,045	1,534	3,090	2,775
Curtailment and settlement . . . . .	1,765	4,394	208	—	(52)	—
Foreign currency translation adjustments . . .	—	—	(3,910)	(779)	(3,502)	(36)
Total changes in Accumulated OCI . . . . .	¥(143,899)	¥(134,414)	¥ (2,214)	¥(9,503)	¥(27,476)	¥ (647)



**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

The following table presents the expected amounts that will be amortized from Accumulated OCI as components of net periodic benefit cost, before taxes, for the fiscal year ending March 31, 2019:

	<u>Domestic subsidiaries</u>	<u>Foreign offices and subsidiaries</u>	
	<u>Pension benefits and SIP</u>	<u>Pension benefits</u>	<u>Other benefits</u>
	(in millions)		
Net actuarial loss . . . . .	¥ 1,419	¥10,592	¥ 693
Prior service cost . . . . .	(1,274)	(3,107)	(2,046)
Total . . . . .	<u>¥ 145</u>	<u>¥ 7,485</u>	<u>¥(1,353)</u>

*Investment policies*

MUFG’s investment policy for plan assets is based on an asset liability matching strategy which is intended to maintain adequate liquidity for benefit payments and to achieve a stable increase in the plan assets in the medium and long-term through proper risk control and return maximization. As a general rule, investment policies for plan assets are reviewed periodically for some plans and in the following situations for all plans: (1) large fluctuations in pension plan liabilities caused by modifications to pension plans, or (2) changes in the market environment. The plan assets allocation strategies are the principal determinant in achieving expected investment returns on the plan assets. Actual asset allocations may fluctuate within acceptable ranges due to market value variability. Plan assets are managed by a combination of internal and external asset management companies and are rebalanced when market fluctuations cause an asset category to fall outside of its strategic asset allocation range. Performance of each plan asset category is compared against established indices and similar plan asset groups to evaluate whether the risk associated with the portfolio is appropriate for the level of return.

The weighted-average target asset allocation of plan assets for the pension benefits and other benefits at March 31, 2018 was as follows:

<u>Asset category</u>	<u>Domestic subsidiaries</u>	<u>Foreign offices and subsidiaries</u>	
	<u>Pension benefits and SIP</u>	<u>Pension benefits</u>	<u>Other benefits</u>
Japanese equity securities . . . . .	41.3%	0.3%	—%
Japanese debt securities . . . . .	32.0	—	—
Non-Japanese equity securities . . . . .	14.2	57.4	70.0
Non-Japanese debt securities . . . . .	8.3	30.4	30.0
Real estate . . . . .	1.5	9.9	—
Short-term assets . . . . .	<u>2.7</u>	<u>2.0</u>	<u>—</u>
Total . . . . .	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

*Basis and procedure for estimating long-term return of each asset category*

MUFG’s expected long-term rate of return on plan assets for domestic defined benefit pension plans and SIPs is based on a building-block methodology, which calculates the total long-term rate of return of the plan assets by aggregating the weighted rate of return derived from both long-term historical performance and forward-looking return expectations from each asset category.

**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

MUFG has determined the expected long-term rate of return for each asset category as follows:

- Japanese equity securities: the rate for Japanese debt securities plus a premium for the risk associated with Japanese equity securities
- Japanese debt securities: economic growth rate of Japan
- Non-Japanese equity securities: the rate for non-Japanese debt securities plus a premium for the risk associated with non-Japanese equity securities
- Non-Japanese debt securities: global economic growth rate

Foreign offices and subsidiaries periodically reconsider the expected long-term rate of return for their plan assets. They evaluate the investment return volatility of different asset categories and compare the liability structure of their pension and other benefits to those of other companies, while considering their funding policy to maintain a funded status sufficient to meet participants' benefit obligations, and reduce long-term funding requirements and pension costs. Based on this information, foreign offices and subsidiaries update the expected long-term rate of return.

*Cash flows*

The MUFG Group expects to contribute to the plan assets for the fiscal year ending March 31, 2019 based upon its current funded status and expected asset return assumptions as follows:

For the pension benefits of domestic subsidiaries . . . . .	¥	75.2 billion
For the pension benefits of foreign offices and subsidiaries . . . . .		2.6 billion
For the other benefits of foreign offices and subsidiaries . . . . .		0.5 billion

*Estimated future benefit payments*

The following table presents benefit payments expected to be paid, which include the effect of expected future service for the fiscal years indicated:

	<u>Domestic subsidiaries</u>	<u>Foreign offices and subsidiaries</u>	
	<u>Pension benefits and SIP</u>	<u>Pension benefits</u>	<u>Other benefits</u>
	(in millions)		
Fiscal year ending March 31:			
2019 . . . . .	¥ 84,208	¥ 20,888	¥ 1,933
2020 . . . . .	81,662	22,113	2,018
2021 . . . . .	81,591	23,033	2,090
2022 . . . . .	81,714	23,771	2,145
2023 . . . . .	81,370	25,343	2,199
Thereafter (2024-2028) . . . . .	401,939	171,865	10,761

**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

*Fair value measurement of the plan assets*

The following is a description of the valuation methodologies used for plan assets measured at fair value as well as the classification of the plan assets pursuant to the fair value hierarchy described in Note 32:

*Government bonds and other debt securities*

When quoted prices are available in an active market, the MUFG Group adopts the quoted prices to measure the fair value of securities and such securities are classified in Level 1 of the fair value hierarchy. Level 1 securities include Japanese government bonds, most non-Japanese government bonds and certain corporate bonds. When quoted prices are available but not traded actively, such securities are classified in Level 2 of the fair value hierarchy. When quoted prices are not available, the MUFG Group generally estimates fair values by using non-binding prices obtained from independent pricing vendors. Such securities are generally classified in Level 2 of the fair value hierarchy. Level 2 securities include certain non-Japanese government bonds, official institutions bonds and corporate bonds. When there is lack of liquidity for securities or significant inputs adopted to the fair value measurements are unobservable, such securities are classified in Level 3 of the fair value hierarchy. Such Level 3 securities mainly consist of non-Japanese corporate bonds.

*Marketable equity securities*

When quoted prices are available in an active market, the MUFG Group adopts the quoted prices to measure the fair value of marketable equity securities and such securities are classified in Level 1 of the fair value hierarchy. When quoted prices are available but not traded actively, such securities are classified in Level 2 of the fair value hierarchy.

*Japanese pooled funds*

Japanese pooled funds are investment fund vehicles designed for Japanese pension plan investments under Japanese pension trust fund regulations. Based upon the nature of the funds' investments, Japanese pooled funds are categorized into four major fund types: Japanese marketable equity securities type, Japanese debt securities type, Non-Japanese marketable equity securities type and Non-Japanese debt securities type. The other types of funds invest in short-term financial instruments or loans receivable. Japanese pooled funds are generally readily redeemable at their net asset values. The fair values of Japanese pooled funds are measured at their net asset values per share (or its equivalent) as a practical expedient.

*Other investment funds*

Other investment funds include mutual funds, private investments funds, common collective funds, private equity funds and real estate funds. The listed investment funds or mutual funds are valued at quoted prices and classified in Level 1 or Level 2 of the fair value hierarchy. When there is no available market quotation, the fair values are generally determined at net asset values per share (or its equivalent) as a practical expedient. Other investment funds classified in Level 3 of the fair value hierarchy consist of certain real estate funds whose fair values are not measured at their net asset values but by using significant unobservable inputs and there is inherent lack of the funds' liquidity.

*Japanese general accounts of life insurance companies*

These instruments are contracts with life insurance companies that guarantee return of a certain level of fixed income, which are mainly invested in assets with low market risk such as Japanese debt securities. They are measured at conversion value and classified in Level 2 of the fair value hierarchy.

**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

*Other investments*

Other investments mainly consist of call loans and the rest consist of miscellaneous accounts such as deposits with banks and short-term investments. These instruments are generally classified in Level 1 or Level 2 of the fair value hierarchy depending on observability of the inputs to measure their fair values.

The following table presents the fair value of each major category of plan assets as of March 31, 2017 and 2018:

**Pension benefits and SIP Investments:**

At March 31, 2017 Assets category	Domestic subsidiaries				Foreign offices and subsidiaries			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	(in millions)							
Japanese government bonds . . . . .	¥ 137,201	¥ —	¥ —	¥ 137,201	¥ —	¥ —	¥ —	¥ —
Non-Japanese government bonds . . . . .	14,817	2,411	—	17,228	16,161	3,811	—	19,972
Other debt securities . . . . .	211	1,858	208	2,277	—	67,956	—	67,956
Japanese marketable equity securities . . .	810,772	—	—	810,772	856	—	—	856
Non-Japanese marketable equity securities . . . . .	33,385	287	—	33,672	37,986	682	—	38,668
Other investment funds . . . . .	—	—	206	206	83,868	10,042	—	93,910 <sup>(2)</sup>
Japanese general account of life insurance companies <sup>(1)</sup> . . . . .	—	225,921	—	225,921	—	—	—	—
Other investments . . . . .	3,423	22,582	—	26,005	48	2,704	760	3,512
Total . . . . .	¥ 999,809	¥253,059	¥ 414	¥1,253,282	¥138,919	¥ 85,195	¥760	¥224,874

At March 31, 2018 Assets category	Domestic subsidiaries				Foreign offices and subsidiaries			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	(in millions)							
Japanese government bonds . . . . .	¥ 139,847	¥ —	¥ —	¥ 139,847	¥ —	¥ —	¥ —	¥ —
Non-Japanese government bonds . . . . .	15,552	944	—	16,496	17,945	4,081	—	22,026
Other debt securities . . . . .	201	3,482	1,071	4,754	—	81,968	—	81,968
Japanese marketable equity securities . . .	934,691	—	—	934,691	887	—	—	887
Non-Japanese marketable equity securities . . . . .	71,729	255	—	71,984	42,166	815	—	42,981
Other investment funds . . . . .	—	—	—	—	99,798	9,997	—	109,795 <sup>(2)</sup>
Japanese general account of life insurance companies <sup>(1)</sup> . . . . .	—	225,925	—	225,925	—	—	—	—
Other investments . . . . .	3,485	23,195	—	26,680	2	4,867	155	5,024
Total . . . . .	¥1,165,505	¥253,801	¥1,071	¥1,420,377	¥160,798	¥101,728	¥155	¥262,681

Notes:

- (1) “Japanese general accounts of life insurance companies” is a contract with life insurance companies that guarantees a return of approximately 1.25% from April 1, 2016 to March 31, 2017 and 1.24% from April 1, 2017 to March 31, 2018.
- (2) Other investment funds of the foreign offices and subsidiaries include mutual funds and real estate funds of ¥79,763 million and ¥310 million, respectively, which were held by MUFG Americas Holdings at December 31, 2016 and ¥93,821 million and ¥516 million, respectively, at December 31, 2017.

**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

The following table presents fair values of certain investments valued at net asset value per share (or its equivalent) as a practical expedient that were excluded from the above table as of March 31, 2017 and 2018:

Assets category	Domestic subsidiaries		Foreign offices and subsidiaries	
	2017	2018	2017	2018
	(in millions)			
Japanese pooled funds:				
Japanese marketable equity securities . . . . .	¥ 101,958	¥ 83,205	¥ —	¥ —
Japanese debt securities . . . . .	222,785	252,730	—	—
Non-Japanese marketable equity securities . . . . .	187,939	151,893	—	—
Non-Japanese debt securities . . . . .	84,199	100,998	—	—
Other . . . . .	113,519	135,275	—	—
Total pooled funds . . . . .	710,400	724,101	—	—
Other investment funds . . . . .	382,628 <sup>(1)</sup>	458,851 <sup>(1)</sup>	252,605 <sup>(2)</sup>	279,965 <sup>(2)</sup>
Total . . . . .	¥1,093,028	¥1,182,952	¥252,605	¥279,965

Notes:

- (1) Other investment funds of the domestic subsidiaries include mutual funds and real estate funds of ¥358,584 million and ¥13,550 million, respectively, at March 31, 2017 and ¥433,221 million and ¥13,664 million, respectively, at March 31, 2018.
- (2) Other investment funds of the foreign offices and subsidiaries include mutual funds, real estate funds and common collective funds of ¥54,689 million, ¥40,779 million and ¥138,987 million, respectively, at March 31, 2017 and ¥63,088 million, ¥40,205 million and ¥158,249 million, respectively, at March 31, 2018.

Other debt securities and Japanese debt securities in the above Pension benefits and SIP tables include ¥1,523 million (0.05% of plan assets) of debt securities issued by the MUFG Group at March 31, 2017 and ¥982 million (0.03% of plan assets) at March 31, 2018, respectively. Japanese marketable equity securities in the above Pension benefits and SIP tables include ¥8,169 million (0.29% of plan assets) of common stock issued by the MUFG Group at March 31, 2017 and ¥7,596 million (0.24% of plan assets) at March 31, 2018, respectively.

**Other post retirement plan investments:**

Assets category	Foreign offices and subsidiaries							
	2017				2018			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	(in millions)							
Non-Japanese government bonds . . . . .	¥ 2,516	¥ —	¥ —	¥ 2,516	¥2,523	¥ —	¥ —	¥ 2,523
Other debt securities . . . . .	—	5,219	—	5,219	—	5,797	—	5,797
Non-Japanese marketable equity securities . . . . .	—	18	—	18	—	7	—	7
Other investment funds <sup>(1)</sup> . . . . .	14,294	—	—	14,294	6,082	—	—	6,082
Other investments . . . . .	2	6	—	8	1	264	—	265
Total . . . . .	¥16,812	¥5,243	¥ —	¥22,055	¥8,606	¥6,068	¥ —	¥14,674

Note:

- (1) Other investment funds mainly consist of mutual funds.

**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

The following table presents fair values of certain investments valued at net asset value per share (or its equivalent) as a practical expedient that were excluded from the above table as of March 31, 2017 and 2018:

<u>Assets category</u>	<u>Foreign offices and subsidiaries</u>	
	<u>2017</u>	<u>2018</u>
	(in millions)	
Other investment funds <sup>(1)</sup> .....	¥8,284	¥17,792
Total .....	<u>¥8,284</u>	<u>¥17,792</u>

Note:

- (1) Other investment funds of the foreign offices and subsidiaries include mutual funds, common collective funds and pooled separate accounts with variable life insurance policies of ¥441 million, ¥2,298 million and ¥5,545 million, respectively, which were held by MUFG Americas Holdings at December 31, 2016 and ¥553 million, ¥11,332 million and ¥5,907 million, respectively, at December 31, 2017.

**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

The following tables present a reconciliation of plan assets measured at fair value using significant unobservable inputs (Level 3) during the fiscal years ended March 31, 2017 and 2018:

**Pension benefits and SIP Investments:**

Domestic subsidiaries							
Assets category	March 31, 2016	Realized gains (losses)	Unrealized gains (losses)	Purchase, sales and settlements	Transfer into Level 3	Transfer out of Level 3	March 31, 2017
				(in millions)			
Other debt securities .....	¥5,927	¥(669)	¥ 4	¥(5,054)	¥ —	¥ —	¥ 208
Other investment funds .....	537	1	1	(333)	—	—	206
Total .....	<u>¥6,464</u>	<u>¥(668)</u>	<u>¥ 5</u>	<u>¥(5,387)</u>	<u>¥ —</u>	<u>¥ —</u>	<u>¥ 414</u>

Foreign offices and subsidiaries							
Assets category	March 31, 2016	Realized gains (losses)	Unrealized gains (losses)	Purchase, sales and settlements	Transfer into Level 3	Transfer out of Level 3	March 31, 2017
				(in millions)			
Other investments .....	¥ 985	¥ —	¥(34)	¥ (191)	¥ —	¥ —	¥ 760
Total .....	<u>¥ 985</u>	<u>¥ —</u>	<u>¥(34)</u>	<u>¥ (191)</u>	<u>¥ —</u>	<u>¥ —</u>	<u>¥ 760</u>

Domestic subsidiaries							
Assets category	March 31, 2017	Realized gains (losses)	Unrealized gains (losses)	Purchase, sales and settlements	Transfer into Level 3	Transfer out of Level 3	March 31, 2018
				(in millions)			
Other debt securities .....	¥ 208	¥ (6)	¥(18)	¥ 887	¥ —	¥ —	¥1,071
Other investment funds .....	206	36	—	(242)	—	—	—
Total .....	<u>¥ 414</u>	<u>¥ 30</u>	<u>¥(18)</u>	<u>¥ 645</u>	<u>¥ —</u>	<u>¥ —</u>	<u>¥1,071</u>

Foreign offices and subsidiaries							
Assets category	March 31, 2017	Realized gains (losses)	Unrealized gains (losses)	Purchase, sales and settlements	Transfer into Level 3	Transfer out of Level 3	March 31, 2018
				(in millions)			
Other investments .....	¥ 760	¥ 51	¥ (2)	¥ (654)	¥ —	¥ —	¥ 155
Total .....	<u>¥ 760</u>	<u>¥ 51</u>	<u>¥ (2)</u>	<u>¥ (654)</u>	<u>¥ —</u>	<u>¥ —</u>	<u>¥ 155</u>

**Defined Contribution Plans**

The MUFG Group maintains several qualified defined contribution plans in its domestic and foreign offices and subsidiaries, all of which are administered in accordance with applicable local laws and regulations. Each office and subsidiary matches eligible employee contributions up to a certain percentage of benefits-eligible compensation per pay period, subject to plan and legal limits. Terms of the plan, including matching percentage and vesting periods, are individually determined by each office and subsidiary.

The cost of these defined contribution plans charged to operations for the fiscal years ended March 31, 2016, 2017 and 2018 was ¥16,254 million, ¥15,636 million and ¥17,413 million, respectively.

**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**14. OTHER ASSETS AND LIABILITIES**

Major components of other assets and liabilities at March 31, 2017 and 2018 were as follows:

	<u>2017</u>	<u>2018</u>
	(in millions)	
Other assets:		
Accounts receivable:		
Receivables from brokers, dealers and customers for securities transactions	¥ 546,747	¥ 1,017,194
Other	1,043,766	1,190,885
Investments in equity method investees	2,199,706	2,219,196
Prepaid benefit cost (Note 13)	612,623	884,979
Cash collateral pledged for derivative transactions (Note 8)	1,663,945	1,473,109
Cash collateral for the use of Bank of Japan's settlement infrastructure <sup>(1)</sup>	207,498	851,066
Other	2,440,258	3,029,635
Total	<u>¥8,714,543</u>	<u>¥10,666,064</u>
Other liabilities:		
Accounts payable:		
Payables to brokers, dealers and customers for securities transactions	¥ 646,638	¥ 1,247,652
Other	1,322,498	1,357,387
Deferred tax liabilities	413,730	654,053
Allowance for off-balance sheet credit instruments	178,118	81,739
Accrued benefit cost (Note 13)	66,028	64,735
Guarantees and indemnifications	38,904	41,349
Cash collateral received for derivative transactions (Note 8)	1,080,929	1,158,053
Accrued and other liabilities	3,008,320	2,802,445
Total	<u>¥6,755,165</u>	<u>¥ 7,407,413</u>

Note:

(1) Certain reclassifications have been made to prior period to conform to the current presentation.

Investments in equity method investees include marketable equity securities carried at ¥1,602,702 million and ¥1,627,896 million at March 31, 2017 and 2018, respectively. Corresponding aggregated market values were ¥2,701,170 million and ¥3,186,618 million, respectively. Marketable equity securities include Morgan Stanley's common stock carried at ¥1,178,919 million and ¥1,206,998 million at March 31, 2017 and 2018, respectively. As of March 31, 2018, the MUFG Group held approximately 24.35% of its common stock. Investments in equity method investees also include investments in Morgan Stanley MUFG Securities, Co., Ltd. at ¥172,424 million and ¥174,459 million at March 31, 2017 and 2018, respectively.

The MUFG Group periodically evaluates whether a loss in value of investments in equity method investees is other-than-temporary. As a result of evaluations, the MUFG Group recognized other-than-temporary declines in the value of an investment and recorded impairment losses related to certain affiliated companies of ¥681 million, ¥5,465 million and ¥29,442 million for the fiscal years ended March 31, 2016, 2017 and 2018 respectively. The impairment losses are included in Equity in earnings of equity method investees—net in the accompanying consolidated statements of income.



**mitsubishi UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

*Summarized Financial Information of the MUFG Group’s Equity Method Investees*

Summarized financial information of Morgan Stanley, the largest portion of the MUFG Group’s equity method investees, as of March 31, 2017 and 2018, and for each of the three years ended March 31, 2018 is as follows:

	<u>2017<sup>(1)</sup></u>	<u>2018</u>
	(in billions)	
Trading assets . . . . .	¥31,900	¥29,008
Securities purchased under agreements to resell . . . . .	11,760	8,525
Securities borrowed . . . . .	12,543	14,431
Total assets . . . . .	93,386	91,207
Deposits . . . . .	17,065	17,043
Customer and other payables . . . . .	21,265	20,709
Borrowings . . . . .	19,500	20,713
Total liabilities . . . . .	84,514	82,762
Noncontrolling interests . . . . .	130	155

Note:

(1) Certain reclassifications have been made to prior period to conform to the current presentation.

	<u>2016</u>	<u>2017</u>	<u>2018</u>
	(in billions)		
Net revenues . . . . .	¥3,961	¥3,939	¥4,354
Total non-interest expenses . . . . .	3,076	2,871	3,133
Income from continuing operations before income taxes . . . . .	885	1,068	1,221
Net income applicable to Morgan Stanley . . . . .	585	730	759

Morgan Stanley early adopted, retrospective to January 1, 2016, the provisions of new accounting guidance on “Recognition and Measurement of Financial Assets and Financial Liabilities” related to a change in the instrument-specific credit risk on financial liabilities under the fair value option. This resulted in reclassifying the MUFG Group’s proportionate share of the accumulated DVA of Morgan Stanley from retained earnings to AOCI as reflected on the MUFG Group’s consolidated statement of equity. In connection with the new accounting guidance, changes in DVA fair value are presented separately in other comprehensive income.

In addition, Morgan Stanley early adopted the new accounting guidance on “Targeted Improvements to Accounting for Hedging Activities” on January 1, 2018. This resulted in recording a cumulative catch-up adjustment by Morgan Stanley, decreasing the MUFG Group’s proportionate share of Retained earnings as reflected on the MUFG Group’s consolidated statement of equity.

**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

Summarized financial information of the MUFG Group's equity method investees, other than Morgan Stanley as of March 31, 2017 and 2018, and for each of the three years ended March 31, 2018 is as follows:

	<u>2017</u>	<u>2018</u>
	(in billions)	
Net loans .....	¥13,405	¥14,343
Total assets .....	24,273	26,008
Deposits .....	6,946	7,783
Total liabilities .....	19,678	21,209
Noncontrolling interests .....	841	1,009

	<u>2016</u>	<u>2017</u>	<u>2018</u>
	(in billions)		
Total interest income .....	¥661	¥777	¥901
Total interest expense .....	222	252	329
Net interest income .....	439	525	572
Provision for credit losses .....	92	97	136
Income before income tax expense .....	171	147	337
Net income .....	117	97	229

**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**15. OFFSETTING OF DERIVATIVES, REPURCHASE AGREEMENTS, AND SECURITIES LENDING TRANSACTIONS**

The following tables present, as of March 31, 2017 and 2018, the gross and net amounts of the derivatives, resale and repurchase agreements, and securities borrowing and lending transactions, including the related gross amounts subject to an enforceable master netting arrangement or similar agreement not offset in the consolidated balance sheets. The MUFG Group primarily enters into International Swaps and Derivatives Association master netting agreements, master repurchase agreements and master securities lending agreements or similar agreements for derivative contracts, resale and repurchase agreements, and securities borrowing and lending transactions. In the event of default on or termination of any one contract, these agreements provide the contracting parties with the right to net a counterparty's rights and obligations and to liquidate and setoff collateral against any net amount owed by the counterparty. Generally, as the MUFG Group has elected to present such amounts on a gross basis, the amounts subject to these agreements are included in "Gross amounts not offset in the consolidated balance sheet" column in the tabular disclosure below. For certain transactions where a legal opinion with respect to the enforceability of netting has not been sought or obtained, the related amounts are not subject to enforceable master netting agreements and not included in "Gross amounts not offset in the consolidated balance sheet" column in the tabular disclosure below.

<u>At March 31, 2017</u>	<u>Gross amounts of recognized assets/liabilities</u>	<u>Gross amounts offset in the consolidated balance sheet</u>	<u>Net amounts presented in the consolidated balance sheet</u>	<u>Gross amounts not offset in the consolidated balance sheet</u>		<u>Net amounts</u>
				<u>Financial instruments</u>	<u>Cash collateral received/pledged</u>	
			(in billions)			
Financial assets:						
Derivative assets . . . . .	¥18,835	¥ —	¥18,835	¥(15,053)	¥ (726)	¥3,056
Receivables under resale agreements . . . . .	11,044	(2,856)	8,188	(7,461)	(11)	716
Receivables under securities borrowing transactions . . . . .	<u>11,003</u>	<u>—</u>	<u>11,003</u>	<u>(10,880)</u>	<u>(9)</u>	<u>114</u>
Total . . . . .	<u>¥40,882</u>	<u>¥(2,856)</u>	<u>¥38,026</u>	<u>¥(33,394)</u>	<u>¥ (746)</u>	<u>¥3,886</u>
Financial liabilities:						
Derivative liabilities . . . . .	¥18,562	¥ —	¥18,562	¥(15,063)	¥(1,229)	¥2,270
Payables under repurchase agreements . . . . .	20,549	(2,856)	17,693	(17,489)	(11)	193
Payables under securities lending transactions . . . .	5,549	—	5,549	(5,526)	(8)	15
Obligations to return securities received as collateral . . . . .	<u>3,516</u>	<u>—</u>	<u>3,516</u>	<u>(492)</u>	<u>—</u>	<u>3,024</u>
Total . . . . .	<u>¥48,176</u>	<u>¥(2,856)</u>	<u>¥45,320</u>	<u>¥(38,570)</u>	<u>¥(1,248)</u>	<u>¥5,502</u>

**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

<u>At March 31, 2018</u>	<u>Gross amounts of recognized assets/liabilities</u>	<u>Gross amounts offset in the consolidated balance sheet</u>	<u>Net amounts presented in the consolidated balance sheet</u>	<u>Gross amounts not offset in the consolidated balance sheet</u>		<u>Net amounts</u>
				<u>Financial instruments</u>	<u>Cash collateral received/pledged</u>	
			(in billions)			
Financial assets:						
Derivative assets . . . . .	¥12,585	¥ —	¥12,585	¥ (9,664)	¥ (832)	¥2,089
Receivables under resale agreements . . . . .	8,825	(3,099)	5,726	(5,171)	(17)	538
Receivables under securities borrowing transactions . . . . .	9,305	(36)	9,269	(9,208)	(1)	60
Total . . . . .	<u>¥30,715</u>	<u>¥(3,135)</u>	<u>¥27,580</u>	<u>¥(24,043)</u>	<u>¥ (850)</u>	<u>¥2,687</u>
Financial liabilities:						
Derivative liabilities . . . . .	¥11,877	¥ —	¥11,877	¥ (9,631)	¥(1,126)	¥1,120
Payables under repurchase agreements . . . . .	21,169	(3,034)	18,135	(17,890)	(31)	214
Payables under securities lending transactions . . . .	8,206	(36)	8,170	(8,139)	(12)	19
Obligations to return securities received as collateral . . . . .	3,177	—	3,177	(1,072)	—	2,105
Total . . . . .	<u>¥44,429</u>	<u>¥(3,070)</u>	<u>¥41,359</u>	<u>¥(36,732)</u>	<u>¥(1,169)</u>	<u>¥3,458</u>

**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**16. REPURCHASE AGREEMENTS, AND SECURITIES LENDING TRANSACTIONS ACCOUNTED FOR AS SECURED BORROWINGS**

The following tables present gross obligations for payables under repurchase agreements, payables under securities lending transactions and obligations to return securities received as collateral by remaining contractual maturity and class of collateral pledged at March 31, 2017 and 2018. Potential risks associated with these arrangements primarily relate to market and liquidity risks. To manage risks associated with market exposure, the MUFG Group generally revalues the collateral underlying its repurchase agreements and securities lending transactions on a daily basis and monitors the value of the underlying securities, consisting of primarily high-quality securities such as Japanese national government and Japanese government agency bonds, and foreign governments and official institutions bonds. In the event the market value of such securities falls below the related agreements at contract amounts plus accrued interest, the MUFG Group may be required to deposit additional collateral when appropriate. To address liquidity risks, the MUFG Group conducts stress tests to ensure the adequate level of liquidity is maintained in the event of a decline in the fair value of any collateral pledged.

	March 31, 2017				
	Remaining Contractual Maturity				
	Overnight and open	30 days or less	31-90 days	Over 90 days	Total
	(in billions)				
Payables under repurchase agreements . . . . .	¥2,309	¥13,455	¥3,083	¥1,702	¥20,549
Payables under securities lending transactions . . . . .	1,811	1,970	1,768	—	5,549
Obligations to return securities received as collateral . . . . .	3,329	102	85	—	3,516
Total . . . . .	<u>¥7,449</u>	<u>¥15,527</u>	<u>¥4,936</u>	<u>¥1,702</u>	<u>¥29,614</u>

	March 31, 2018				
	Remaining Contractual Maturity				
	Overnight and open	30 days or less	31-90 days	Over 90 days	Total
	(in billions)				
Payables under repurchase agreements . . . . .	¥2,290	¥14,328	¥2,004	¥2,547	¥21,169
Payables under securities lending transactions . . . . .	4,647	2,343	1,216	—	8,206
Obligations to return securities received as collateral . . . . .	2,855	202	120	—	3,177
Total . . . . .	<u>¥9,792</u>	<u>¥16,873</u>	<u>¥3,340</u>	<u>¥2,547</u>	<u>¥32,552</u>

**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

Secured borrowing by the class of collateral pledged at March 31, 2017 and 2018 was as follows:

	March 31, 2017			Total
	Payables under repurchase agreements	Payables under securities lending transactions	Obligations to return securities received as collateral	
	(in billions)			
Japanese national government and Japanese government agency bonds . . . . .	¥ 2,975	¥5,030	¥2,020	¥10,025
Foreign governments and official institutions bonds . . . . .	13,195	—	1,101	14,296
Corporate bonds . . . . .	636	1	117	754
Residential mortgage-backed securities . . . . .	3,401	—	—	3,401
Other debt securities . . . . .	205	—	3	208
Marketable equity securities . . . . .	104	518	275	897
Others . . . . .	33	—	—	33
Total . . . . .	<u>¥20,549</u>	<u>¥5,549</u>	<u>¥3,516</u>	<u>¥29,614</u>

	March 31, 2018			Total
	Payables under repurchase agreements	Payables under securities lending transactions	Obligations to return securities received as collateral	
	(in billions)			
Japanese national government and Japanese government agency bonds . . . . .	¥ 2,462	¥7,085	¥1,242	¥10,789
Foreign governments and official institutions bonds . . . . .	14,316	36	1,344	15,696
Corporate bonds . . . . .	570	—	84	654
Residential mortgage-backed securities . . . . .	3,567	—	—	3,567
Other debt securities . . . . .	121	—	—	121
Marketable equity securities . . . . .	123	1,085	507	1,715
Others . . . . .	10	—	—	10
Total . . . . .	<u>¥21,169</u>	<u>¥8,206</u>	<u>¥3,177</u>	<u>¥32,552</u>

**17. PREFERRED STOCK**

Pursuant to the Articles of Incorporation, MUFG had been authorized to issue 400,000,000 shares of Class 5 Preferred Stock, 200,000,000 shares of Class 6 Preferred Stock, and 200,000,000 shares of Class 7 Preferred Stock without par value as of March 31, 2018.

All classes of preferred stock are non-voting and have preference over common stock for the payment of dividends and the distribution of assets in the event of a liquidation or dissolution of MUFG. They are all non-cumulative and non-participating with respect to dividend payments. Shareholders of all classes of preferred stock have the right to receive a liquidation distribution at ¥2,500 and do not have the right to participate in any further liquidation distributions.

As of March 31, 2016, 2017 and 2018, there was no preferred stock outstanding and the entire amount of Capital stock on the consolidated balance sheets consisted of only common stock.

**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**18. COMMON STOCK AND CAPITAL SURPLUS**

The changes in the number of issued shares of common stock during the fiscal years ended March 31, 2016, 2017 and 2018 were as follows:

	<u>2016</u>	<u>2017</u>	<u>2018</u>
		(shares)	
Balance at beginning of fiscal year . . . . .	14,168,853,820	14,168,853,820	14,168,853,820
Retirement of shares of common stock . . . . .	—	—	(268,825,800)
Balance at end of fiscal year . . . . .	<u>14,168,853,820</u>	<u>14,168,853,820</u>	<u>13,900,028,020</u>

Under the Companies Act, issuances of common stock, including conversions of bonds and notes, are required to be credited to the common stock account for at least 50% of the proceeds and to the legal capital surplus account (“legal capital surplus”) for the remaining amounts.

The Companies Act permits Japanese companies, upon approval by the Board of Directors, to issue shares in the form of a “stock split,” as defined in the Companies Act. Also, prior to April 1, 1991, Japanese companies were permitted to issue free share distributions. MUFG Bank and Mitsubishi UFJ Trust and Banking from time to time made free share distributions. These free distributions usually ranged from 5% to 10% of outstanding common stock and publicly-owned corporations in the United States issuing shares in similar transactions would be required to account for them as stock dividends as of the shareholders’ record date by reducing retained earnings and increasing the appropriate capital accounts by an amount equal to the fair value of the shares issued. The application of such U.S. accounting practices to the cumulative free distributions made by MUFG Bank and Mitsubishi UFJ Trust and Banking at March 31, 2018, would have increased capital accounts by ¥1,910,106 million with a corresponding decrease in unappropriated retained earnings.

The Companies Act permits that common stock, legal reserve, additional paid-in capital, and other capital surplus and retained earnings can be transferred among these accounts under certain conditions upon the approval of a shareholders’ meeting. The Companies Act limits the increase of paid-in capital in case disposition of treasury stock and issuance of common stock are performed at the same time.

As for Capital surplus, the fee retained by MUFG’s subsidiary as underwriting compensation, net of stock issuance expense, was included in the total Capital surplus balance.

***Treasury Stock***

The Companies Act permits Japanese companies to effect purchases of their own shares pursuant to a resolution by the shareholders at an annual general meeting until the conclusion of the following ordinary general meeting of shareholders, and to hold such shares as their treasury stock indefinitely regardless of purpose. However, the Companies Act requires the amount of treasury stock purchased should be within the amount of retained earnings available for dividends. Disposition of treasury stock is subject to the approval of the Board of Directors and is to follow the procedures similar to a public offering of shares for subscription.

From May 18, 2015 to June 16, 2015, MUFG repurchased 111,151,800 shares of MUFG’s common stock by market purchases based on the discretionary dealing contract regarding repurchase of own shares for approximately ¥100 billion in aggregate in satisfaction of the resolution adopted at the meeting of the Board of Directors of MUFG held on May 15, 2015. The repurchase plan, as authorized by the Board of Directors of MUFG, allowed for the repurchase of an aggregate amount of up to 160,000,000 shares, which represents the

**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

equivalent of 1.14% of the total number of common shares outstanding, or of an aggregate repurchase amount of up to ¥100 billion. The purpose of the repurchase is to enhance the return of earnings to shareholders, to improve capital efficiency, and to implement flexible capital policies.

From November 16, 2015 to December 8, 2015, MUFG repurchased 121,703,700 shares of MUFG's common stock by market purchases based on the discretionary dealing contract regarding repurchase of own shares for approximately ¥100 billion in aggregate in satisfaction of the resolution adopted at the meeting of the Board of Directors of MUFG held on November 13, 2015. The repurchase plan, as authorized by the Board of Directors of MUFG, allowed for the repurchase of an aggregate amount of up to 140,000,000 shares, which represents the equivalent of 1.01% of the total number of common shares outstanding, or of an aggregate repurchase amount of up to ¥100 billion. The purpose of the repurchase is to enhance the return of earnings to shareholders, to improve capital efficiency, and to implement flexible capital policies.

From May 17, 2016 to June 13, 2016, MUFG repurchased 190,614,800 shares of MUFG's common stock. These purchases were made through Off-Auction Own Share Repurchase Trading (ToSTNeT-3) of the Tokyo Stock Exchange and by market purchases based on the discretionary dealing contract regarding repurchase of own shares for approximately ¥100 billion in aggregate in satisfaction of the resolution adopted at the meeting of the Board of Directors of MUFG held on May 16, 2016. The repurchase plan as authorized by the Board of Directors of MUFG allowed for the repurchase of an aggregate amount of up to 230,000,000 shares, which represents the equivalent of 1.67% of the total number of common shares outstanding, or of an aggregate repurchase amount of up to ¥100 billion. The purpose of the repurchase is to enhance the return of earnings to shareholders, to improve capital efficiency, and to implement flexible capital policies.

From November 15, 2016 to December 22, 2016, MUFG repurchased 142,238,800 shares of MUFG's common stock by market purchases based on the discretionary dealing contract regarding repurchase of own shares for approximately ¥100 billion in aggregate in satisfaction of the resolution adopted at the meeting of the Board of Directors of MUFG held on November 14, 2016. The repurchase plan, as authorized by the Board of Directors of MUFG, allowed for the repurchase of an aggregate amount of up to 230,000,000 shares, which represents the equivalent of 1.69% of the total number of common shares outstanding, or of an aggregate repurchase amount of up to ¥100 billion. The purpose of the repurchase is to enhance the return of earnings to shareholders, to improve capital efficiency, and to implement flexible capital policies.

From May 16, 2017 to June 21, 2017 MUFG repurchased 141,158,900 shares of MUFG's common stock by market purchases based on the discretionary dealing contract regarding repurchase of own shares for approximately ¥100 billion in aggregate in satisfaction of the resolution adopted at the meeting of the Board of Directors of MUFG held on May 15, 2017. The repurchase plan as authorized by the Board of Directors of MUFG allowed for the repurchase of an aggregate amount of up to 200,000,000 shares, which represents the equivalent of 1.49% of the total number of common shares outstanding, or of an aggregate repurchase amount of up to ¥100 billion. The purpose of the repurchase is to enhance the return of earnings to shareholders, to improve capital efficiency, and to implement flexible capital policies. On July 20, 2017, MUFG cancelled all the acquired shares in satisfaction of the resolution adopted at the meeting of the Board of Directors of MUFG held on May 15, 2017.

From November 15, 2017 to December 22, 2017, MUFG repurchased 127,666,900 shares of MUFG's common stock by market purchases based on the discretionary dealing contract regarding repurchase of own shares for approximately ¥100 billion, in aggregate, in satisfaction of the resolution adopted at the meeting of the Board of Directors of MUFG held on November 14, 2017. The repurchase plan as authorized by the Board of Directors of MUFG allowed for the repurchase of an aggregate amount of up to 200,000,000 shares, which



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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

represents the equivalent of 1.50% of the total number of common shares outstanding, or of an aggregate repurchase amount of up to ¥100 billion. The purpose of the repurchase is to enhance the return of earnings to shareholders, to improve capital efficiency, and to implement flexible capital policies. On January 22, 2018, MUFG cancelled all of the acquired shares in satisfaction of the resolution adopted at the meeting of the Board of Directors of MUFG held on November 14, 2017.

***Parent Company Shares Held by Subsidiaries and Affiliated Companies***

At March 31, 2018, certain subsidiaries and affiliated companies owned shares of common stock of MUFG. Such shares are included in treasury stock in the accompanying consolidated balance sheets and deducted from the MUFG's shareholders' equity.

**19. RETAINED EARNINGS, LEGAL RESERVE AND DIVIDENDS**

In addition to the Companies Act, Japanese banks, including MUFG Bank and Mitsubishi UFJ Trust and Banking, are required to comply with the Banking Law of Japan (the "Banking Law").

***Legal Reserve Set Aside as Appropriation of Retained Earnings and Legal Capital Surplus***

*Under the Companies Act*

The Companies Act provides that an amount at least equal to 10% of the aggregate amount of cash dividends and certain appropriations of retained earnings associated with cash outlays applicable to each period shall be appropriated and set aside as a legal reserve until the aggregate amount of legal reserve set aside as an appropriation of retained earnings and the legal capital surplus equals 25% of stated capital as defined in the Companies Act.

*Under the Banking Law*

The Banking Law provides that an amount at least equal to 20% of the aggregate amount of cash dividends and certain appropriations of retained earnings associated with cash outlays applicable to each fiscal year shall be appropriated and set aside as a legal reserve until the aggregate amount of legal reserve set aside as appropriation of retained earnings and the legal capital surplus equals 100% of stated capital as defined in the Companies Act.

***Transfer of Legal Reserve***

*Under the Companies Act*

Under the Companies Act, Japanese companies, including MUFG, were permitted, pursuant to a resolution by the shareholders at a general meeting, to make legal reserve set aside as appropriation of retained earnings and legal capital surplus available for dividends until the aggregate amount of the legal reserve and legal capital surplus equals 25% of stated capital as defined in the Companies Act.

Under the Companies Act, Japanese companies, including MUFG, MUFG Bank and Mitsubishi UFJ Trust and Banking, are permitted, primarily pursuant to a resolution by the shareholders at a general meeting, to transfer legal capital surplus and legal reserve to stated capital and/or retained earnings without limitations of thresholds, thereby effectively removing the thresholds provided for in the Companies Act and Banking Law at the company's discretion.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

*Under the Banking Law*

Under the Banking Law, Japanese banks, including MUFG Bank and Mitsubishi UFJ Trust and Banking, were permitted, pursuant to a resolution by the shareholders at a general meeting, to set aside a legal reserve as an appropriation of retained earnings and legal capital surplus available for dividends until the aggregate amount of the legal reserve and legal capital surplus equals 100% of stated capital as defined in the Companies Act.

***Unappropriated Retained Earnings and Dividends***

In addition to the provision that requires an appropriation for legal reserve as described above, the Companies Act and the Banking Law impose certain limitations on the amount available for dividends.

Under the Companies Act, the amount available for dividends is based on the amount recorded in MUFG's general books of account maintained in accordance with accounting principles generally accepted in Japan ("Japanese GAAP"). The adjustments included in the accompanying consolidated financial statements but not recorded in MUFG's general books of account, as explained in Note 1, have no effect on the determination of retained earnings available for dividends under the Companies Act. Under the Banking Law, MUFG, MUFG Bank and Mitsubishi UFJ Trust and Banking have to meet the minimum capital adequacy requirements and distributions of retained earnings of MUFG, MUFG Bank and Mitsubishi UFJ Trust and Banking, which are otherwise distributable to shareholders, are restricted in order to maintain the minimum capital requirements.

MUFG, formerly known as Mitsubishi Tokyo Financial Group, was established on April 2, 2001 with common stock of ¥924,400 million, preferred stock of ¥222,100 million, legal capital surplus of ¥2,838,693 million and no retained earnings in accordance with the Commercial Code of Japan ("the Code"), which was replaced by the Companies Act, and Japanese GAAP.

On October 1, 2005, MUFG started with common stock and preferred stock of ¥1,383,052 million, a legal capital surplus of ¥3,577,570 million and retained earnings of ¥757,458 million in accordance with the Code and Japanese GAAP.

MUFG's amount available for dividends, at March 31, 2018, was ¥4,515,486 million, which is based on the amount recorded in MUFG's general books of account under Japanese GAAP.

Annual dividends, including those for preferred stock, are approved by the shareholders at an annual general meeting held subsequent to the fiscal year to which the dividends are applicable. In addition, a semi-annual interim dividend payment may be made by resolution of the Board of Directors, subject to limitations imposed by the Companies Act and the Banking Law.

In the accompanying consolidated statements of equity, dividends and appropriations to legal reserve shown for each fiscal year represent dividends approved and paid during the fiscal year and the related appropriation to legal reserve.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**20. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)**

The following table presents the changes in Accumulated OCI, net of tax and net of noncontrolling interests, for the fiscal years ended March 31, 2016, 2017 and 2018:

	<u>2016</u>	<u>2017</u>	<u>2018</u>
		(in millions)	
<b>Accumulated other comprehensive income (loss), net of taxes:</b>			
Net unrealized gains (losses) on investment securities:			
Balance at beginning of fiscal year	¥2,304,555	¥1,995,314	¥2,032,807
Net change during the fiscal year	(309,241)	31,984	244,249
Effect of adopting new guidance by a foreign affiliated company	—	—	118
Effect of adopting new guidance on consolidation of certain variable interest entities (Note 26)	—	5,509	—
Effect of adopting new guidance on reclassification on certain tax effects (Note 1)	—	—	(6,828)
Balance at end of fiscal year	<u>¥1,995,314</u>	<u>¥2,032,807</u>	<u>¥2,270,346</u>
Net debt valuation adjustments (Note 14):			
Balance at beginning of fiscal year	¥ —	¥ (2,080)	¥ (10,632)
Net change during the fiscal year	3,505	(8,552)	(2,178)
Effect of adopting new guidance by a foreign affiliated company	(5,585)	—	—
Effect of adopting new guidance on reclassification on certain tax effects (Note 1)	—	—	(3,678)
Balance at end of fiscal year	<u>¥ (2,080)</u>	<u>¥ (10,632)</u>	<u>¥ (16,488)</u>
Net unrealized gains (losses) on derivatives qualifying for cash flow hedges:			
Balance at beginning of fiscal year	¥ 2,708	¥ 4,516	¥ (8,729)
Net change during the fiscal year	1,808	(13,245)	(7,025)
Effect of adopting new guidance on reclassification on certain tax effects (Note 1)	—	—	(3,496)
Balance at end of fiscal year	<u>¥ 4,516</u>	<u>¥ (8,729)</u>	<u>¥ (19,250)</u>
Defined benefit plans:			
Balance at beginning of fiscal year	¥ (187,640)	¥ (317,422)	¥ (214,062)
Net change during the fiscal year	(129,782)	103,360	109,012
Effect of adopting new guidance on reclassification on certain tax effects (Note 1)	—	—	(14,543)
Balance at end of fiscal year	<u>¥ (317,422)</u>	<u>¥ (214,062)</u>	<u>¥ (119,593)</u>
Foreign currency translation adjustments:			
Balance at beginning of fiscal year	¥ 947,632	¥ 620,931	¥ 482,039
Net change during the fiscal year	(326,701)	(137,256)	(119,213)
Effect of adopting new guidance on consolidation of certain variable interest entities (Note 26)	—	(1,636)	—
Effect of adopting new guidance on reclassification on certain tax effects (Note 1)	—	—	(526)
Balance at end of fiscal year	<u>¥ 620,931</u>	<u>¥ 482,039</u>	<u>¥ 362,300</u>
Balance at end of fiscal year	<u>¥2,301,259</u>	<u>¥2,281,423</u>	<u>¥2,477,315</u>

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The following table presents the before tax and net of tax changes in each component of Accumulated OCI for the fiscal years ended March 31, 2016, 2017 and 2018:

	2016			2017			2018		
	Before tax	Tax (expense) or benefit	Net of tax	Before tax	Tax (expense) or benefit	Net of tax	Before tax	Tax (expense) or benefit	Net of tax
Net unrealized gains (losses) on investment securities:									
Net unrealized gains (losses) on investment securities . . . . .	¥(172,382)	¥ 81,568	¥ (90,814)	¥ 307,476	¥(107,082)	¥ 200,394	¥631,154	¥(204,916)	¥426,238
Reclassification adjustment for gains included in net income before attribution of noncontrolling interests . . . . .	(239,934)	80,967	(158,967)	(274,278)	86,845	(187,433)	(280,258)	84,328	(195,930)
Net change . . . . .	(412,316)	162,535	(249,781)	33,198	(20,237)	12,961	350,896	(120,588)	230,308
Net unrealized gains (losses) on investment securities attributable to noncontrolling interests . . . . .			59,460			(19,023)			(13,941)
Net unrealized gains (losses) on investment securities attributable to Mitsubishi UFJ Financial Group . . . . .			(309,241)			31,984			244,249
Net debt valuation adjustments (Note 14):									
Net debt valuation adjustments . . . . .	6,005	(2,032)	3,973	(12,693)	3,994	(8,699)	(3,555)	1,088	(2,467)
Reclassification adjustment for losses (gains) included in net income before attribution of noncontrolling interests . . . . .	(707)	239	(468)	215	(68)	147	417	(128)	289
Net change . . . . .	5,298	(1,793)	3,505	(12,478)	3,926	(8,552)	(3,138)	960	(2,178)
Net debt valuation adjustments attributable to noncontrolling interests . . . . .			—			—			—
Net debt valuation adjustments attributable to Mitsubishi UFJ Financial Group . . . . .			3,505			(8,552)			(2,178)
Net unrealized gains (losses) on derivatives qualifying for cash flow hedges:									
Net unrealized gains (losses) on derivatives qualifying for cash flow hedges . . . . .	23,633	(9,320)	14,313	(4,321)	2,041	(2,280)	(3,430)	1,571	(1,859)
Reclassification adjustment for gains included in net income before attribution of noncontrolling interests . . . . .	(20,599)	8,094	(12,505)	(18,367)	7,402	(10,965)	(8,016)	2,850	(5,166)
Net change . . . . .	3,034	(1,226)	1,808	(22,688)	9,443	(13,245)	(11,446)	4,421	(7,025)
Net unrealized gains on derivatives qualifying for cash flow hedges attributable to noncontrolling interests . . . . .			—			—			—
Net unrealized gains (losses) on derivatives qualifying for cash flow hedges attributable to Mitsubishi UFJ Financial Group . . . . .			1,808			(13,245)			(7,025)

**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

	2016			2017			2018		
	Before tax	Tax (expense) or benefit	Net of tax	Before tax	Tax (expense) or benefit	Net of tax	Before tax	Tax (expense) or benefit	Net of tax
	(in millions)								
Defined benefit plans:									
Defined benefit plans . . . . .	(209,209)	72,115	(137,094)	131,971	(41,852)	90,119	154,708	(48,537)	106,171
Reclassification adjustment for losses included in net income before attribution of noncontrolling interests . . . . .	9,839	(4,238)	5,601	20,105	(6,652)	13,453	5,904	(2,237)	3,667
Net change . . . . .	(199,370)	67,877	(131,493)	152,076	(48,504)	103,572	160,612	(50,774)	109,838
Defined benefit plans attributable to noncontrolling interests . . . . .			(1,711)			212			826
Defined benefit plans attributable to Mitsubishi UFJ Financial Group . . . . .			(129,782)			103,360			109,012
Foreign currency translation adjustments:									
Foreign currency translation adjustments . . . . .	(396,995)	43,109	(353,886)	(148,460)	2,424	(146,036)	(137,811)	32,767	(105,044)
Reclassification adjustment for losses (gains) included in net income before attribution of noncontrolling interests . . . . .	(3,670)	879	(2,791)	3,293	(467)	2,826	(1,494)	1,760	266
Net change . . . . .	(400,665)	43,988	(356,677)	(145,167)	1,957	(143,210)	(139,305)	34,527	(104,778)
Foreign currency translation adjustments attributable to noncontrolling interests . . . . .			(29,976)			(5,954)			14,435
Foreign currency translation adjustments attributable to Mitsubishi UFJ Financial Group . . . . .			(326,701)			(137,256)			(119,213)
Other comprehensive income (loss) attributable to Mitsubishi UFJ Financial Group . . . . .			¥(760,411)			¥ (23,709)			¥224,845

**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

The following table presents the effect of the reclassification of significant items out of Accumulated OCI on the respective line items of the accompanying consolidated statements of income for the fiscal years ended March 31, 2016, 2017 and 2018:

<u>Details of Accumulated OCI components</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>Line items in the consolidated statements of income</u>
	<u>Amount reclassified out of Accumulated OCI</u>			
	(in millions)			
Net unrealized losses (gains) on investment securities				
Net gains on sales and redemptions of Available-for-sale securities . . . . .	¥(267,240)	¥(307,041)	¥(287,279)	Investment securities gains—net
Impairment losses on investment securities . . . . .	22,885	32,744	6,759	Investment securities gains—net
Other . . . . .	4,421	19	262	
	(239,934)	(274,278)	(280,258)	Total before tax
	80,967	86,845	84,328	Income tax expense
	<u>¥(158,967)</u>	<u>¥(187,433)</u>	<u>¥(195,930)</u>	Net of tax
Net debt valuation adjustments (Note 14) . . . . .	¥ (707)	¥ 215	¥ 417	Equity in earnings of equity method investees—net
	(707)	215	417	Total before tax
	239	(68)	(128)	Income tax expense
	<u>¥ (468)</u>	<u>¥ 147</u>	<u>¥ 289</u>	Net of tax
Net unrealized losses (gains) on derivatives qualifying for cash flow hedges				
Interest rate contracts . . . . .	¥ (20,338)	¥ (18,332)	¥ (7,782)	Interest income on Loans, including fees
Other . . . . .	(261)	(35)	(234)	
	(20,599)	(18,367)	(8,016)	Total before tax
	8,094	7,402	2,850	Income tax expense
	<u>¥ (12,505)</u>	<u>¥ (10,965)</u>	<u>¥ (5,166)</u>	Net of tax
Defined benefit plans				
Net actuarial loss <sup>(1)</sup> . . . . .	¥ 21,251	¥ 31,837	¥ 17,280	
Prior service cost <sup>(1)</sup> . . . . .	(10,847)	(9,927)	(6,959)	
Loss (gain) on settlements and curtailment, and other <sup>(1)</sup> . . . . .	(565)	(1,805)	(4,417)	
	9,839	20,105	5,904	Total before tax
	(4,238)	(6,652)	(2,237)	Income tax expense
	<u>¥ 5,601</u>	<u>¥ 13,453</u>	<u>¥ 3,667</u>	Net of tax

**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

<u>Details of Accumulated OCI components</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>Line items in the consolidated statements of income</u>
	<u>Amount reclassified out of Accumulated OCI</u>			
	(in millions)			
Foreign currency translation adjustments . . . . .	¥ (4,270)	¥ (39)	¥ (5,743)	Other non-interest income
	600	3,332	4,249	Other non-interest expenses
	(3,670)	3,293	(1,494)	Total before tax
	879	(467)	1,760	Income tax expense
	<u>¥ (2,791)</u>	<u>¥ 2,826</u>	<u>¥ 266</u>	Net of tax
Total reclassifications for the period . . .	¥(255,071)	¥(269,032)	¥(283,447)	Total before tax
	85,941	87,060	86,573	Income tax expense
	<u>¥(169,130)</u>	<u>¥(181,972)</u>	<u>¥(196,874)</u>	Net of tax

Note:

(1) These Accumulated OCI components are included in the computation of net periodic benefit cost. See Note 13 for more information.

**21. NONCONTROLLING INTERESTS**

***Deconsolidation of Subsidiaries***

The gains and losses due to deconsolidation of subsidiaries were recognized under “Other non-interest income” and “Other non-interest expenses,” respectively, in the accompanying consolidated statements of income. The amount of net gains was ¥3,261 million for the fiscal year ended March 31, 2016, the amount of net losses was ¥2,848 million for the fiscal year ended March 31, 2017 and the amount of net gains was ¥4,448 million for the fiscal year ended March 31, 2018, respectively.

***Changes in MUFG’s Ownership Interests in Subsidiaries***

The following table presents the effect on MUFG’s shareholders’ equity from changes in ownership of subsidiaries resulting from transactions with the noncontrolling interest shareholders during the fiscal years ended March 31, 2016, 2017 and 2018:

	<u>2016</u>	<u>2017</u>	<u>2018</u>
	(in millions)		
Net income attributable to Mitsubishi UFJ Financial Group . . . . .	¥802,332	¥202,680	¥1,228,160
Transactions between Mitsubishi UFJ Financial Group and the noncontrolling interest shareholders:			
Purchase of shares of Mitsubishi UFJ NICOS from noncontrolling interest shareholder (Note 2) . . . . .	—	—	(34,751)
Other . . . . .	(1,630)	(429)	8,006
Net transfers to the noncontrolling interest shareholders . . . . .	(1,630)	(429)	(26,745)
Change from net income attributable to Mitsubishi UFJ Financial Group and transactions between Mitsubishi UFJ Financial Group and the noncontrolling interest shareholders . . . . .	<u>¥800,702</u>	<u>¥202,251</u>	<u>¥1,201,415</u>

**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES**  
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**22. REGULATORY CAPITAL REQUIREMENTS**

*Japan*

MUFG, MUFG Bank, Mitsubishi UFJ Trust and Banking and Mitsubishi UFJ Securities Holdings are subject to various regulatory capital requirements promulgated by the regulatory authorities of the countries in which they operate. Failure to meet minimum capital requirements will initiate certain mandatory actions by regulators that, if undertaken, could have a direct material effect on MUFG's consolidated financial statements.

In Japan, MUFG, MUFG Bank, and Mitsubishi UFJ Trust and Banking are subject to regulatory capital requirements promulgated by the Financial Services Agency of Japan ("FSA") in accordance with the provisions of the Banking Law and related regulations. A banking institution is subject to the minimum capital requirements both on a consolidated basis and a stand-alone basis, and is required to maintain the minimum capital irrespective of whether it operates independently or as a subsidiary under the control of another company. When a bank holding company manages operations of its banking subsidiaries, it is required to maintain the minimum capital adequacy ratio on a consolidated basis in the same manner as its subsidiary banks. The FSA provides two sets of capital adequacy guidelines. One is a set of guidelines applicable to Japanese banks and bank holding companies with their foreign offices conducting international operations, as defined, and the other is applicable to Japanese banks and bank holding companies that are not engaged in international operations conducted by their foreign offices.

The Basel Committee on Banking Supervision ("BCBS") of the Bank for International Settlements ("BIS") sets capital adequacy standards for all internationally active banks to ensure minimum levels of capital.

The Basel Committee revised the 1988 Accord ("Basel I") in June 2004 and released "International Convergence of Capital Measurement and Capital Standards: A Revised Framework" ("Basel II"). In addition, 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. Effective as of March 31, 2013, Basel III was adopted by the FSA with transitional measures for Japanese banking institutions with international operations conducted by their foreign offices. MUFG calculated capital ratios as of March 31, 2017 and 2018 in accordance with Basel III.

*Capital Ratios*

Basel III, the same as Basel II, is based 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 framework of the 1988 Accord, Basel I is improved and expanded to be included in "minimum capital requirements" as the first pillar of Basel II and Basel III.

As for the denominator of the capital ratio, the Basel framework provides the following risk-based approaches and a range of options for determining risk-weighted assets.

**"Credit Risk"**

The Basel framework provides options for determining the risk-weighted assets for credit risk to allow banks to select approaches that are most appropriate for their level of risk assessment. Banks choose one of three approaches: "Standardized Approach," "Foundation Internal Ratings-Based Approach" or "Advanced Internal Ratings-Based Approach ("AIRB")."



**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

“Market Risk”

In the “Amendment to the Capital Accord to incorporate market risks” of the year 1996, a choice between two methodologies “the Standardized Measurement Method” and “Internal Models Approach” is permitted. “Combination of Internal Models Approach and the Standardized Measurement Method” is also allowed under certain conditions. This is unchanged in Basel III.

“Operational Risk”

Operational risk, which is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, is newly added in Basel II. The Basel framework presents three methods for calculating operational risk capital charges: (i) the Basic Indicator Approach; (ii) the Standardized Approach; or (iii) Advanced Measurement Approaches (“AMA”). Banks adopt one of the three approaches to determine the risk-weighted assets for operational risk.

Banks need to obtain approval from their supervisors prior to adopting the following approaches to calculate capital requirements for each risk:

- the Advanced Internal Ratings-Based Approach for credit risk
- the Internal Models Approach for market risk
- the Standardized Approach and AMA for operational risk

With approval from the FSA, MUFG and most of its major subsidiaries adopt AIRB to calculate capital requirements for credit risk, adopt the AMA to calculate capital requirements for operational risk, as for market risk, adopt the Internal Models Approach mainly to calculate general market risk and adopt the Standardized Measurement Method to calculate specific risk.

The MUFG Group’s proprietary assets do not include trust assets under management and administration in a capacity of agent or fiduciary and, accordingly trust account assets are generally not included in the capital measure. However, guarantees for trust principal are counted as off-balance sheet items requiring a capital charge in accordance with the capital adequacy guidelines.

Under Basel III, as adopted by the FSA, MUFG’s risk-weighted assets increased, largely reflecting the new capital charge of the credit valuation adjustment (CVA), the credit risk related to asset value correlation multiplier for large financial institutions, and the 250% risk-weighted threshold items not deducted from Common Equity Tier 1 capital, as well as the conversion of certain Basel II capital deductions to risk-weighted assets, such as securitizations.

On the other hand, as for the numerator of the capital ratio, there are three primary regulatory capital ratios used to assess capital adequacy, Common Equity Tier 1, Tier 1 and Total capital ratios, which are determined by dividing applicable capital components by risk-weighted assets. Tier 1 capital is redefined, and consists of Common Equity Tier 1 capital 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 OCI. Regulatory adjustments including certain intangible fixed assets, such as goodwill, and defined-benefit pension fund assets will be deducted from Common Equity Tier 1. The amount of adjustments to be deducted will increase progressively over time. Additional Tier 1 capital generally consists of Basel III compliant preferred securities, other capital that meets Tier 1 requirements under Basel II standards, and net of regulatory adjustments. Subject to transitional measures, adjustments are made to Additional Tier 1 capital for items

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including intangible fixed assets, such as goodwill, and foreign currency translation adjustments, with the amounts of such adjustments to Additional Tier 1 capital progressively decreasing over time. Tier 2 capital generally consists of Basel III compliant deferred obligations, such as subordinated debts, capital that meet Tier 2 requirements under Basel II standards, certain allowances for credit losses and noncontrolling interests in subsidiaries' Tier 2 instruments. Subject to transitional measures, certain items including 45% of unrealized profit on Available-for-sale securities and revaluation of land are deducted from Tier 2 capital with the deduction amounts progressively decreasing over time. Total capital is defined as the sum of Tier 1 and Tier 2 capital.

Basel III will be adopted in accordance with transition arrangements. Examples of these transition arrangements include initially lower capital adequacy ratios that will increase progressively up to the Basel III adequacy levels as issued by BCBS. In addition, individual elements of capital will be phased out progressively over the same period of time to arrive at a capital base that is consistent with that defined by BCBS in Basel III.

Effective March 31, 2016, the FSA's capital conservation buffer, countercyclical buffer and the Global Systematically Important Bank ("G-SIB"), as designated by the FSB, surcharge requirements became applicable to Japanese banking institutions with international operations conducted through foreign offices. The requirements are currently being phased in and, as of March 31, 2018, MUFG is 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, MUFG 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 MUFG will be in Bucket 2 of the G-SIB list.

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The risk-adjusted capital amounts and ratios of MUFG, MUFG Bank and Mitsubishi UFJ Trust and Banking presented in the following table are based on amounts calculated in accordance with Japanese GAAP as required by the FSA.

	Actual		For capital adequacy purposes	
	Amount	Ratio	Amount	Ratio
(in millions, except percentages)				
Consolidated:				
At March 31, 2017:				
Total capital (to risk-weighted assets):				
MUFG <sup>(1)</sup>	¥18,076,158	15.85%	¥11,398,640	10.00%
BK	14,053,431	15.28	7,356,801	8.00
TB	2,406,555	19.80	971,933	8.00
Tier1 capital (to risk-weighted assets):				
MUFG <sup>(1)</sup>	15,232,491	13.36	9,118,912	8.00
BK	11,680,740	12.70	5,517,601	6.00
TB	2,058,449	16.94	728,950	6.00
Common Equity Tier1 capital (to risk-weighted assets):				
MUFG <sup>(1)</sup>	13,413,885	11.76	7,409,116	6.50
BK	10,245,812	11.14	4,138,201	4.50
TB	1,928,970	15.87	546,713	4.50
At March 31, 2018:				
Total capital (to risk-weighted assets):				
MUFG <sup>(1)</sup>	¥18,795,480	16.56%	¥12,492,344	11.01%
BK	14,470,240	15.90	7,280,570	8.00
TB	2,545,648	20.03	1,016,420	8.00
Tier1 capital (to risk-weighted assets):				
MUFG <sup>(1)</sup>	16,251,749	14.32	10,223,072	9.01
BK	12,374,074	13.59	5,460,427	6.00
TB	2,245,853	17.67	762,315	6.00
Common Equity Tier1 capital (to risk-weighted assets):				
MUFG <sup>(1)</sup>	14,284,945	12.58	8,521,118	7.51
BK	10,788,381	11.85	4,095,321	4.50
TB	2,060,107	16.21	571,736	4.50
Stand-alone:				
At March 31, 2017:				
Total capital (to risk-weighted assets):				
BK	¥12,823,393	16.70%	¥ 6,140,606	8.00%
TB	2,426,482	20.48	947,592	8.00
Tier1 capital (to risk-weighted assets):				
BK	10,655,522	13.88	4,605,455	6.00
TB	2,067,034	17.45	710,694	6.00
Common Equity Tier1 capital (to risk-weighted assets):				
BK	9,247,740	12.04	3,454,091	4.50
TB	1,937,599	16.35	533,020	4.50
At March 31, 2018:				
Total capital (to risk-weighted assets):				
BK	¥13,211,327	16.90%	¥ 6,252,458	8.00%
TB	2,529,316	19.88	1,017,331	8.00
Tier1 capital (to risk-weighted assets):				
BK	11,344,078	14.51	4,689,344	6.00
TB	2,232,760	17.55	762,998	6.00
Common Equity Tier1 capital (to risk-weighted assets):				
BK	9,802,445	12.54	3,517,008	4.50
TB	2,057,760	16.18	572,249	4.50

Note:

- (1) 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. As a result, in addition to the

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4.50% minimum Common Equity Tier 1 capital ratio, MUFG is required to maintain a capital conservation buffer of 1.25% and a G-SIB surcharge of 0.75% as of March 31, 2017 and a capital conservation buffer of 1.875% and a G-SIB surcharge of 1.125% as of March 31, 2018. As of the same date, the countercyclical buffer applicable to MUFG is 0.01%.

Mitsubishi UFJ Morgan Stanley Securities and other securities subsidiaries in Japan and overseas are also subject to regulatory capital requirements of the countries or jurisdictions in which they operate. In Japan, the Financial Instruments and Exchange Act and related ordinance require financial instruments firms to maintain a minimum capital ratio of 120% calculated as a percentage of capital accounts less certain fixed assets, as determined in accordance with Japanese GAAP, against amounts equivalent to market, counterparty credit and operations risks. Specific guidelines are issued as a ministerial ordinance which details the definition of essential components of the capital ratios, including capital, deductible fixed asset items and risks, and related measures. Failure to maintain a minimum capital ratio will trigger mandatory regulatory actions. A capital ratio of less than 140% will call for regulatory reporting and a capital ratio of less than 100% may lead to a suspension of all or part of the business for a period of time and cancellation of a registration.

At March 31, 2017, Mitsubishi UFJ Morgan Stanley Securities's capital accounts less certain fixed assets of ¥426,133 million on a stand-alone basis and ¥451,285 million on a consolidated basis, were 323.0% and 324.7% of the total amounts equivalent to market, counterparty credit and operations risks, respectively. At March 31, 2018, its capital accounts less certain fixed assets of ¥446,539 million on a stand-alone basis and ¥473,296 million on a consolidated basis, were 291.2% and 293.2% of the total amounts equivalent to market, counterparty credit and operations risks, respectively.

Management believes, as of March 31, 2018, that MUFG, MUFG Bank, Mitsubishi UFJ Trust and Banking, Mitsubishi UFJ Morgan Stanley Securities and other regulated securities subsidiaries met all capital adequacy requirements to which they are subject.

***United States of America***

In the United States of America, MUFG Americas Holdings and its banking subsidiary MUFG Union Bank, N.A. ("MUFG Union Bank" or "BK(US)"), MUFG Bank's largest subsidiaries operating outside Japan, are subject to various regulatory capital requirements administered by the U. S. Federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a material effect on MUFG Americas Holdings's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, MUFG Americas Holdings and MUFG Union Bank must meet specific capital guidelines that involve quantitative measures of MUFG Americas Holdings's and MUFG Union Bank's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. MUFG Americas Holdings's capital amounts and MUFG Union Bank's prompt corrective action classification are also subject to qualitative judgments by the regulators about components, risk-weightings and other factors. Prompt corrective action provisions are not applicable to bank holding companies such as MUFG Americas Holdings. MUFG Union Bank is subject to laws and regulations that limit the amount of dividends MUFG Union Bank can pay to MUFG Americas Holdings.

Quantitative measures established by regulation to help ensure capital adequacy require MUFG Americas Holdings and MUFG Union Bank to maintain minimum amounts and ratios (set forth in the tables below) of Total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier 1 capital (as defined) to quarterly average assets (as defined).

In July 2013, the Board of Governors of the Federal Reserve System and the other U.S. Federal banking agencies adopted final rules making significant changes to the U.S. regulatory capital framework for

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U.S. banking organizations (U.S. Basel III). The final rules are intended to conform this framework to the BCBS' current international regulatory capital accord (Basel III). These rules replace the U.S. Federal banking agencies' general risk-based capital rules (commonly known as "Basel I"), advanced approaches rules (commonly known as "Basel II") that are applicable to certain large banking organizations (including MUFG Union Bank), and leverage rules, and are subject to certain transition provisions. Among other requirements, the U.S. Basel III rules revise the definition of capital, increase minimum capital ratios, and introduce a minimum Common Equity Tier 1 capital ratio of 4.5% and a capital conservation buffer of 2.5% (for a total minimum Common Equity Tier 1 capital ratio of 7.0%) and a potential countercyclical buffer of up to 2.5%, which would be imposed by regulators at their discretion if it is determined that a period of excessive credit growth is contributing to an increase in financial institution systemic risk; mandate a Tier 1 leverage ratio of 4% and introduce, for large and internationally active bank holding companies, a Tier 1 Supplementary Leverage Ratio that is currently set at 3% and which incorporates off-balance sheet exposures; revise Basel I rules for calculating risk-weighted assets under a standardized approach; modify the existing Basel II advanced approaches rules for calculating risk-weighted assets under U.S. Basel III; and eliminate, for advanced approaches institutions, over a four-year phase-in period beginning on January 1, 2014, the Accumulated OCI or loss exclusion that had applied under Basel I and Basel II rules.

As a result of the Federal Reserve's approval of MUFG Americas Holdings's request to opt out of the advanced approaches methodology in the fourth quarter of 2014, MUFG Americas Holdings calculated its regulatory capital ratios under U.S. Basel I rules at December 31, 2014 and became subject to the U.S. Basel III standardized approach on January 1, 2015, with certain provisions subject to phase-in periods. As permitted for institutions not subject to the advanced approaches methodology, MUFG Americas Holdings made a one-time permanent election in the first quarter of 2015 to exclude certain components of the Accumulated OCI from its regulatory capital calculations. MUFG Union Bank continues to be subject to the advanced approaches rules. Advanced approaches institutions were required to apply U.S. Basel III rules beginning on January 1, 2014. The U.S. Basel III rules are scheduled to be substantially phased in by January 1, 2019. Effective June 30, 2015, MUFG Americas Holdings updated the methodologies applied to the calculation of its regulatory capital ratios due to recent regulatory guidance, which clarified the treatment of certain off-balance sheet credit exposures. These methodologies were applied to MUFG Americas Holdings's capital ratios and increased the ratios by approximately 50 basis points. This change did not affect MUFG Union Bank's ratios as the U.S. Office of the Comptroller of the Currency ("OCC") had previously adopted this guidance.

As required under U.S. Basel III rules, the 2.5% capital conservation buffer is being implemented on a phased-in basis in equal increments of 0.625% per year over a four-year period that commenced on January 1, 2016. MUFG Americas Holdings and MUFG Union Bank would satisfy the minimum capital requirements including the capital conservation buffer on a fully phased-in basis if those requirements were effective as of December 31, 2017.

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The figures on the table below are calculated according to U.S. Basel III as of December 31, 2016 and 2017. MUFG Americas Holdings's actual capital amounts and ratios are presented as follows:

	<u>Actual</u>		<u>Minimum capital ratios required<sup>(1)</sup></u>	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
(in millions, except percentages)				
MUAH:				
At December 31, 2016:				
Total capital (to risk-weighted assets) . . . . .	\$16,431	16.45%	\$8,617	8.625%
Tier 1 capital (to risk-weighted assets) . . . . .	14,757	14.77	6,619	6.625
Tier 1 capital (to quarterly average assets) <sup>(2)</sup> . . . . .	14,757	9.92	5,952	4.000
Common Equity Tier 1 capital (to risk-weighted assets) . . . . .	14,757	14.77	5,120	5.125
At December 31, 2017:				
Total capital (to risk-weighted assets) . . . . .	\$17,106	17.76%	\$8,910	9.250%
Tier 1 capital (to risk-weighted assets) . . . . .	15,708	16.31	6,984	7.250
Tier 1 capital (to quarterly average assets) <sup>(2)</sup> . . . . .	15,708	10.06	6,245	4.000
Common Equity Tier 1 capital (to risk-weighted assets) . . . . .	15,708	16.31	5,539	5.750

Notes:

- (1) The minimum capital requirement includes a capital conservation buffer of 1.250% at December 31, 2017 and 0.625% at December 31, 2016.  
(2) Excludes certain deductions.

The figures on the table below are calculated according to U.S. Basel III as of December 31, 2016 and 2017. MUFG Union Bank's actual capital amounts and ratios are presented as follows:

	<u>Actual</u>		<u>Minimum capital ratios required<sup>(1)</sup></u>		<u>Ratios OCC requires to be "well capitalized"</u>	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
(in millions, except percentages)						
BK(US):						
At December 31, 2016:						
Total capital (to risk-weighted assets) . . . . .	\$14,560	16.29%	\$7,709	8.625%	\$8,938	10.00%
Tier 1 capital (to risk-weighted assets) . . . . .	13,056	14.61	5,922	6.625	7,151	8.00
Tier 1 capital (to quarterly average assets) <sup>(2)</sup> . . . . .	13,056	11.46	4,558	4.000	5,697	5.00
Common Equity Tier 1 capital (to risk-weighted assets) . . . . .	13,056	14.61	4,581	5.125	5,810	6.50
At December 31, 2017:						
Total capital (to risk-weighted assets) . . . . .	\$15,335	17.68%	\$8,023	9.250%	\$8,673	10.00%
Tier 1 capital (to risk-weighted assets) . . . . .	14,028	16.17	6,288	7.250	6,938	8.00
Tier 1 capital (to quarterly average assets) <sup>(2)</sup> . . . . .	14,028	11.78	4,762	4.000	5,953	5.00
Common Equity Tier 1 capital (to risk-weighted assets) . . . . .	14,028	16.17	4,987	5.750	5,637	6.50

Notes:

- (1) Beginning January 1, 2016, the minimum capital requirement includes a capital conservation buffer of 1.250%.  
(2) Excludes certain deductions.

Management believes, as of December 31, 2017, that MUFG Americas Holdings and MUFG Union Bank met all capital adequacy requirements to which they are subject.

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As of December 31, 2016 and 2017, the notification from the OCC categorized MUFG Union Bank as “well capitalized” under the regulatory framework for prompt corrective action. To be categorized as “well capitalized,” MUFG Union Bank must maintain a minimum total risk-based capital ratio of 10% as of December 31, 2016 and 2017, a Tier 1 risk-based capital ratio of 8% as of December 31, 2016 and 2017, a Tier 1 capital to quarterly average assets of 5% as of December 31, 2016 and 2017, and Common Equity Tier 1 risk-based capital ratio of 6.5% as of December 31, 2016 and 2017, as set forth in the table. There are no conditions or events since that notification that management believes have changed MUFG Union Bank’s category.

**23. EARNINGS PER COMMON SHARE APPLICABLE TO COMMON SHAREHOLDERS OF MUFG**

Reconciliations of net income and weighted average number of common shares outstanding used for the computation of basic EPS to the adjusted amounts for the computation of diluted EPS for the fiscal years ended March 31, 2016, 2017 and 2018 are as follows:

	<u>2016</u>	<u>2017</u>	<u>2018</u>
		(in millions)	
<b>Income (Numerator):</b>			
Net income attributable to Mitsubishi UFJ Financial Group . . . . .	¥ 802,332	¥ 202,680	¥ 1,228,160
Effect of dilutive instruments:			
Stock acquisition rights and restricted stock units—Morgan Stanley . . . . .	(2,704)	(3,212)	(3,826)
Earnings applicable to common shareholders of Mitsubishi UFJ Financial Group and assumed conversions . . . . .	<u>¥ 799,628</u>	<u>¥ 199,468</u>	<u>¥ 1,224,334</u>
	<u>2016</u>	<u>2017</u>	<u>2018</u>
	(thousands of shares)		
<b>Shares (Denominator):</b>			
Weighted average common shares outstanding . . . . .	13,885,842	13,574,314	13,291,842
Effect of dilutive instruments:			
Stock acquisition rights and the common shares of MUFG under Board Incentive Plan . . . . .	17,474	10,571	1,650
Weighted average common shares for diluted computation . . . . .	<u>13,903,316</u>	<u>13,584,885</u>	<u>13,293,492</u>
	<u>2016</u>	<u>2017</u>	<u>2018</u>
	(in yen)		
<b>Earnings per common share applicable to common shareholders of Mitsubishi UFJ Financial Group:</b>			
Basic earnings per common share:			
Earnings applicable to common shareholders of Mitsubishi UFJ Financial Group . . . . .	<u>¥ 57.78</u>	<u>¥ 14.93</u>	<u>¥ 92.40</u>
Diluted earnings per common share:			
Earnings applicable to common shareholders of Mitsubishi UFJ Financial Group . . . . .	<u>¥ 57.51</u>	<u>¥ 14.68</u>	<u>¥ 92.10</u>

**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**24. DERIVATIVE FINANCIAL INSTRUMENTS**

The MUFG Group uses various derivative financial instruments both for trading purposes and for purposes other than trading (primarily risk management purposes) in the normal course of business to meet the financial needs of its customers, as a source of revenue and to manage its exposures to a variety of risks.

Market risk is the possibility that future changes in market indices make the financial instruments less valuable. The MUFG Group is a party to derivative financial instruments, including swaps, forwards, options and other types of derivatives, dealing primarily with market risk associated with interest rates, foreign currencies, equity and commodity prices, and credit risk associated with counterparty's nonperformance of transactions.

Credit risk is the possibility that a loss may result from a counterparty's failure to perform according to the terms and conditions of the contract, which may exceed the value of underlying collateral. To reduce credit risk, the MUFG Group may require collateral or guarantees based on a case-by-case assessment of creditworthiness of each customer and evaluation of the instrument. The MUFG Group also uses master netting agreements in order to mitigate overall counterparty credit risk.

***Trading Activities***

The MUFG Group's trading activities include dealing and customer accommodation activities. As part of its trading activities, the MUFG Group offers a variety of derivative financial instruments for managing interest rate and foreign exchange risk to its domestic and foreign corporate and financial institution customers. The MUFG Group also enters into other types of derivative transactions, including equity and credit-related contracts, for its own account.

***Risk Management Activities***

As part of the MUFG Group's risk management activities, asset and liability management is viewed as one of the methods for the MUFG Group to manage its interest rate exposures on interest-bearing assets and liabilities. The MUFG Group uses certain derivative financial instruments in order to minimize significant unplanned fluctuations in earnings that are caused by interest rate volatility. For example, an increase or a decrease in interest income and interest expense on hedged variable rate assets and liabilities as a result of interest rate fluctuations are expected to be substantially offset by the variability in earnings by gains and losses on the derivative instruments that are linked to these hedged assets and liabilities.

The MUFG Group enters into interest rate swaps and other contracts primarily to manage the interest rate risk of its loans, investment securities and deposit liabilities. Interest rate contracts, which are generally non-leveraged generic interest rate and basis swaps, options and futures, allow the MUFG Group to effectively manage its interest rate risk position. Option contracts primarily consist of caps, floors, swaptions and options on index futures. Futures contracts used for asset and liability management activities are primarily index futures providing for cash payments based upon the movement of an underlying rate index.

The MUFG Group enters into forward exchange contracts, currency swaps and other contracts in response to currency exposures resulting from on-balance sheet assets and liabilities denominated in foreign currencies in order to limit the net foreign exchange position by currency to an appropriate level.

***Derivatives Designated as Hedges***

The MUFG Group adopts hedging strategies and applies hedge accounting to certain derivative transactions entered by MUFG Americas Holdings whose fiscal period ends on December 31.



**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

*Cash Flow Hedges*

MUFG Americas Holdings uses interest rate swaps to hedge the risk of changes in cash flows attributable to changes in the designated benchmark interest rate on the London Interbank Offered Rate (“LIBOR”) indexed loans, and to a lesser extent, to hedge interest rate risk on rollover debt.

MUFG Americas Holdings used interest rate swaps with a notional amount of ¥768.4 billion at December 31, 2017 to hedge the risk of changes in cash flows attributable to changes in the designated benchmark interest rate on LIBOR indexed loans. To the extent effective, payments received or paid under the swap contract offset fluctuations in interest income on loans caused by changes in the relevant LIBOR index. MUFG Americas Holdings used interest rate swaps with a notional amount of ¥22.4 billion at December 31, 2017 to hedge the risk of changes in cash flows attributable to changes in the designated benchmark interest rate on LIBOR indexed short-term borrowings. At December 31, 2017, the weighted average remaining life of the active cash flow hedges was 3.7 years.

For cash flow hedges, the effective portion of the gain or loss on the hedging instruments is reported as a component of OCI and reclassified into earnings in the same period or periods during which the hedged cash flows are recognized in net interest income. Gains and losses representing hedge ineffectiveness are recognized in non-interest expense in the period in which they arise. At December 31, 2017, MUFG Americas Holdings expects to reclassify approximately ¥2.6 billion of losses from Accumulated OCI as a reduction to net interest income during the year ending December 31, 2018. This amount could differ from amounts actually realized due to changes in interest rates, hedge terminations and the addition of other hedges subsequent to December 31, 2017.

*Fair Value Hedges*

MUFG Americas Holdings engages in an interest rate hedging strategy in which one or more interest rate swaps are associated with a specified interest-bearing liability, in order to convert the liability from a fixed rate to a floating rate instrument. This strategy mitigates the changes in fair value of the hedged liability caused by changes in the designated benchmark interest rate, U.S. dollar LIBOR.

For fair value hedges, any ineffectiveness is recognized in non-interest expense in the period in which it arises. The change in the fair value of the hedged item and the hedging instrument, to the extent completely effective, offsets with no impact on earnings. For the fiscal years ended December 31, 2016 and 2017, MUFG Americas Holdings recorded losses on the hedging instruments and gains on the hedged liability, both of which were less than ¥1 billion.

**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

***Notional Amounts of Derivative Contracts***

The following table summarizes the notional amounts of derivative contracts at March 31, 2017 and 2018:

	Notional amounts <sup>(1)</sup>	
	2017	2018
	(in trillions)	
Interest rate contracts . . . . .	¥1,252.7	¥1,219.7
Foreign exchange contracts . . . . .	216.9	220.8
Equity contracts . . . . .	4.7	6.1
Commodity contracts . . . . .	0.5	0.3
Credit derivatives . . . . .	6.0	6.5
Others . . . . .	4.3	3.1
Total . . . . .	¥1,485.1	¥1,456.5

Note:

- (1) Includes both written and purchased positions.

***Impact of Derivatives on the Consolidated Balance Sheets***

The following table summarizes fair value information on derivative instruments that are recorded on the MUFG Group's consolidated balance sheets at March 31, 2017 and 2018:

	Fair value of derivative instruments					
	2017 <sup>(1)(5)</sup>			2018 <sup>(1)(5)</sup>		
	Not designated as hedges <sup>(2)</sup>	Designated as hedges <sup>(3)</sup>	Total derivatives <sup>(4)</sup>	Not designated as hedges <sup>(2)</sup>	Designated as hedges <sup>(3)</sup>	Total derivatives <sup>(4)</sup>
	(in billions)					
<b>Derivative assets:</b>						
Interest rate contracts . . . . .	¥14,240	¥ 2	¥14,242	¥ 8,712	¥—	¥ 8,712
Foreign exchange contracts . . . . .	4,301	—	4,301	3,557	—	3,557
Equity contracts . . . . .	188	—	188	207	—	207
Commodity contracts . . . . .	35	—	35	35	—	35
Credit derivatives . . . . .	67	—	67	72	—	72
Others . . . . .	2	—	2	2	—	2
Total derivative assets . . . . .	¥18,833	¥ 2	¥18,835	¥12,585	¥—	¥12,585
<b>Derivative liabilities:</b>						
Interest rate contracts . . . . .	¥14,305	¥23	¥14,328	¥ 8,674	¥17	¥ 8,691
Foreign exchange contracts . . . . .	4,084	—	4,084	3,000	—	3,000
Equity contracts . . . . .	182	—	182	227	—	227
Commodity contracts . . . . .	31	—	31	33	—	33
Credit derivatives . . . . .	58	—	58	71	—	71
Others <sup>(6)</sup> . . . . .	(121)	—	(121)	(145)	—	(145)
Total derivative liabilities . . . . .	¥18,539	¥23	¥18,562	¥11,860	¥17	¥11,877

Notes:

- (1) The fair value of derivative instruments is presented on a gross basis even when derivative instruments are subject to master netting agreements. Cash collateral payable and receivable associated with derivative instruments are not added to or netted against the fair value amounts.
- (2) The derivative instruments which are not designated as a hedging instrument are held for trading and risk management purposes, and are presented in Trading account assets/liabilities except for (6).

**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

- (3) The MUFG Group adopts hedging strategies and applies hedge accounting to certain derivative transactions entered into by MUFG Americas Holdings. The derivative instruments which are designated as hedging instruments are presented in Other assets or Other liabilities on the accompanying consolidated balance sheets.
- (4) This table does not include contracts with embedded derivatives for which the fair value option has been elected.
- (5) For more information about fair value measurement and assumptions used to measure the fair value of derivatives, see Note 32.
- (6) Others include mainly bifurcated embedded derivatives carried at fair value, which are presented in Deposits and Long-term debt.

***Impact of Derivatives and Hedged Items on the Consolidated Statements of Income and Accumulated OCI***

The following tables provide more detailed information regarding the derivative-related impact on the accompanying consolidated statements of income and Accumulated OCI by accounting designation for the fiscal years ended March 31, 2016, 2017 and 2018:

Gains and losses for trading and risk management derivatives (not designated as hedging instruments)

	Trading and risk management derivatives gains and losses (Not designated as hedging instruments)								
	2016			2017			2018		
	Foreign exchange gains (losses) —net	Trading account profits (losses) —net	Total	Foreign exchange gains (losses) —net	Trading account profits (losses) —net	Total	Foreign exchange gains (losses) —net	Trading account profits (losses) —net	Total
	(in billions)								
Interest rate contracts . . . . .	¥ —	¥244	¥244	¥ —	¥(137)	¥(137)	¥ —	¥ 51	¥ 51
Foreign exchange contracts . . . . .	368	—	368	(183)	—	(183)	(163)	—	(163)
Equity contracts . . . . .	—	149	149	—	(153)	(153)	—	(260)	(260)
Commodity contracts . . . . .	—	2	2	—	2	2	—	6	6
Credit derivatives . . . . .	—	12	12	—	18	18	—	(2)	(2)
Others . . . . .	6	27	33	—	(55)	(55)	3	(22)	(19)
Total . . . . .	<u>¥374</u>	<u>¥434</u>	<u>¥808</u>	<u>¥(183)</u>	<u>¥(325)</u>	<u>¥(508)</u>	<u>¥(160)</u>	<u>¥(227)</u>	<u>¥(387)</u>

Gains and losses for derivatives designated as cash flow hedges

	2016	2017	2018
	(in billions)		
<b>Gains (losses) recognized in Accumulated OCI on derivative instruments (Effective portion)</b>			
Interest rate contracts . . . . .	¥ 24	¥ (3)	¥ (4)
Total . . . . .	<u>¥ 24</u>	<u>¥ (3)</u>	<u>¥ (4)</u>
<b>Gains reclassified from Accumulated OCI into income (Effective portion)</b>			
Interest rate contracts <sup>(1)</sup> . . . . .	¥ 21	¥ 18	¥ 8
Total . . . . .	<u>¥ 21</u>	<u>¥ 18</u>	<u>¥ 8</u>

Note:

(1) Included in Interest income.

**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

***Embedded Derivatives***

Features embedded in other non-derivative hybrid contracts are separated from the host contracts and measured at fair value when they are not clearly and closely related to the host contracts and meet the definition of a derivative. The change in the fair value of such an embedded derivative is recognized currently in earnings, unless it qualifies as a hedge. The fair value of the embedded derivative is presented in the accompanying consolidated balance sheets with the host contract.

***Credit Derivatives***

The MUFG Group enters into credit derivatives to manage its credit risk exposure, to facilitate client transactions, and for proprietary trading purposes, under which they provide the counterparty protection against the risk of default on a set of debt obligations issued by a specified reference entity or entities. Types of such credit derivatives primarily include single name credit default swaps, index and basket credit default swaps. The MUFG Group will have to perform under a credit derivative if a credit event as defined under the contract occurs. Such credit events include bankruptcy, dissolution or insolvency of the referenced entity, default and restructuring of the obligations of the referenced entity. The MUFG Group's counterparties are banks, broker-dealers, insurance and other financial institutions. The contractual or notional amounts of these credit derivatives represent the maximum potential amounts of future payments without consideration of possible recoveries under recourse provisions or from collateral held or pledged.

**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

The table below summarizes certain information regarding protection sold through credit derivatives as of March 31, 2017 and 2018:

	Protection sold				Fair value (Asset)/ Liability <sup>(1)</sup>
	Maximum potential/Notional amount by expiration period				
	1 year or less	1-5 years	Over 5 years	Total	
<b>At March 31, 2017:</b>	(in millions)				
Single name credit default swaps:					
Investment grade <sup>(2)</sup> . . . . .	¥627,355	¥ 949,129	¥ 29,493	¥1,605,977	¥(21,005)
Non-investment grade . . . . .	107,663	349,886	6,580	464,129	1,654
Not rated . . . . .	5,973	5,981	—	11,954	(516)
Total . . . . .	<u>740,991</u>	<u>1,304,996</u>	<u>36,073</u>	<u>2,082,060</u>	<u>(19,867)</u>
Index and basket credit default swaps held by BK:					
Investment grade <sup>(2)</sup> . . . . .	7,000	198,335	63,767	269,102	(4,145)
Non-investment grade . . . . .	17,000	52,145	21,316	90,461	(837)
Total . . . . .	<u>24,000</u>	<u>250,480</u>	<u>85,083</u>	<u>359,563</u>	<u>(4,982)</u>
Index and basket credit default swaps held by SCHD:					
Investment grade <sup>(2)</sup> . . . . .	14,000	72,192	1,000	87,192	(1,278)
Non-investment grade . . . . .	21,000	73,000	—	94,000	(1,725)
Not rated . . . . .	16,228	194,533	—	210,761	(11,734)
Total . . . . .	<u>51,228</u>	<u>339,725</u>	<u>1,000</u>	<u>391,953</u>	<u>(14,737)</u>
Total index and basket credit default swaps sold . . . . .	<u>75,228</u>	<u>590,205</u>	<u>86,083</u>	<u>751,516</u>	<u>(19,719)</u>
Total credit default swaps sold . . . . .	<u>816,219</u>	<u>1,895,201</u>	<u>122,156</u>	<u>2,833,576</u>	<u>(39,586)</u>
Other credit derivatives sold <sup>(3)</sup>					
Investment grade . . . . .	—	78,553	—	78,553	—
Total credit derivatives . . . . .	<u>¥816,219</u>	<u>¥1,973,754</u>	<u>¥122,156</u>	<u>¥2,912,129</u>	<u>¥(39,586)</u>

**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

	Protection sold				Fair value (Asset)/ Liability <sup>(1)</sup>
	Maximum potential/Notional amount by expiration period				
	1 year or less	1-5 years	Over 5 years	Total	
<b>At March 31, 2018:</b>					
			(in millions)		
Single name credit default swaps:					
Investment grade <sup>(2)</sup> . . . . .	¥440,610	¥1,199,269	¥ 85,094	¥1,724,973	¥(33,389)
Non-investment grade . . . . .	168,102	259,497	4,775	432,374	(3,431)
Not rated . . . . .	—	45,425	—	45,425	8
Total . . . . .	<u>608,712</u>	<u>1,504,191</u>	<u>89,869</u>	<u>2,202,772</u>	<u>(36,812)</u>
Index and basket credit default swaps held by BK:					
Investment grade <sup>(2)</sup> . . . . .	3,000	118,359	37,781	159,140	(3,381)
Non-investment grade . . . . .	7,000	82,867	—	89,867	(1,311)
Total . . . . .	<u>10,000</u>	<u>201,226</u>	<u>37,781</u>	<u>249,007</u>	<u>(4,692)</u>
Index and basket credit default swaps held by SCHD:					
Investment grade <sup>(2)</sup> . . . . .	15,000	108,000	6,000	129,000	(2,641)
Non-investment grade . . . . .	12,000	29,000	—	41,000	(749)
Not rated . . . . .	42,439	260,951	1,863	305,253	(16,294)
Total . . . . .	<u>69,439</u>	<u>397,951</u>	<u>7,863</u>	<u>475,253</u>	<u>(19,684)</u>
Total index and basket credit default swaps sold . . . . .	<u>79,439</u>	<u>599,177</u>	<u>45,644</u>	<u>724,260</u>	<u>(24,376)</u>
Total credit default swaps sold . . . . .	<u>688,151</u>	<u>2,103,368</u>	<u>135,513</u>	<u>2,927,032</u>	<u>(61,188)</u>
Other credit derivatives sold <sup>(3)</sup>					
Investment grade . . . . .	—	74,368	—	74,368	(24)
Total credit derivatives . . . . .	<u>¥688,151</u>	<u>¥2,177,736</u>	<u>¥135,513</u>	<u>¥3,001,400</u>	<u>¥(61,212)</u>

Notes:

- (1) Fair value amounts are shown on a gross basis prior to cash collateral or counterparty netting.
- (2) The MUFG Group considers ratings of Baa3/BBB- or higher to meet the definition of investment grade.
- (3) Other credit derivatives primarily consist of total return swaps.

*Single name credit default swaps*—Single name credit default swap protects the buyer against the loss of principal on a bond or loan in case of a default by the issuer. The protection buyer pays a premium to the MUFG Group and is protected for the period of the credit default swap. As the seller of protection, the MUFG Group in turn will have to perform under a credit default swap if a credit event as defined under the contracts occurs. In order to provide an indication of the current payment/performance risk of the credit default swaps, the external credit ratings, primarily those provided by Moody's and Standard & Poor's ("S&P"), of the underlying reference entity of the credit default swaps are disclosed.

*Index and basket credit default swaps*—Index and basket credit default swaps are credit default swaps that reference multiple names through underlying baskets or portfolios of single name credit default swaps. Typically, in the event of a default on one of the underlying names, the MUFG Group, as the seller of protection, will have to pay a pro-rata portion of the total notional amount of the credit default index or basket contract. In order to provide an indication of the current payment/performance risk of these credit default swaps, MUFG Bank and Mitsubishi UFJ Securities Holdings rating scale based upon the entity's internal ratings, which generally correspond to ratings defined by primarily Moody's and S&P, of the underlying reference entities comprising the basket or index were calculated and disclosed.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

The MUFG Group may economically hedge its exposure to credit derivatives by entering into offsetting derivative contracts. The carrying value and notional amounts of credit protection sold in which the MUFG Group held purchased protection with identical underlying referenced entities were approximately ¥33 billion and ¥2,327 billion, respectively, at March 31, 2017, and approximately ¥52 billion and ¥2,416 billion, respectively, at March 31, 2018.

Collateral is held by the MUFG Group in relation to these instruments. Collateral requirements are determined at the counterparty level and cover numerous transactions and products as opposed to individual contracts.

***Credit Risk, Liquidity Risk and Credit-risk-related Contingent Features***

Certain of the MUFG Group's derivative instruments contain provisions that require the MUFG Group's debt to maintain an investment grade credit rating from each of the major credit rating agencies. If the MUFG Group's debt were to fall below investment grade, it would be in violation of these provisions, and the counterparties to the derivative instruments could request payments on early termination or demand immediate and ongoing full overnight collateralization on derivative instruments in net liability positions. The aggregate fair value of all derivative instruments with credit-risk-related contingent features that were in a liability position at March 31, 2017 and 2018 was approximately ¥1.0 trillion and ¥0.7 trillion, respectively, for which the MUFG Group has posted collateral of approximately ¥251 billion and ¥127 billion, respectively, in the normal course of business. The amount of additional collateral and early termination amount which could be requested if the MUFG Group's debt falls below investment grade was ¥81 billion and ¥79 billion, respectively, as of March 31, 2017 and ¥78 billion and ¥65 billion, respectively, as of March 31, 2018.

**25. OBLIGATIONS UNDER GUARANTEES AND OTHER OFF-BALANCE SHEET INSTRUMENTS**

***Obligations under Guarantees***

The MUFG Group provides customers with a variety of guarantees and similar arrangements, including standby letters of credit, financial and performance guarantees, credit protection, liquidity facilities, other off-balance sheet credit-related support and similar instruments, in order to meet the customers' financial and business needs. The tables below present the contractual or notional amounts of such guarantees at March 31, 2017 and 2018. The contractual or notional amounts of these instruments represent the maximum potential amounts of future payments without consideration of possible recoveries under recourse provisions or from collateral held or pledged.

For certain types of derivatives, such as written interest rate options and written currency options, the maximum potential future payments are unlimited. Accordingly, it is impracticable to estimate the maximum potential amount of future payments. As such, the notional amounts of the related contracts, other than the maximum potential payments, are included in the table.

The MUFG Group mitigates its credit risk exposure resulting from guarantees by utilizing various techniques, including collateralization in the form of cash, securities, and real estate properties based on management's credit assessment of the guaranteed parties and the related credit profile. In order to manage the credit risk exposure, the MUFG Group also enters into sub-participation contracts with third parties who will fund a portion of the credit facility and bear its share of the loss to be incurred in the event that the customer fails to fulfill its obligations. The following table includes guarantees of ¥390.4 billion and ¥403.2 billion at March 31, 2017 and 2018, respectively, which are syndicated out to third parties. The contractual or notional

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

amounts summarized in the following table do not necessarily bear any direct relationship to the future actual credit exposure, primarily because of risk management techniques of the MUFG Group.

<u>At March 31, 2017:</u>	Maximum potential/ Contractual or Notional amount	Amount by expiration period		
		1 year or less	1-5 years	Over 5 years
		(in billions)		
Standby letters of credit and financial guarantees .....	¥ 3,775	¥ 2,494	¥ 926	¥ 355
Performance guarantees .....	2,968	2,037	836	95
Derivative instruments <sup>(1)</sup> .....	44,249	16,590	20,717	6,942
Liabilities of trust accounts .....	9,561	6,568	668	2,325
Others .....	5	—	1	4
Total .....	<u>¥60,558</u>	<u>¥27,689</u>	<u>¥23,148</u>	<u>¥9,721</u>

<u>At March 31, 2018:</u>	Maximum potential/ Contractual or Notional amount	Amount by expiration period		
		1 year or less	1-5 years	Over 5 years
		(in billions)		
Standby letters of credit and financial guarantees .....	¥ 4,311	¥ 3,115	¥ 850	¥ 346
Performance guarantees .....	3,051	2,144	801	106
Derivative instruments <sup>(1)</sup> .....	40,513	15,230	18,314	6,969
Liabilities of trust accounts .....	9,444	6,017	558	2,869
Others .....	22	2	4	16
Total .....	<u>¥57,341</u>	<u>¥26,508</u>	<u>¥20,527</u>	<u>¥10,306</u>

Note:

(1) Credit derivatives sold by the MUFG Group are excluded from this presentation.

*Nature of Guarantee Contracts*

Standby letters of credit and financial guarantees generally include an obligation of an issuer or a designated third-party to guarantee the performance of the customer to the beneficiary under the terms of contracts such as lending contracts and other similar financial transactions. The MUFG Group is required to make payments to the guaranteed parties in the event that the customers fail to fulfill the obligations under the contracts. The guarantees whose contractual maturities are over 5 years are mainly comprised of guarantees of housing loans.

Performance guarantees are contracts that contingently require the MUFG Group to make payments to the guaranteed party based on another party's failure to perform under an obligating agreement, except financial obligation. For example, performance guarantees include guarantees of completion of construction projects.

Derivative instruments that are deemed to be included within the definition of guarantees as prescribed in the guidance on guarantees include certain written options and credit default swaps. In order for the MUFG Group to determine if those derivative instruments meet the definition of guarantees, as prescribed in the guidance on guarantees, the MUFG Group has to track whether the counterparties are actually exposed to losses that will result from the adverse change in the underlyings. Accordingly, the MUFG Group has disclosed information on all credit default swaps and certain written options for which there is a possibility of meeting the definition of guarantees as prescribed in the guidance on guarantees, regardless of whether the counterparties



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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

have assets or liabilities related to the underlyings of the derivatives. However, credit derivatives sold by the MUFG Group at March 31, 2017 and 2018 are excluded from this presentation, as they are disclosed in Note 24.

Liabilities of trust accounts represent the trustee's potential responsibility for temporary payments to creditors of liabilities of trust accounts making use of funds of the MUFG Group, unless there are certain agreements with trust creditors that have provisions limiting the MUFG Group's exposure as a trustee to the trust account assets. A trust may incur external liabilities to obtain certain services during the terms of the trust arrangement. While in principle, any liabilities of a trust are payable by the trust account and its beneficiaries. A trustee's responsibility may be interpreted to encompass temporary payments for the trust account liabilities when the trust account does not maintain sufficient liquidity available for such liabilities unless the agreement with trust creditors limits the trustee's exposure to the trust account assets. At March 31, 2017 and 2018, there were liabilities of ¥9,561 billion and ¥9,444 billion, respectively, in the segregated records of trust accounts including the amounts related to liabilities with provisions limiting trustee responsibility. Liabilities of trust accounts principally includes obligations to return collateral under security lending transactions. The MUFG Group has experienced no significant losses on such responsibilities and its exposure to the risk associated with the temporary payments is judged to be remote because trust account liabilities are generally covered by the corresponding trust account assets. The MUFG Group continuously monitors the liabilities of trust accounts and assesses the trust account's ability to perform its obligations to prevent any unfavorable outcomes; the MUFG Group claims its recourse for its temporary payments against the trust account assets and the beneficiaries.

*Carrying Amount*

At March 31, 2017 and 2018, the carrying amounts of the liabilities related to guarantees and similar instruments set forth above were ¥1,329,475 million and ¥1,110,505 million, respectively, which are included in Other liabilities and Trading account liabilities. The guarantees and similar instruments comprising the largest components of the total were options sold in the amount of ¥1,290,563 million and ¥1,069,156 million as of March 31, 2017 and 2018, respectively. Credit derivatives sold by the MUFG Group at March 31, 2017 and 2018 are excluded from this presentation, as they are disclosed in Note 24. In addition, Other liabilities include an allowance for off-balance sheet instruments of ¥79,803 million and ¥31,101 million at March 31, 2017 and 2018, respectively, related to these transactions.

*Performance Risk*

The MUFG Group monitors performance risk of its guarantees using the same credit rating system utilized for estimating probabilities of default with its loan portfolio. The MUFG Group's credit rating system is consistent with both the method of evaluating credit risk under Basel III and those of third-party credit rating agencies. On certain underlying referenced credits or entities, ratings are not available. Such referenced credits are included in the "Not rated" category in the following tables.

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Presented in the tables below is the maximum potential amount of future payments classified based upon internal credit ratings as of March 31, 2017 and 2018. The determination of the maximum potential future payments is based on the notional amount of the guarantees without consideration of possible recoveries under recourse provisions or from collateral held or pledged. Such amounts do not represent the anticipated losses, if any, on these guarantees.

	Maximum potential/ Contractual or Notional amount	Amount by borrower grade			
		Normal	Close Watch <sup>(1)</sup>	Likely to become Bankrupt or Legally/ Virtually Bankrupt <sup>(2)</sup>	Not rated
<b>At March 31, 2017:</b>					
Standby letters of credit and financial guarantees . . . . .	¥3,775	¥3,629	¥119	¥24	¥ 3
Performance guarantees . . . . .	2,968	2,831	96	11	30
<b>Total . . . . .</b>	<b>¥6,743</b>	<b>¥6,460</b>	<b>¥215</b>	<b>¥35</b>	<b>¥33</b>

	Maximum potential/ Contractual or Notional amount	Amount by borrower grade			
		Normal	Close Watch <sup>(1)</sup>	Likely to become Bankrupt or Legally/ Virtually Bankrupt <sup>(2)</sup>	Not rated
<b>At March 31, 2018:</b>					
Standby letters of credit and financial guarantees . . . . .	¥4,311	¥4,211	¥ 83	¥13	¥ 4
Performance guarantees . . . . .	3,051	2,910	113	5	23
<b>Total . . . . .</b>	<b>¥7,362</b>	<b>¥7,121</b>	<b>¥196</b>	<b>¥18</b>	<b>¥27</b>

Notes:

- (1) Borrowers classified 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.
- (2) Borrowers classified 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.

The guarantees the MUFG Group does not classify based upon internal credit ratings are as follows.

The MUFG Group records all derivative contracts at fair value. Aggregate market risk limits have been established, and market risk measures are routinely monitored against these limits. The MUFG Group also manages its exposure to these derivative contracts through a variety of risk mitigation strategies, including, but not limited to, offsetting economic hedge positions. The MUFG Group expects the risk of loss to be remote and believes that the notional amounts of the derivative contracts generally exceed its exposure.

Liabilities of trust accounts represent the trustee's potential responsibility for temporary payments to creditors of liabilities of trust accounts using funds of the MUFG Group. The MUFG Group has experienced no significant losses on such responsibilities and its exposure to the risk associated with the temporary payments is judged to be remote because trust account liabilities are generally covered by the corresponding trust account assets.

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The MUFG Group conducts securities lending transactions for institutional customers as a fully disclosed agent. At times, securities lending indemnifications are issued to guarantee that a security lending customer will be made whole in the event the borrower does not return the security subject to the lending agreement and collateral held is insufficient to cover the market value of the security. All lending transactions are collateralized, primarily by cash. At March 31, 2018, the MUFG Group had no exposure that would require it to pay under this securities lending indemnification, since the collateral market value exceeds the fair value of securities lent.

***Other Off-balance Sheet Instruments***

In addition to obligations under guarantees and similar arrangements set forth above, the MUFG Group issues other off-balance sheet instruments to meet the financial needs of its customers and for purposes other than trading. Such off-balance sheet instruments consist of lending-related commitments, including commitments to extend credit and commercial letters of credit that the MUFG Group provides to meet the financing needs of its customers. Once the MUFG Group issues these off-balance sheet instruments, the MUFG Group is required to extend credit to or make certain payments to the customers or beneficiaries specified pursuant to the underlying contracts unless otherwise provided in the contracts. Since many of these commitments expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. At March 31, 2018, approximately 66% of these commitments will expire within one year, 31% from one year to five years and 3% after five years. The table below presents the contractual amounts with regard to such instruments at March 31, 2017 and 2018:

	<u>2017</u>	<u>2018</u>
	(in billions)	
Commitments to extend credit . . . . .	¥84,334	¥80,090
Commercial letters of credit . . . . .	1,214	1,191
Commitments to make investments . . . . .	135	183
Other . . . . .	13	13

Commitments to extend credit, which generally have fixed expiration dates or other termination clauses, are legally binding agreements to lend to customers. Commitments are different from guarantees in that the commitments are generally revocable or have provisions that enable the MUFG Group to avoid payments in the event of violations of any conditions of the contracts and certain deterioration of the potential borrowers' financial condition.

Commercial letters of credit, generally used for trade transactions, are typically secured by the underlying goods. The MUFG Group continually monitors the type and amount of collateral and other securities, and requires counterparties to provide additional collateral or guarantors as necessary.

Commitments to make investments are legally binding contracts to make additional contributions to corporate recovery or private equity investment funds in accordance with limited partnership agreements. Some of these funds, in which the MUFG Group has significant variable interests, are described in Note 26.

**26. VARIABLE INTEREST ENTITIES**

In the normal course of business, the MUFG Group has financial interests and other contractual obligations in various entities which may be deemed to be VIEs such as asset-backed conduits, various investment funds, special purpose entities created for structured financing, repackaged instruments, entities created for the securitization of the MUFG Group's assets and trust arrangements.

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The following tables present the assets and liabilities of consolidated VIEs recorded on the accompanying consolidated balance sheets at March 31, 2017 and 2018:

<u>Consolidated VIEs</u>	<u>Consolidated assets</u>						
	<u>Total</u>	<u>Cash and due from banks</u>	<u>Interest-earning deposits in other banks</u>	<u>Trading account assets</u>	<u>Investment securities</u>	<u>Loans</u>	<u>All other assets</u>
<u>At March 31, 2017:</u>	(in millions)						
Asset-backed conduits . . . .	¥ 7,332,485	¥ 48,688	¥ 34,690	¥ 23,423	¥1,485,377	¥ 5,733,202	¥ 7,105
Investment funds . . . . .	712,694	—	9,020	511,924	15,611	—	176,139
Special purpose entities created for structured financing . . . . .	226,380	—	2,310	—	—	172,008	52,062
Repackaged instruments . . .	77,211	—	—	20,783	56,428	—	—
Securitization of the MUFG Group's assets <sup>(1)</sup> . . . . .	6,798,561	—	—	—	—	6,775,344	23,217
Trust arrangements . . . . .	6,749,808	—	7,681	593	149,205	6,578,701	13,628
Others . . . . .	65,883	350	30,853	—	52	16,905	17,723
Total consolidated assets before elimination . . . . .	21,963,022	49,038	84,554	556,723	1,706,673	19,276,160	289,874
The amounts eliminated in consolidation . . . . .	(6,789,161)	(48,852)	(72,506)	(16,914)	(69,086)	(6,562,970)	(18,833)
Total consolidated assets . .	<u>¥15,173,861</u>	<u>¥ 186</u>	<u>¥ 12,048</u>	<u>¥539,809</u>	<u>¥1,637,587</u>	<u>¥12,713,190</u>	<u>¥271,041</u>
	<u>Consolidated liabilities</u>						
	<u>Total</u>	<u>Deposits</u>	<u>Other short-term borrowings</u>	<u>Long-term debt</u>	<u>All other liabilities</u>		
	(in millions)						
Asset-backed conduits . . . . .	¥ 7,357,874	¥ —	¥ 5,397,811	¥ 1,379,498	¥ 580,565		
Investment funds . . . . .	2,882	—	—	—	2,882		
Special purpose entities created for structured financing . . . . .	135,667	—	573	128,804	6,290		
Repackaged instruments . . . . .	76,713	—	4,000	72,096	617		
Securitization of the MUFG Group's assets <sup>(1)</sup> . . . . .	6,768,108	—	29,637	6,734,855	3,616		
Trust arrangements . . . . .	6,743,464	6,676,198	—	—	67,266		
Others . . . . .	65,031	—	45,450	1,834	17,747		
Total consolidated liabilities before elimination . . . . .	21,149,739	6,676,198	5,477,471	8,317,087	678,983		
The amounts eliminated in consolidation . . .	(10,843,144)	—	(3,034,973)	(7,766,722)	(41,449)		
The amount of liabilities with recourse to the general credit of the MUFG Group . . . . .	(9,687,133)	(6,676,198)	(2,420,454)	(2,394)	(588,087)		
Liabilities of consolidated VIEs for which creditors or beneficial interest holders do not have recourse to the general credit of the MUFG Group . . . . .	<u>¥ 619,462</u>	<u>¥ —</u>	<u>¥ 22,044</u>	<u>¥ 547,971</u>	<u>¥ 49,447</u>		

**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

<u>Consolidated VIEs</u>	<u>Consolidated assets</u>						
	<u>Total</u>	<u>Cash and due from banks</u>	<u>Interest-earning deposits in other banks</u>	<u>Trading account assets</u>	<u>Investment securities</u>	<u>Loans</u>	<u>All other assets</u>
<u>At March 31, 2018:</u>							
				(in millions)			
Asset-backed conduits . . . . .	¥ 7,390,029	¥ 52,703	¥ 44,902	¥ 2,273	¥1,777,017	¥ 5,502,892	¥ 10,242
Investment funds . . . . .	598,662	—	10,300	461,036	19,895	—	107,431
Special purpose entities created for structured financing . . . . .	198,484	—	2,332	—	—	149,194	46,958
Repackaged instruments . . . . .	152,781	520	—	17,376	92,210	42,632	43
Securitization of the MUFG Group's assets <sup>(1)</sup> . . . . .	10,852,539	—	—	—	—	10,827,488	25,051
Trust arrangements . . . . .	7,177,407	—	10,541	702	152,277	7,011,255	2,632
Others . . . . .	44,247	361	14,236	—	42	12,963	16,645
Total consolidated assets before elimination . . . . .	26,414,149	53,584	82,311	481,387	2,041,441	23,546,424	209,002
The amounts eliminated in consolidation . . . . .	(7,223,156)	(53,454)	(59,150)	(3,804)	(88,758)	(6,996,317)	(21,673)
Total consolidated assets . . . . .	<u>¥19,190,993</u>	<u>¥ 130</u>	<u>¥ 23,161</u>	<u>¥477,583</u>	<u>¥1,952,683</u>	<u>¥16,550,107</u>	<u>¥187,329</u>

	<u>Consolidated liabilities</u>				
	<u>Total</u>	<u>Deposits</u>	<u>Other short-term borrowings</u>	<u>Long-term debt</u>	<u>All other liabilities</u>
			(in millions)		
Asset-backed conduits . . . . .	¥ 7,409,190	¥ —	¥ 5,176,663	¥ 1,708,354	¥ 524,173
Investment funds . . . . .	11,735	—	—	—	11,735
Special purpose entities created for structured financing . . . . .	115,353	—	587	112,054	2,712
Repackaged instruments . . . . .	148,928	—	12,676	132,012	4,240
Securitization of the MUFG Group's assets <sup>(1)</sup> . . . . .	10,816,672	—	5,000	10,806,145	5,527
Trust arrangements . . . . .	7,171,852	7,103,738	655	—	67,459
Others . . . . .	43,030	—	24,747	1,603	16,680
Total consolidated liabilities before elimination . . . . .	25,716,760	7,103,738	5,220,328	12,760,168	632,526
The amounts eliminated in consolidation . . . . .	(15,347,991)	—	(3,028,987)	(12,248,680)	(70,324)
The amount of liabilities with recourse to the general credit of the MUFG Group . . . . .	(9,745,330)	(7,103,738)	(2,162,890)	(540)	(478,162)
Liabilities of consolidated VIEs for which creditors or beneficial interest holders do not have recourse to the general credit of the MUFG Group . . . . .	<u>¥ 623,439</u>	<u>¥ —</u>	<u>¥ 28,451</u>	<u>¥ 510,948</u>	<u>¥ 84,040</u>

Note:

- (1) Securitization of the MUFG Group's assets includes ¥5,793,956 million and ¥9,974,383 million of assets primarily consisting of loans and the same amounts of liabilities primarily consisting of long-term debt relating to eligible beneficiary interests in housing loan trusts as of March 31, 2017 and 2018, respectively. For more information, see analysis of each transaction category below.

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In general, the creditors or beneficial interest holders of consolidated VIEs have recourse only to the assets of those VIEs of which they are creditors or beneficial interest holders, and do not have recourse to other assets of the MUFG Group, except where the MUFG Group is also contractually required to provide credit enhancement or program-wide liquidity.

The following tables present the total assets of non-consolidated VIEs, the maximum exposure to loss resulting from the MUFG Group's involvement with non-consolidated VIEs and the assets and liabilities which relate to the MUFG's variable interests in non-consolidated VIEs at March 31, 2017 and 2018:

<u>Non-consolidated VIEs</u>			<u>On-balance sheet assets</u>					<u>On-balance sheet liabilities</u>	
<u>At March 31, 2017:</u>	<u>Total assets</u>	<u>Maximum exposure</u>	<u>Total</u>	<u>Trading account assets</u>	<u>Investment securities</u>	<u>Loans</u>	<u>All other assets</u>	<u>Total</u>	<u>All other liabilities</u>
				(in millions)					
Asset-backed conduits . . . . .	¥ 29,604,929	¥ 5,608,909	¥ 4,383,707	¥ 1,072	¥1,236,094	¥3,146,541	¥ —	¥ 1	¥ 1
Investment funds . . . . .	30,591,880	1,674,567	1,396,830	200,651	829,641	356,828	9,710	98	98
Special purpose entities created for structured financing . . . . .	40,710,546	4,717,235	3,699,415	279,471	147,543	3,207,369	65,032	4,657	4,657
Repackaged instruments . . . . .	10,127,497	2,269,149	2,104,697	581,912	1,203,181	294,703	24,901	—	—
Others . . . . .	52,012,087	3,731,571	2,723,625	98,289	83,629	2,462,462	79,245	18,539	18,539
Total . . . . .	¥163,046,939	¥18,001,431	¥14,308,274	¥1,161,395	¥3,500,088	¥9,467,903	¥178,888	¥23,295	¥23,295

<u>Non-consolidated VIEs</u>			<u>On-balance sheet assets</u>					<u>On-balance sheet liabilities</u>	
<u>At March 31, 2018:</u>	<u>Total assets</u>	<u>Maximum exposure</u>	<u>Total</u>	<u>Trading account assets</u>	<u>Investment securities</u>	<u>Loans</u>	<u>All other assets</u>	<u>Total</u>	<u>All other liabilities</u>
				(in millions)					
Asset-backed conduits . . . . .	¥ 29,011,749	¥ 5,721,627	¥ 4,645,697	¥ 620	¥1,541,591	¥3,103,486	¥ —	¥ —	¥ —
Investment funds . . . . .	45,090,381	1,776,366	1,525,127	213,722	891,062	413,855	6,488	17,919	17,919
Special purpose entities created for structured financing . . . . .	35,437,349	4,016,999	3,193,621	309,560	116,961	2,697,126	69,974	7,217	7,217
Repackaged instruments . . . . .	10,212,933	2,576,619	2,487,377	759,591	1,421,716	236,852	69,218	—	—
Others . . . . .	49,582,444	3,760,375	2,740,529	94,882	61,192	2,482,141	102,314	24,830	24,830
Total . . . . .	¥169,334,856	¥17,851,986	¥14,592,351	¥1,378,375	¥4,032,522	¥8,933,460	¥247,994	¥49,966	¥49,966

Maximum exposure to loss on each type of entity is determined based on the carrying amount of any on-balance sheet assets and any off-balance sheet liabilities held, net of any recourse liabilities. Therefore, the maximum exposure to loss represents the maximum loss the MUFG Group could possibly incur at each balance

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sheet date and does not reflect the likelihood of such a loss being incurred. The difference between the amount of on-balance sheet assets and the maximum exposure to loss primarily comprises the remaining undrawn commitments.

In February 2015, the FASB issued new guidance which amends the consolidation analysis under the current consolidation guidance. The amendments change the VIE analysis for limited partnerships and similar legal entities, the criteria for evaluating whether fees paid to a decision maker or a service provider are a variable interest, the effect of fee arrangements and related parties on the primary beneficiary determination, and rescind the indefinite deferral provision that affects the consolidation evaluation for certain investment funds. The MUFG group adopted this new accounting guidance on April 1, 2016, which resulted in the consolidation and deconsolidation of certain investment funds. The net increase in the MUFG Group's consolidated assets, liabilities and Noncontrolling interests, were ¥628,236 million, ¥32,254 million and ¥595,982 million, respectively, as of April 1, 2016. The cumulative effect on retained earnings was a decrease of ¥3,873 million upon the adoption.

***Asset-Backed Conduits***

This category primarily comprises the following:

***Multi-Seller Conduits (MUFG-sponsored Asset-Backed Commercial Paper ("ABCP") Conduits and Other ABCP Conduits)***

The MUFG Group administers several conduits under asset-backed financing programs under which the conduits purchase financial assets, primarily trade accounts receivable, from the MUFG Group's customers by issuing short-term financing instruments, primarily commercial paper, to third-party investors. Under the asset-backed financing programs, the MUFG Group acts as an agent for the conduits, which enter into agreements with the MUFG Group's customers where the customers transfer financial assets to the conduits in exchange for monetary consideration. The MUFG Group also underwrites commercial paper for the conduits that is secured by the assets held by them and provides program-wide liquidity and credit enhancement facilities to the conduits. The MUFG Group receives fees related to the services it provides to the conduits and the program-wide liquidity and credit enhancement. The MUFG Group considers itself to be the primary beneficiary of the multi-seller conduits because, as an agent and sponsor, the MUFG Group has the power to direct activities of the conduits that most significantly impact the conduits' economic performance and also has the obligation to absorb losses of the conduits that could potentially be significant to the conduits through the program-wide liquidity and credit enhancement. Consequently, the MUFG Group consolidates the conduits.

In addition to the entities described above, the MUFG Group participates as a provider of financing to several conduits that are administered by third parties. Most of these conduits are established under a multi-seller asset-backed financing program and the MUFG Group provides financing along with other financial institutions. With respect to these conduits, the MUFG Group is not considered as the primary beneficiary because the MUFG Group's participation in the conduits is only to provide financing along with other third-party financial institutions and it does not have the power to direct the activities of the conduits. Consequently, the MUFG Group does not consolidate the conduits.

***Asset-Backed Conduits (MUFG-sponsored Asset-Backed Loan ("ABL") Programs and Other Programs)***

The MUFG Group administers several conduits under asset-backed financing programs where the MUFG Group provides financing to fund the conduits' purchases of financial assets, comprising primarily trade accounts receivable, from its customers. The MUFG Group acts as an agent and sponsor for the conduits, which enter into

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agreements with the MUFG Group's customers where the customers transfer assets to the conduits in exchange for monetary consideration. In most cases, the MUFG Group is the sole provider of financing that is secured by the assets held by the conduits. The MUFG Group considers itself to be the primary beneficiary of the conduits because, as an agent and sponsor for the conduits, the MUFG Group has the power to direct activities of the conduits, such as selection of the assets to be purchased and condition for purchases, and debt collection from the original obligors, that most significantly impact the conduits' economic performance, and also has the obligation to absorb losses of the conduits that could potentially be significant to the conduits through financing it provides. Consequently, the MUFG Group consolidates the conduits.

In addition, the MUFG Group is involved with entities, which take in most cases the form of a trust, where originators of financial assets, which primarily comprise lease receivables, entrust the assets with trust banks and receive beneficial certificates of trusts in exchange. The originators then transfer the beneficiary certificates to the MUFG Group in exchange for cash. The originators of the financial assets entrusted continue to be involved in the assets as servicers. Because the originators are deemed to have the power to direct activities of the entities that most significantly impact the entities' economic performance through their role as a servicer, the MUFG Group is not considered as the primary beneficiary of these entities. Consequently, the MUFG Group does not consolidate these entities.

The MUFG Group also participates as a provider of financing to the ABL programs that are managed by third parties. The MUFG Group is not considered as the primary beneficiary of the entities used in these programs as the MUFG Group's participation in the entities is only to provide financing along with other third parties and it does not have the power to direct the activities of the entities. Consequently, the MUFG Group does not consolidate the entities used in these programs.

***Investment Funds***

This category primarily comprises the following:

***Corporate Recovery Funds***

These entities are established by fund managers, which are unrelated to the MUFG Group, for the purpose of investing in debt or equity instruments issued by distressed companies. After investment, the fund managers work closely with the management of the entities and attempt to enhance corporate value by various means including corporate restructuring and reorganization. Their exit strategies include, among others, sales to others and initial public offerings.

Typically, these entities take the form of a limited partnership which is entirely funded by general and limited partner interests. These partnerships are considered as VIEs unless the limited partners hold substantive kick-out rights or participating rights.

The MUFG Group mostly serves as a limited partner in corporate recovery funds that are considered as VIEs, and does not have the power to direct the activities of these funds that most significantly impact the economic performance of these funds. Therefore, the MUFG Group does not consider itself to be the primary beneficiary of these funds and does not consolidate them.

***Private Equity Funds***

The MUFG Group is involved in venture capital funds that are established by either the MUFG Group's entities or fund managers unrelated to the MUFG Group. These entities have specific investment objectives in



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connection with their acquisition of equity interests, such as providing financing and other support to start-up businesses, medium and small entities in a particular geographical area, and to companies with certain technology or companies in a high-growth industry.

These entities typically take the form of a limited partnership and usually are entirely funded by general and limited partner interests. These partnerships are considered as VIEs unless the limited partners hold substantive kick-out rights or participating rights.

The MUFG Group participates in these partnerships as a general partner or limited partner. The MUFG Group consolidates these funds, which are considered as VIEs, if the MUFG Group has the power to direct the activities of these funds that most significantly impact the economic performance of these funds, and also has the obligation to absorb losses of these funds that could potentially be significant to these funds or the right to receive benefits from these funds that could potentially be significant to these funds.

*Investment Trusts*

The MUFG Group invests in investment trusts that are professionally managed collective investment schemes which pool money from many investors and invest in, among others, equity and debt securities. Most of these funds take the form of a trust where there is a separation in investment decisions, which is assumed by an investment manager who has no investment in a trust, and ownership through beneficiary interests issued by a trust are owned by investors. Therefore, these investment trusts are considered as VIEs. The MUFG Group consolidates these funds if the MUFG Group has the power to direct the activities of these funds that most significantly impact the economic performance of these funds, and also has the obligation to absorb losses of these funds that could potentially be significant to these funds or the right to receive benefits from these funds that could potentially be significant to these funds.

*Buy-out Financing Vehicles*

The MUFG Group provides financing to buy-out vehicles. The buy-out vehicles are established by equity investments from, among others, private equity funds or the management of target companies for the purpose of purchasing the equity shares of target companies. Along with other financial institutions, the MUFG Group provides financing to the buy-out vehicles in the form of loans. While the buy-out vehicles' equity is normally substantive in its amount and the rights and obligations associated with it, in some cases, the vehicles have equity that is insufficient to absorb expected variability primarily because the amount provided by equity investors is nominal in nature. These vehicles engage in non-investment activities, and are considered as VIEs. In most cases, the MUFG Group's participation in these vehicles is only to provide financing to the vehicles, and the power to direct the activities that most significantly impact the economic performance of the vehicles is held by the management of target companies. As a result, the MUFG Group is not considered as the primary beneficiary of these vehicles and does not consolidate them.

*Other Investment Funds*

The MUFG Group's investments in VIEs through MUFG Americas Holdings primarily consist of equity investments in low-income housing credit ("LIHC") structures, designed to generate a return primarily through the realization of federal tax credits. MUFG Americas Holdings considers itself as the primary beneficiary of certain types of LIHC investments.

*LIHC Unguaranteed Syndicated Investment Funds*

MUFG Americas Holdings creates the investment funds, serves as the managing investor member, and sells limited investor member interests to third parties. MUFG Americas Holdings receives benefits through income

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from the structuring of these funds, servicing fees for managing the funds and, as an investor member, tax benefits and tax credits to reduce the MUFG Americas Holdings tax liability. MUFG Americas Holdings considers itself to be the primary beneficiary and consolidates them upon adoption of the current guidance because, as a sponsor and managing member of the funds, it has the power to direct activities that most significantly impact the funds' economic performance and also has the obligation to absorb losses of the funds that could potentially be significant to the funds.

*LIHC Guaranteed Syndicated Investment Funds*

MUFG Americas Holdings also forms limited liability companies, which in turn invest in LIHC operating partnerships, to create LIHC guaranteed syndicated investment funds. Interests in these funds are sold to third parties who pay a premium for a guaranteed return. MUFG Americas Holdings earns structuring fees from the sale of these funds and asset management fees. MUFG Americas Holdings serves as the funds' sponsor and non-member asset manager, and also guarantees a minimum rate of return throughout the investment term, therefore, it directs the activities that most significantly impact the funds' economic performance and also has an obligation to absorb losses pertaining to its minimum rate of return guarantee to investors. Therefore, the MUFG Group is considered as the primary beneficiary of these funds and consolidates them.

*Special Purpose Entities Created for Structured Financing*

This category primarily comprises the following:

*Leveraged Leasing Vehicles*

These entities are established to raise funds to purchase or build equipment and machinery including, among others, commercial vessels, passenger and cargo aircraft, and production equipment for the purpose of leasing them to lessees who use the equipment and machinery as part of their business operations. These entities typically take the form of a limited partnership or a special purpose company where they fund their purchases of equipment and machinery via senior and subordinate financing. When entities take the form of a limited partnership, these entities are considered as VIEs unless limited partners hold substantive kick-out rights or participating rights. The entities considered as VIEs are typically funded only by senior financing or there is a guarantee provided to the senior financing by parties unrelated to those providing the senior financing. In most cases, the MUFG Group participates in the senior financing and does not participate in the subordinate financing or provide guarantees. Generally, because the MUFG Group's participation in these entities is only to provide financing, it does not have the power to direct the activities of the entities that most significantly impact the economic performance of the entities. Therefore, the MUFG Group does not consider itself to be the primary beneficiary of these entities and does not consolidate them, except for limited circumstances where the MUFG Group is directly involved with the structuring of the transaction and has the power to direct the activities of the entities that most significantly impact the economic performance of the entities.

*Project Financing Vehicles*

These entities are established to raise funds in connection with, among others, production of natural resources, construction and development of urban infrastructure (including power plants and grids, highways and ports), and the development of real estate properties or complexes. These projects typically involve special purpose companies which issue senior and subordinate financing to raise funds in connection with the various projects. The subordinate financing is usually provided by parties that will ultimately make use of the assets constructed or developed. By contrast, the senior financing is typically provided by financial institutions,

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including the MUFG Group. Because the MUFG Group's participation in these entities is only to provide financing, it does not have the power to direct the activities that most significantly impact the economic performance of these entities. Therefore, the MUFG Group is not considered as the primary beneficiary of these entities and does not consolidate them.

*Sale-and-Leaseback Vehicles*

The MUFG Group is involved with vehicles that acquire assets, primarily real estate, from the MUFG Group's customers and other unrelated parties where the sellers of the assets continue to use the assets through leaseback agreements. These vehicles typically take the form of a limited partnership, and are considered as VIEs unless the limited partners hold substantive kick-out rights or participating rights. The subordinated financing of these vehicles considered as VIEs is usually provided by the sellers of the assets, with the MUFG Group providing senior financing for the vehicles. Because the MUFG Group's participation in these vehicles is only to provide senior financing, it does not have the power to direct the activities that most significantly impact the economic performance of these vehicles. Therefore, the MUFG Group is not considered as the primary beneficiary and does not consolidate them.

*Securitization of Client Real Estate Properties*

These entities are established for the purpose of securitizing real estate properties held by the MUFG Group's customers. In most cases, these entities take the form of a limited partnership or a special purpose company. When entities take the form of a limited partnership, these entities are considered as VIEs unless the limited partners hold substantive kick-out rights or participating rights. The entities considered as VIEs are typically funded by senior and subordinated financing where the original owners of the real estate properties provide the subordinated financing, primarily in the form of partnership interests or subordinated notes, and financial institutions, including the MUFG Group, provide senior financing in the form of senior loans. Because the MUFG Group's participation in these vehicles is only to provide a portion of senior financing, it does not have the power to direct the activities that most significantly impact the economic performance of these entities. Therefore, the MUFG Group is not considered as the primary beneficiary and does not consolidate these entities.

*Repackaged Instruments*

This category primarily comprises the following:

*Investments in Financially-Engineered Products*

The MUFG Group is involved in special purpose entities that have been established to issue financial products through the engineering and repackaging of existing financial instruments such as collateralized debt obligations ("CDOs") and synthetic CDOs. These entities are considered as VIEs because the holders of the equity investment at risk do not have the power to direct the activities that most significantly impact their economic performance. These entities are generally arranged and managed by parties that are not related to the MUFG Group. The MUFG Group's involvement with the entities arranged and managed by third parties is for investment purposes. In these cases, the MUFG Group participates as one of many other investors and the MUFG Group typically holds investments in senior tranches or tranches with high credit ratings. Therefore, the MUFG Group does not have the power to direct activities of the entities that most significantly impact the entities' economic performance, and thus is not considered as the primary beneficiary of these entities and does not consolidate these entities.

In certain instances, special purpose entities have been established and are managed by the MUFG Group. The MUFG Group's involvement includes establishing and arranging the transaction and underwriting securities

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issued by the entities to general investors. For these entities, the MUFG Group has the power to direct activities that most significantly impact the economic performance and it has the obligation to absorb losses or receive benefits that could potentially be significant to the entities. As such, the MUFG Group considers itself as the primary beneficiary of these entities and consolidates them.

*Investments in Securitized Financial Instruments*

The MUFG Group holds investments in special purpose entities that issue securitized financial products. The assets held by the entities include credit card receivables and residential mortgage loans. These entities are established and managed by parties that are unrelated to the MUFG Group and the MUFG Group's involvement with these entities is for its own investment purposes. In all cases, the MUFG Group participates as one of many other investors and the MUFG Group does not have the power to direct activities of the entities that most significantly impact the entities' economic performance. Therefore, the MUFG Group is not considered as the primary beneficiary of these entities and does not consolidate them.

*Securitization of the MUFG Group's Assets*

This category primarily comprises the following:

*Securitization for issuing interests or financing*

The MUFG Group establishes entities to securitize its own financial assets that include, among others, corporate and retail loans and lease receivables. The entities used for securitization, which typically take the form of a special purpose company or a trust, are established by the MUFG Group and, in most cases, issue senior and subordinate interests or financing. After securitization, the MUFG Group typically continues to service securitized assets as a servicer. The MUFG Group may also retain subordinate interests or financing or other interests. The MUFG Group is considered as the primary beneficiary and consolidates the entities used for securitization since it has the obligation to absorb losses through subordinate interests, and also has the power for determining and implementing policies as servicer that give it the ability to manage the entities' assets that become delinquent or are in default in order to improve the economic performance of the entities.

*Eligible beneficiary interests in housing loan trusts*

The MUFG Group establishes trusts, which acquire the MUFG Group's housing loans and in turn issue beneficiary interests to the MUFG Group, to pledge these beneficiary interests as collateral for borrowings from the Bank of Japan, as a result of the decision by the Bank of Japan on June 30, 2016 to accept these beneficial interests as collateral in the same way as it does for Japanese national government bonds. The MUFG Group is considered as the primary beneficiary and consolidates the trusts since it has the obligation to absorb losses through beneficiary interests, and also has the power for determining and implementing policies as servicer that give it the ability to manage housing loans owned by the trusts that become delinquent or are in default in order to improve the economic performance of the trusts.

*Trust Arrangements*

The MUFG Group offers, primarily through Mitsubishi UFJ Trust and Banking, a variety of trust products and services including securities investment trusts, pension trusts and trusts used as securitization vehicles. In a typical trust arrangement, however, the MUFG Group manages and administers assets on behalf of the customers in an agency, fiduciary and trust capacity and does not assume risks associated with the entrusted assets. The

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trusts are generally considered as VIEs because the trust beneficiaries, who provide all of the equity at risk, usually do not have power to direct the activities that most significantly impact its economic performance in the arrangements. The MUFG Group, however, is not considered as the primary beneficiary, except for the case mentioned below, because it merely receives fees for compensation for its services on terms that are customary for these activities and the fees are insignificant relative to the total amount of the trusts' economic performance and variability. Therefore, the MUFG Group does not consolidate these entities.

With respect to the jointly operated designated money in trusts, Mitsubishi UFJ Trust and Banking pools money from investors and determines how best to invest it. In addition, certain investors, such as money reserve funds and investment funds, place excess funds in the jointly operated designated money trusts. Mitsubishi UFJ Trust and Banking typically invests in high-quality financial assets, including government bonds, corporate bonds and corporate loans including loans to Mitsubishi UFJ Trust and Banking and receives fees as compensation for services. In this role as a sponsor of these trusts' Mitsubishi UFJ Trust and Banking provides guarantees under which it is required to compensate a loss on the stated principal of the trust beneficial interests. Mitsubishi UFJ Trust and Banking is considered as the primary beneficiary of these trusts' because it is exposed to a potentially significant amount of losses and also has the power to direct activities of these trusts' that most significantly impact their economic performance. Upon consolidation of the trusts, the certificates issued to the investors are accounted for as deposit liabilities as the products are structured and marketed to customers similar to Mitsubishi UFJ Trust and Banking's term deposit products.

Mitsubishi UFJ Trust and Banking considers the likelihood of incurring losses on the stated principal guarantee to be highly remote. In the trusts' operational history that extends over decades, the stated principal guarantee has never been called upon. The variability in fair value of the net assets of the trusts has been primarily affected by the fluctuations in interest rates, and the majority of such variability has been absorbed by investors or trust beneficiaries.

***Others***

This category primarily comprises the following:

*Financing Vehicles of the MUFG Group's Customers*

The MUFG Group is involved with several entities that are established by the MUFG Group's customers. These entities borrow funds from financial institutions and extend loans to their group entities. These entities effectively work as fund-raising vehicles for their respective group entities and enable the groups to achieve efficient financing by integrating their financing activities into a single entity. In all cases, the MUFG Group is not considered as the primary beneficiary because the MUFG Group's participation in these entities is only to provide financing, and the customers effectively hold the power to direct activities of these entities that most significantly impact the economic performance of the entities. Consequently, the MUFG Group does not consolidate these entities.

*Funding Vehicles*

The MUFG Group has established several wholly-owned off-shore vehicles which issue securities, typically preferred stock that is fully guaranteed by the MUFG Group, to investors unrelated to the MUFG Group to fund purchases of debt instruments issued by the MUFG Group. These entities are considered as VIEs because the MUFG Group's investment in the vehicles' equity is not considered at risk and substantive as the entire amount raised by the vehicles was used to purchase debt instruments issued by the MUFG Group. Because the MUFG Group does not have variable interests in these vehicles, the MUFG Group does not consolidate these entities.

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*Troubled Borrowers*

During the normal course of business, the borrowers from the MUFG Group may experience financial difficulties and sometimes enter into certain transactions that require the MUFG Group to assess whether they would be considered as VIEs due to their difficult financial position. While in most cases such borrowers are not considered as VIEs when the transactions take place, in limited circumstances they are considered as VIEs due to insufficient equity investment at risk. In all cases, the MUFG Group is not considered as the primary beneficiary because the power to direct activities that most significantly impact the economic performance of the troubled borrowers resides with the management of the troubled borrowers, and the MUFG Group, as a lender, does not have power over or assume any role in management. Therefore, the MUFG Group does not consolidate these troubled borrowers.

**27. COMMITMENTS AND CONTINGENT LIABILITIES**

*Lease Commitments*

The MUFG Group leases certain technology systems, office space and equipment under noncancelable agreements which expire through the fiscal year 2048.

Future minimum rental commitments for noncancelable leases at March 31, 2018 were as follows:

	<u>Capital leases</u>	<u>Operating leases</u>
	(in millions)	
Fiscal year ending March 31:		
2019 .....	¥ 5,559	¥ 93,378
2020 .....	4,297	79,284
2021 .....	3,746	70,402
2022 .....	2,784	61,145
2023 .....	1,602	54,551
2024 and thereafter .....	<u>3,513</u>	<u>311,437</u>
Total minimum lease payments .....	¥21,501	<u>¥670,197</u>
Amount representing interest .....	<u>(2,787)</u>	
Present value of minimum lease payments .....	<u>¥18,714</u>	

Total rental expense for the fiscal years ended March 31, 2016, 2017 and 2018 was ¥118,286 million, ¥113,649 million and ¥119,208 million, respectively.

*Repayment of Excess Interest*

The Japanese government implemented regulatory reforms affecting the consumer lending industry. In December 2006, the Diet passed legislation to reduce the maximum permissible interest rate under the Act Regulating the Receipt of Contributions, the Receipt of Deposits, and Interest Rates from 29.2% per annum to 20% per annum. The reduction in interest rates was implemented in June 2010. 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). Under the regulatory reforms, all interest rates for loans originated after this reform are subject to the lower limits

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imposed by the Interest Rate Restriction Act. Furthermore, the new regulations require stringent review procedures for consumer finance companies before lending, and with the exception of certain provisions, one of those new regulations introduces a limit on aggregate credit extensions to one-third of the borrower's annual income.

Formerly, consumer finance companies were able to charge interest rates exceeding the limits stipulated by the Interest Rate Restriction Act so long as the payment was made voluntarily by the borrowers, and the lender complied with various notice and other requirements. Accordingly, MUFG's consumer finance subsidiaries and equity method investees offered loans at interest rates above the Interest Rate Restriction Act. Upon the implementation of the regulatory reforms in June 2010, they lowered the interest rates for loans originated after this reform to below the Interest Rate Restriction Act.

In 2006, the Supreme Court of Japan passed decisions in a manner more favorable to borrowers requiring reimbursement of previously paid interest exceeding the limits stipulated by the Interest Rate Restriction Act in certain circumstances. Borrowers' claims for reimbursement of excess interest arose after such decisions and other regulatory changes. The MUFG Group maintains an allowance for repayment of excess interest based on an analysis of past experience of reimbursement of excess interest, borrowers' profile, recent trend of borrowers' claims for reimbursement, and management future forecasts. Management believes 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 the MUFG Group's financial position and results of operations. The allowance for repayment of excess interest established by MUFG's consumer finance subsidiaries, which was included in Other liabilities, was ¥39,414 million and ¥23,724 million as of March 31, 2017 and 2018, respectively. Provision (reversal) related to the allowance is included in Other non-interest expenses in the accompanying consolidated statements of income. For the fiscal years ended March 31, 2016, 2017 and 2018, there was a negative impact of ¥22,426 million, ¥56,911 million and nil, respectively, on Equity in earnings of equity method investees—net in the accompanying consolidated statements of income.

***Litigation***

In the ordinary course of business, the MUFG Group is subject to various litigation and regulatory matters. In accordance with applicable accounting guidance, the MUFG Group establishes an accrued liability for loss contingencies arising from litigation and regulatory matters when they are determined to be probable in their occurrence and the probable loss amount can be reasonably estimated. Based upon current knowledge and consultation with counsel, management believes the eventual outcome of such litigation and regulatory matters, where losses are probable and the probable loss amounts can be reasonably estimated, would not have a material adverse effect on the MUFG Group's financial position, results of operations or cash flows. Additionally, management believes the amount of loss that is reasonably possible, but not probable, from various litigation and regulatory matters is not material to the MUFG Group's financial position, results of operations or cash flows.

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**28. FEES AND COMMISSIONS INCOME**

Details of fees and commissions income for the fiscal years ended March 31, 2016, 2017 and 2018 were as follows:

	2016	2017	2018
	(in millions)		
Fees and commissions on deposits . . . . .	¥ 58,865	¥ 53,891	¥ 53,483
Fees and commissions on remittances and transfers . . . . .	169,101	168,571	169,300
Fees and commissions on foreign trading business . . . . .	84,688	75,024	78,239
Fees and commissions on credit card business . . . . .	193,646	198,145	212,515
Fees and commissions on security-related services . . . . .	285,334	239,516	258,728
Fees and commissions on administration and management services for investment funds . . . . .	149,916	155,708	159,481
Trust fees . . . . .	110,051	103,110	112,399
Guarantee fees . . . . .	44,740	41,818	44,160
Insurance commissions . . . . .	69,485	59,853	49,223
Fees and commissions on real estate business . . . . .	43,516	39,808	40,573
Other fees and commissions . . . . .	266,530	279,449	284,691
Total . . . . .	<u>¥1,475,872</u>	<u>¥1,414,893</u>	<u>¥1,462,792</u>

Fees and commissions on deposits consist of fees and commissions charged for deposits transactions such as checking account deposits, deposit and withdrawal services and using automated teller machines. Fees and commissions on remittances and transfers consist of fees and commissions charged for settlement transactions such as domestic fund remittances, including transactions used by electronic banking. Fees and commissions on foreign trading business consist of fees and commissions charged for fund collection and trade-related financing services related to foreign trading business. Fees and commissions on credit card business consist of fees and commissions related to credit card business such as interchange income, annual fees, royalty and other service charges from franchisees. Fees and commissions on securities-related services primarily consist of fees and commissions for sales and transfers of securities including investment funds, underwriting, brokerage and advisory services, arrangement fees on securitizations, 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 from managing investment funds on behalf of the clients. Trust fees consist primarily of fees earned by fiduciary asset management and administration services for corporate pension plans and investment funds. Guarantee fees consist of fees related to guarantee business such as providing guarantees on residential mortgage loans and other loans. Insurance commissions consist of commissions earned by acting as agent for insurance companies to sell 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 mainly such as arrangement fees and agent fees excluding the fees mentioned above.

**29. TRADING ACCOUNT PROFITS AND LOSSES**

The MUFG Group performs trading activities through market-making, sales and arbitrage, while maintaining risk levels within appropriate limits in accordance with its risk management policy.

The MUFG Group has trading account securities and trading derivative assets and liabilities for this purpose. In addition, the trading account securities include foreign currency-denominated debt securities such as foreign government or official institution bonds, corporate bonds and mortgage-backed securities, which are mainly comprised of securities measured at fair value under the fair value option.



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Net trading gains (losses) for the fiscal years ended March 31, 2016, 2017 and 2018 were comprised of the following:

	<u>2016</u>	<u>2017</u>	<u>2018</u>
		(in millions)	
Interest rate and other derivative contracts . . . . .	¥ 434,323	¥(325,007)	¥(226,788)
Trading account securities, excluding derivatives . . . . .	(157,669)	(314,177)	153,674
Trading account profits (losses)—net . . . . .	276,654	(639,184)	(73,114)
Foreign exchange derivative contracts <sup>(1)</sup> . . . . .	374,324	(183,159)	(159,986)
Net trading gains (losses) . . . . .	<u>¥ 650,978</u>	<u>¥(822,343)</u>	<u>¥(233,100)</u>

Note:

(1) Gains (losses) on foreign exchange derivative contracts are included in Foreign exchange gains (losses)—net in the accompanying consolidated statements of income. Foreign exchange gains (losses)—net in the accompanying consolidated statements of income are also comprised of foreign exchange gains (losses) other than derivative contracts and foreign exchange gains (losses) related to the fair value option.

For further information on the methodologies and assumptions used to estimate fair value, see Note 32, which also shows fair values of trading account securities by major category. Note 24 discloses further information regarding the derivative-related impact on Trading account profits (losses)—net by major category.

**30. BUSINESS SEGMENTS**

The business segment information, set forth below, is derived from the internal management reporting system used by management to measure the performance of the MUFG Group’s business segments. In addition, the business segment information is primarily based on the financial information prepared in accordance with accounting principles generally accepted in Japan as adjusted in accordance with internal management accounting rules and practices. Accordingly, the format and information are not consistent with the accompanying consolidated financial statements prepared on the basis of U.S. GAAP. A reconciliation is provided for the total amounts of segments’ operating profit with income before income tax expense under U.S. GAAP.

See Note 31 for financial information relating to the MUFG Group’s operations by geographic area. The geographic financial information is consistent with the basis of the accompanying consolidated financial statements.

The following is a brief explanation of the MUFG Group’s business segments:

*Retail Banking Business Group*—Covers 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 has developed and implemented MUFG Plaza, a one-stop, comprehensive financial services concept that provides integrated banking, trust and securities services.

*Corporate Banking Business Group*—Covers all domestic corporate businesses, including commercial banking, investment banking, trust banking and securities businesses, as well as businesses outside of Japan, assisting mainly Japanese companies. Through the integration of these business lines, diverse financial products and services are provided to the MUFG Group’s corporate clients. This business group has strategic domains, sales channels and methods to match the different growth stages and financial needs of the MUFG Group’s corporate clients.

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*Global Business Group*—Covers 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 that meet their increasingly diverse and sophisticated financing needs.

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

*Global Markets Business Group*—Covers 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*—Consists 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 is also reflected in Other.

Management does not use information on segments' total assets to allocate resources and assess performance. Accordingly, business segment information on total assets is not presented.

The MUFG Group made modifications to refine the definition of the overseas Japanese corporate business, effective October 1, 2016, and made additional modifications for similar purposes, effective April 1, 2017. 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.

The MUFG Group also made modifications to the MUFG Group's internal management accounting rules and practices to clarify the responsibility for profits of each business segment, effective April 1, 2017. 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.

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The table set forth below has been reclassified to enable comparisons between the relevant amounts for the fiscal years ended March 31, 2016, 2017 and 2018, respectively:

	<b>Customer Business</b>					<b>Global Markets Business Group</b>	<b>Other</b>	<b>Total</b>
	<b>Retail Banking Business Group</b>	<b>Corporate Banking Business Group<sup>(1)</sup></b>	<b>Global Business Group<sup>(1)</sup></b>	<b>Trust Assets Business Group</b>	<b>Total<sup>(1)</sup></b>			
	(in billions)							
<b>Fiscal year ended March 31, 2016:</b>								
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:	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 <sup>(2)</sup>	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
<b>Fiscal year ended March 31, 2017:</b>								
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:	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 <sup>(2)</sup>	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
<b>Fiscal year ended March 31, 2018:</b>								
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:	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 <sup>(2)</sup>	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) Net revenue, operating expenses, and operating profit relating to the overseas Japanese Corporate business were ¥178.1 billion, ¥142.4 billion, and ¥35.7 billion for the fiscal year ended March 31, 2016, ¥177.1 billion, ¥146.2 billion, and ¥30.9 billion for the fiscal year ended March 31, 2017, and ¥181.6 billion, ¥151.9 billion, and ¥29.7 billion for the fiscal year ended March 31, 2018, respectively. 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.
- (2) Includes MUFG and its subsidiaries other than MUFG Bank on a stand-alone basis and Mitsubishi UFJ Trust and Banking on a stand-alone basis.

**Reconciliation**

As set forth above, the measurement basis and the income and expense items of the internal management reporting system are different from the accompanying consolidated statements of income. Therefore, it is impracticable to present reconciliations of all of the business segments' information, other than operating profit, to corresponding items in the accompanying consolidated statements of income.

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A reconciliation of operating profit under the internal management reporting system for the fiscal years ended March 31, 2016, 2017 and 2018 above to income before income tax expense shown in the accompanying consolidated statements of income is as follows:

	<u>2016</u>	<u>2017</u>	<u>2018</u>
	(in billions)		
Operating profit: . . . . .	¥1,551	¥1,396	¥1,224
Reversal of (provision for) credit losses . . . . .	(232)	(254)	241
Trading account losses—net . . . . .	(6)	(880)	(287)
Equity investment securities gains—net . . . . .	105	181	215
Debt investment securities gains (losses)—net . . . . .	(19)	48	71
Foreign exchange gains (losses)—net . . . . .	129	(110)	7
Equity in earnings of equity method investees—net . . . . .	177	198	228
Impairment of goodwill . . . . .	(334)	(7)	—
Impairment of intangible assets . . . . .	(118)	(6)	(22)
Reversal of (provision for) off-balance sheet credit instruments . . . . .	—	(107)	96
Other—net . . . . .	(90)	(186)	(111)
Income before income tax expense . . . . .	<u>¥1,163</u>	<u>¥ 273</u>	<u>¥1,662</u>

**31. FOREIGN ACTIVITIES**

Foreign operations include the business conducted by overseas offices, as well as international business conducted from domestic offices, principally several international banking-related divisions of MUFG Bank's and Mitsubishi UFJ Trust and Banking's head office in Tokyo, and involve various transactions with debtors and customers residing outside Japan. Close integration of the MUFG Group's foreign and domestic activities makes precise estimates of the amounts of assets, liabilities, income and expenses attributable to foreign operations difficult and necessarily subjective. Assets, income and expenses attributable to foreign operations are allocated to geographical areas based on the domicile of the debtors and customers.

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Generally, interest rates with respect to funds borrowed and loaned between domestic and foreign operations are based on prevailing money market rates appropriate for the transactions. In general, the MUFG Group has allocated all direct expenses and a proportionate share of general and administrative expenses to income derived from foreign loans and other transactions by the MUFG Group's foreign operations. The following table sets forth estimated total assets at March 31, 2016, 2017 and 2018, and estimated total revenue, total expense, income (loss) before income tax expense (benefit) and net income (loss) attributable to Mitsubishi UFJ Financial Group for the respective fiscal years then ended:

	Domestic		Foreign			Total
	Japan	United States of America	Europe	Asia/Oceania excluding Japan	Other areas <sup>(1)</sup>	
	(in millions)					
<b>Fiscal year ended March 31, 2016:</b>						
Total revenue <sup>(2)</sup> . . . . .	¥ 2,995,693	¥ 800,726	¥ 326,381	¥ 981,076	¥ 309,552	¥ 5,413,428
Total expense <sup>(3)</sup> . . . . .	2,501,616	741,930	205,459	661,920	139,833	4,250,758
Income before income tax expense . . . . .	494,077	58,796	120,922	319,156	169,719	1,162,670
Net income attributable to Mitsubishi UFJ Financial Group . . . . .	185,395	173,376	162,620	196,712	84,229	802,332
Total assets at end of fiscal year . . . . .	176,979,064	52,719,811	26,194,772	25,019,537	11,644,171	292,557,355
<b>Fiscal year ended March 31, 2017:</b>						
Total revenue <sup>(2)</sup> . . . . .	¥ 1,903,336	¥ 749,513	¥ 330,751	¥ 818,917	¥ 384,956	¥ 4,187,473
Total expense <sup>(3)</sup> . . . . .	2,345,731	677,548	138,128	582,665	170,858	3,914,930
Income (loss) before income tax expense (benefit) . . . . .	(442,395)	71,965	192,623	236,252	214,098	272,543
Net income (loss) attributable to Mitsubishi UFJ Financial Group . . . . .	(365,734)	119,189	216,584	102,803	129,838	202,680
Total assets at end of fiscal year . . . . .	191,305,636	46,053,230	23,821,920	25,255,955	10,748,278	297,185,019
<b>Fiscal year ended March 31, 2018:</b>						
Total revenue <sup>(2)</sup> . . . . .	¥ 2,127,278	¥ 1,337,529	¥ 506,211	¥ 779,983	¥ 443,106	¥ 5,194,107
Total expense <sup>(3)</sup> . . . . .	1,687,344	843,885	173,665	651,125	176,269	3,532,288
Income before income tax expense . . . . .	439,934	493,644	332,546	128,858	266,837	1,661,819
Net income attributable to Mitsubishi UFJ Financial Group . . . . .	140,091	447,887	322,581	92,016	225,585	1,228,160
Total assets at end of fiscal year . . . . .	196,121,542	44,831,664	22,342,574	27,163,121	10,111,411	300,570,312

Notes:

- (1) Other areas primarily include Canada, Latin America, the Caribbean and the Middle East.
- (2) Total revenue is comprised of Interest income and Non-interest income.
- (3) Total expense is comprised of Interest expense, Provision for (reversal of) credit losses and Non-interest expense.

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The following is an analysis of certain asset and liability accounts related to foreign activities at March 31, 2017 and 2018:

	<u>2017</u>	<u>2018</u>
	(in millions)	
Cash and due from banks . . . . .	¥ 1,179,613	¥ 1,816,704
Interest-earning deposits in other banks . . . . .	6,798,036	8,560,283
Total . . . . .	<u>¥ 7,977,649</u>	<u>¥10,376,987</u>
Trading account assets . . . . .	<u>¥27,436,540</u>	<u>¥23,904,678</u>
Investment securities . . . . .	<u>¥ 6,863,563</u>	<u>¥ 7,692,969</u>
Loans—net of unearned income, unamortized premiums and deferred loan fees . . .	<u>¥51,191,297</u>	<u>¥51,339,696</u>
Deposits . . . . .	<u>¥45,264,323</u>	<u>¥45,818,648</u>
Funds borrowed:		
Call money, funds purchased . . . . .	¥ 362,984	¥ 355,666
Payables under repurchase agreements <sup>(1)</sup> . . . . .	10,880,012	8,181,347
Payables under securities lending transactions . . . . .	75,916	276,563
Other short-term borrowings . . . . .	5,080,452	5,152,667
Long-term debt <sup>(1)</sup> . . . . .	<u>2,243,251</u>	<u>2,223,246</u>
Total . . . . .	<u>¥18,642,615</u>	<u>¥16,189,489</u>
Trading account liabilities . . . . .	<u>¥ 8,298,435</u>	<u>¥ 4,251,049</u>

Note:

(1) The table above reflects changes in presentation that were made to long-term repurchase agreements at March 31, 2017. See Note 1 for further information.

**32. FAIR VALUE**

Fair value is defined 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. The guidance on fair value measurements also specifies a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The fair value hierarchy gives the highest priority to quoted prices in active markets and the lowest priority to unobservable inputs, for example, the reporting entity's own data. Based on the observability of the inputs used in the valuation techniques, the following three-level hierarchy is specified by the guidance:

- Level 1—Unadjusted quoted prices for identical instruments in active markets.
- Level 2—Observable inputs other than Level 1 prices for substantially the full term of the instruments, such as quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; other inputs that are observable; or market-corroborated inputs.
- Level 3—Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the instruments.

A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

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The MUFG Group has an established and documented process for determining fair values in accordance with the guidance. When available, quoted prices are used to determine fair value. If quoted prices are not available, fair value is based upon valuation techniques that use observable or unobservable inputs. The fair values of liabilities are determined by discounting future cash flows at a rate which incorporates the MUFG Group's own creditworthiness. In addition, valuation adjustments may be made to ensure 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.

The following section describes the valuation techniques used by the MUFG Group to measure fair values of certain financial instruments. The discussion includes the general classification of such financial instruments in accordance with the fair value hierarchy, a brief explanation of the valuation techniques, the significant inputs to those valuation techniques, and any additional significant assumptions.

***Interest-earning Deposits in Other Banks***

Cash flows are estimated based on the terms of the contracts and discounted using the market interest rates applicable to the maturity of the contracts, which are adjusted to reflect credit risks on counterparties. As the inputs into the valuation techniques are readily observable, these deposits are classified in Level 2 of the fair value hierarchy.

***Trading Account Assets and Liabilities—Trading Account Securities***

When quoted prices are available in an active market, the MUFG Group uses quoted prices to measure the fair values of securities and such securities are classified in Level 1 of the fair value hierarchy. Examples of Level 1 securities include certain Japanese and foreign government bonds, and marketable equity securities.

When quoted prices are available but the securities are not traded in active markets, such securities are classified in Level 2 of the fair value hierarchy. These securities include certain Japanese government agency bonds, Japanese prefectural and municipal bonds, foreign governments and official institutions bonds, corporate bonds, residential mortgage-backed securities and equity securities.

As for quoted prices provided by third-party vendors, independent price verification is performed by the MUFG group to determine the quality and reliability of the data for fair value measurement purposes. As part of its independent price verification procedures, the MUFG group obtains a sufficient understanding of the vendors' pricing sources and valuation processes. Further, the MUFG group performs internal price verification procedures to ensure that the quoted prices provided from the third-party vendors are reasonable. Such verification procedures include comparison of pricing sources and analysis of variances beyond certain thresholds.

When quoted prices are not available, the MUFG Group estimates fair values by using an internal model, quoted prices of securities with similar characteristics or non-binding prices obtained from independent third parties. Such securities include certain commercial paper, corporate bonds, asset-backed securities and residential mortgage-backed securities. For commercial paper, the MUFG Group estimates fair value using discounted cash flows. The cash flows are estimated in accordance with the terms of contracts and discounted using a discount rate based on the yield curve estimated from market interest rates appropriate to the securities. Commercial paper is generally classified in Level 2 of the fair value hierarchy. For corporate bonds, the MUFG Group estimates fair value using discounted cash flows. The cash flows are estimated in accordance with the terms of contracts and discounted using discount rates applicable to the maturity of the bonds, which are adjusted to reflect credit risk of

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issuers. Credit risk of issuers is reflected in the future cash flows being discounted by the interest rate applicable to the maturity of the bonds. Corporate bonds are classified in either Level 2 or Level 3 of the fair value hierarchy, depending primarily on the significance of the adjustments to the unobservable input of credit worthiness. For residential mortgage-backed securities, the MUFG Group estimates fair value using non-binding prices obtained from independent third parties. Residential mortgage-backed securities are classified as level 2 unless otherwise significant unobservable input is used for the valuation.

When there is less liquidity for securities or significant inputs used in the fair value measurements are unobservable, such securities are classified in Level 3 of the fair value hierarchy. Examples of such Level 3 securities include CLOs backed by general corporate loans, which are classified in asset-backed securities. The fair value of CLOs is measured by weighing the estimated fair value amounts from the internal model and the non-binding quotes from the independent broker-dealers. The weight of the quotes from independent broker-dealers is determined based on the result of inquiries with the broker-dealers to understand their basis of fair value calculation with consideration given to transaction volume. Key inputs to the internal model include projected cash flows through an analysis of underlying loans, probability of default which incorporates market indices such as LCDX (which is an index of loan credit default swaps), prepayment rates and discount rates reflecting liquidity premiums based on historical market data.

***Trading Account Assets and Liabilities—Derivatives***

Exchange-traded derivatives valued using quoted prices are classified in Level 1 of the fair value hierarchy. Examples of Level 1 derivatives include stock futures index and interest rate futures. However, the majority of the derivative contracts entered into by the MUFG Group are traded over-the-counter and valued using valuation techniques as there are no quoted prices for such derivatives. The valuation techniques and inputs vary depending on the types and contractual terms of the derivatives. The principal valuation techniques used to value derivatives include discounted cash flows, the Black-Scholes model and the Hull-White model. The key inputs include interest rate yield curve, foreign currency exchange rate, volatility, credit quality of the counterparty or the MUFG Group and spot price of the underlying. These models are commonly accepted in the financial industry and key inputs to the models are generally readily observable in an active market. Derivatives valued using such valuation techniques and inputs are generally classified in Level 2 of the fair value hierarchy. Examples of such Level 2 derivatives include plain-vanilla interest rate swaps, foreign currency forward contracts and currency option contracts.

Derivatives that are valued using valuation techniques with significant unobservable inputs are classified in Level 3 of the fair value hierarchy. Examples of Level 3 derivatives include long-term interest rate or currency swaps and certain credit derivatives, where significant inputs such as volatility, credit curves and correlation of such inputs are unobservable.

***Investment Securities***

Investment securities include Available-for-sale debt and equity securities, whose fair values are measured using the same valuation techniques as the trading account securities described above. Investment securities also include investments in nonmarketable equity securities which are subject to specialized industry accounting principles. The valuation of such nonmarketable equity securities involves significant management judgment due to the absence of quoted prices, lack of liquidity and the long term nature of these investments. Further, there may be restriction on transfers of nonmarketable equity securities. The MUFG Group values such securities initially at transaction price and subsequently adjusts such valuations, considering evidence such as current sales transactions of similar securities, initial public offerings, recent equity issuances and change in financial condition of the investee company. Nonmarketable equity securities are included in Level 3 of the fair value hierarchy.



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***Other Assets***

Other assets measured at fair value mainly consist of securities received as collateral that may be sold or repledged under securities lending transactions, money in trust for segregating cash deposited by customers on security transactions and derivatives designated as hedging instruments. The securities received as collateral under lending transactions mainly consist of certain Japanese and foreign government bonds which are valued using the valuation techniques previously described in the section entitled “*Trading Account Assets and Liabilities—Trading Account Securities*” above.

Money in trust for segregating cash deposited by customers on security transactions mainly consists of certain Japanese government bonds which are valued using the valuation techniques described in the “*Trading Account Assets and Liabilities—Trading Account Securities*” above and is included in Level 1 or Level 2 of the fair value hierarchy depending on the component assets.

The fair values of derivatives designated as hedging instruments are measured using the valuation techniques described in the “*Trading Account Assets and Liabilities—Derivatives*” above.

***Obligations to Return Securities Received as Collateral***

Obligations to return securities received as collateral under securities lending transactions are measured at the fair values of the securities received as collateral. The securities received as collateral consist primarily of certain Japanese and foreign government bonds, whose fair values are measured using the valuation techniques described in the “*Trading Account Assets and Liabilities—Trading Account Securities*” above.

***Other Short-term Borrowings and Long-term Debt***

Certain short-term borrowings and long-term debt are measured at fair value due to the election of the fair value option. The fair value of these instruments are measured principally based on the discounted cash flows. Where the inputs into the valuation techniques are mainly based on observable inputs, these instruments are classified in Level 2 of the fair value hierarchy. Where significant inputs are unobservable, they are classified in Level 3 of the fair value hierarchy.

***Market Valuation Adjustments***

Counterparty credit risk adjustments are made to certain financial assets such as over-the-counter derivatives to factor in counterparty credit exposure. As not all counterparties have the same credit risk, it is necessary in calculating credit risk adjustments, to take into account probability of a default event occurring for each counterparty, which is primarily derived from observed or estimated spreads on credit default swaps. In addition, the counterparty credit risk adjustment takes into account the effect of credit risk mitigation such as pledged collateral and the legal right of offset with the counterparty.

For its own credit risk adjustments, the MUFG Group takes into consideration all the facts and circumstances, including its own credit rating, the difference between its funding rate and market interest rate, and the existence of collateralization or netting agreements. As a result of these analyses, the MUFG Group considered that its own credit risk adjustments for financial liabilities were not material.

Liquidity adjustments are applied mainly to the instruments classified in Level 3 of the fair value hierarchy when recent observable prices of such instruments are not available or such instruments are traded in inactive or less active markets. The liquidity adjustments are based on the facts and circumstances of the markets including the availability of external quotes and the time since the latest available quote.

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Model valuation adjustments such as unobservable parameter valuation adjustments may be provided when the fair values of instruments are determined based on internally developed valuation techniques. Examples of such adjustments include adjustments to the model price of certain derivatives where parameters such as correlation are unobservable. Unobservable parameter valuation adjustments are applied to mitigate the uncertainty inherent in the resulting valuation estimate.

***Investments in Certain Entities That Calculate Net Asset Value per Share***

The MUFG Group has interests in investment funds mainly private equity funds, and real estate funds that are measured at fair value on a recurring or nonrecurring basis.

Private equity funds have specific investment objectives in connection with their acquisition of equity interests, such as providing financing and other support to start-up businesses, medium and small entities in a particular geographical area, and to companies with certain technology or companies in a high-growth industry. Generally, these investments cannot be redeemed with the funds, and the return of invested capital and its gains are derived from distributions received upon the liquidation of the underlying assets of the fund. It is estimated that the underlying assets of the fund would be liquidated within a ten-year period.

Real estate funds invest globally and primarily in real estate companies, debt recapitalizations and direct property. These investments are generally not redeemable with the funds. Distributions from each fund will be received as the underlying investments of the funds are liquidated. It is estimated that the underlying assets of the funds would be liquidated within a four-year period.

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***Assets and Liabilities Measured at Fair Value on a Recurring Basis***

The following tables present the financial instruments carried at fair value by level within the fair value hierarchy as of March 31, 2017 and 2018:

<b>At March 31, 2017</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Fair Value</b>
	(in millions)			
<b>Assets</b>				
Trading account assets:				
Trading securities <sup>(1)</sup> . . . . .	¥10,646,728	¥11,027,560	¥ 799,493	¥22,473,781
Debt securities				
Japanese national government and Japanese government agency bonds . . . . .	1,794,233	390,147	—	2,184,380
Japanese prefectural and municipal bonds . . . . .	—	136,226	—	136,226
Foreign governments and official institutions bonds . . . . .	7,764,734	466,151	1,836	8,232,721
Corporate bonds . . . . .	—	3,305,520	25,521	3,331,041
Residential mortgage-backed securities . . . . .	—	4,816,323	47,914	4,864,237
Asset-backed securities . . . . .	—	280,502	654,814	935,316
Other debt securities . . . . .	—	5,155	35,552	40,707
Commercial paper . . . . .	—	1,084,421	—	1,084,421
Equity securities <sup>(2)</sup> . . . . .	1,087,761	543,115	33,856	1,664,732
Trading derivative assets . . . . .	112,687	18,619,331	101,100	18,833,118
Interest rate contracts . . . . .	27,321	14,174,526	38,188	14,240,035
Foreign exchange contracts . . . . .	9,661	4,270,548	20,455	4,300,664
Equity contracts . . . . .	75,545	88,154	24,707	188,406
Commodity contracts . . . . .	160	18,740	17,745	36,645
Credit derivatives . . . . .	—	67,363	5	67,368
Investment securities:				
Available-for-sale securities . . . . .	30,214,302	8,538,271	337,526	39,090,099
Debt securities				
Japanese national government and Japanese government agency bonds . . . . .	23,053,677	2,772,611	—	25,826,288
Japanese prefectural and municipal bonds . . . . .	—	1,015,489	—	1,015,489
Foreign governments and official institutions bonds . . . . .	1,360,060	769,770	20,099	2,149,929
Corporate bonds . . . . .	—	1,104,800	36,932	1,141,732
Residential mortgage-backed securities . . . . .	—	1,188,903	15	1,188,918
Commercial mortgage-backed securities . . . . .	—	77,297	2,971	80,268
Asset-backed securities . . . . .	—	1,261,353	116,919	1,378,272
Other debt securities . . . . .	—	10,199	160,590	170,789
Marketable equity securities . . . . .	5,800,565	337,849	—	6,138,414
Other investment securities . . . . .	—	—	26,292	26,292
Others <sup>(3)(4)</sup> . . . . .	453,214	37,942	3,850	495,006
<b>Total</b> . . . . .	<b>¥41,426,931</b>	<b>¥38,223,104</b>	<b>¥1,268,261</b>	<b>¥80,918,296</b>
<b>Liabilities</b>				
Trading account liabilities:				
Trading securities sold, not yet purchased . . . . .	¥ 128,292	¥ 1,392	¥ —	¥ 129,684
Trading derivative liabilities . . . . .	135,342	18,461,252	63,855	18,660,449
Interest rate contracts . . . . .	45,539	14,249,439	9,637	14,304,615
Foreign exchange contracts . . . . .	5,219	4,072,787	5,597	4,083,603
Equity contracts . . . . .	84,514	66,482	31,019	182,015
Commodity contracts . . . . .	70	14,730	17,375	32,175
Credit derivatives . . . . .	—	57,814	227	58,041
Obligation to return securities received as collateral . . . . .	3,423,936	92,296	—	3,516,232
Others <sup>(5)</sup> . . . . .	—	376,724	28,432	405,156
<b>Total</b> . . . . .	<b>¥ 3,687,570</b>	<b>¥18,931,664</b>	<b>¥ 92,287</b>	<b>¥22,711,521</b>

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At March 31, 2018	Level 1	Level 2	Level 3	Fair Value
	(in millions)			
<b>Assets</b>				
Trading account assets:				
Trading securities <sup>(1)</sup> . . . . .	¥10,876,424	¥10,876,080	¥ 827,493	¥22,579,997
Debt securities				
Japanese national government and Japanese government agency bonds . . . . .	1,388,143	477,530	—	1,865,673
Japanese prefectural and municipal bonds . . . . .	—	189,756	—	189,756
Foreign governments and official institutions bonds . . . . .	8,190,781	469,342	1,047	8,661,170
Corporate bonds . . . . .	—	3,255,503	23,092	3,278,595
Residential mortgage-backed securities . . . . .	—	4,432,307	41,141	4,473,448
Asset-backed securities . . . . .	—	186,351	684,637	870,988
Other debt securities . . . . .	—	2,800	33,450	36,250
Commercial paper . . . . .	—	1,210,775	—	1,210,775
Equity securities <sup>(2)</sup> . . . . .	1,297,500	651,716	44,126	1,993,342
Trading derivative assets . . . . .	71,175	12,420,100	93,900	12,585,175
Interest rate contracts . . . . .	3,320	8,681,427	27,092	8,711,839
Foreign exchange contracts . . . . .	1,890	3,543,413	12,118	3,557,421
Equity contracts . . . . .	65,965	118,351	22,994	207,310
Commodity contracts . . . . .	—	6,239	30,753	36,992
Credit derivatives . . . . .	—	70,670	943	71,613
Investment securities:				
Available-for-sale securities . . . . .	29,361,095	9,792,943	350,660	39,504,698
Debt securities				
Japanese national government and Japanese government agency bonds . . . . .	21,522,128	3,045,776	—	24,567,904
Japanese prefectural and municipal bonds . . . . .	—	1,537,431	—	1,537,431
Foreign governments and official institutions bonds . . . . .	1,583,554	567,946	20,192	2,171,692
Corporate bonds . . . . .	—	1,113,323	6,037	1,119,360
Residential mortgage-backed securities . . . . .	—	1,617,520	15	1,617,535
Commercial mortgage-backed securities . . . . .	—	92,806	2,430	95,236
Asset-backed securities . . . . .	—	1,397,177	161,172	1,558,349
Other debt securities . . . . .	—	4,793	160,814	165,607
Marketable equity securities . . . . .	6,255,413	416,171	—	6,671,584
Other investment securities . . . . .	—	—	28,359	28,359
Others <sup>(3)(4)</sup> . . . . .	955,548	93,042	8,660	1,057,250
Total . . . . .	<u>¥41,264,242</u>	<u>¥33,182,165</u>	<u>¥1,309,072</u>	<u>¥75,755,479</u>
<b>Liabilities</b>				
Trading account liabilities:				
Trading securities sold, not yet purchased . . . . .	¥ 208,354	¥ 7,060	¥ —	¥ 215,414
Trading derivative liabilities . . . . .	80,673	11,844,463	81,781	12,006,917
Interest rate contracts . . . . .	3,085	8,659,042	12,496	8,674,623
Foreign exchange contracts . . . . .	2,058	2,992,812	5,382	3,000,252
Equity contracts . . . . .	75,530	117,572	33,679	226,781
Commodity contracts . . . . .	—	4,362	30,070	34,432
Credit derivatives . . . . .	—	70,675	154	70,829
Obligation to return securities received as collateral . . . . .	3,030,974	145,988	—	3,176,962
Others <sup>(5)</sup> . . . . .	—	507,700	(25,528)	482,172
Total . . . . .	<u>¥ 3,320,001</u>	<u>¥12,505,211</u>	<u>¥ 56,253</u>	<u>¥15,881,465</u>

Notes:

- (1) Includes securities measured under the fair value option.  
(2) Excludes certain investments valued at net asset value of private equity funds, whose fair values were ¥13,150 million and ¥21,517 million at March 31, 2017 and 2018, respectively. The amounts of unfunded commitments related to these private equity funds were ¥27,735 million and ¥61,463 million at March 31, 2017 and 2018, respectively.

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- (3) Mainly comprises securities received as collateral that may be sold or repledged under securities lending transactions, money in trust for segregating cash deposited by customers on security transactions and derivative assets designated as hedging instruments.
- (4) Excludes certain investments valued at net asset value of real estate funds and private equity funds, whose fair values at March 31, 2017 were ¥41 million, and ¥119 million, respectively, and those at March 31, 2018 were nil, and ¥35 million, respectively. There was no amount of unfunded commitments related to these real estate funds and private equity funds at March 31, 2017 and 2018.
- (5) Includes other short-term borrowings, long-term debt, bifurcated embedded derivatives carried at fair value and derivative liabilities designated as hedging instruments.

**Transfers Between Level 1 and Level 2**

During the fiscal years ended March 31, 2017 and 2018, the transfers between Level 1 and Level 2 were as follows:

	2017		2018	
	Transfers out of Level 1 into Level 2 <sup>(1)</sup>	Transfers out of Level 2 into Level 1 <sup>(1)</sup>	Transfers out of Level 1 into Level 2 <sup>(1)</sup>	Transfers out of Level 2 into Level 1 <sup>(1)</sup>
	(in millions)			
<b>Assets</b>				
Trading account assets:				
Trading Securities				
Debt securities				
Foreign governments and official institutions bonds . . . . .	¥ —	¥ —	¥ 6,176	¥ —
Trading derivative assets				
Equity contracts . . . . .	—	—	26,781 <sup>(2)</sup>	—
Investment securities:				
Available-for-sale securities				
Marketable equity securities . . . .	22,578	27,807	8,022	5,566
<b>Liabilities</b>				
Trading account liabilities:				
Trading derivative liabilities				
Equity contracts . . . . .	—	—	31,341 <sup>(2)</sup>	—

Notes:

- (1) The transfers between level 1 and 2 occurred during the first-half of the fiscal year are assumed to have occurred at the beginning of the first-half year, and the transfers occurred during the second-half of the fiscal year are assumed to have occurred at the beginning of the second-half year.
- (2) Transfer out of Level 1 into Level 2 for trading derivative assets and trading derivative liabilities were caused by the adoption of valuation techniques instead of quoted prices which were not obtained at the end of the period due to the reduction of activities in the market.

In general, the transfers from Level 1 into Level 2 comprised of securities whose fair values were measured at quoted prices in active markets at the beginning of the period but such quoted prices were no longer available at the end of the period. The transfers from Level 2 into Level 1 comprised of securities for which quoted prices in active markets became available at the end of the period even though such quoted prices were not available at the beginning of the period.

**Changes in Level 3 Recurring Fair Value Measurements**

The following tables present a reconciliation of the assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the fiscal years ended March 31, 2017 and

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2018. The determination to classify a financial instrument within Level 3 is based upon the significance of the unobservable inputs to overall fair value measurement. However, Level 3 financial instruments typically include, in addition to the unobservable or Level 3 input, observable inputs (inputs that are actively quoted and can be validated to external sources). Accordingly, the gains and losses in the tables below include changes in fair value due in part to observable inputs used in the valuation techniques.

	March 31, 2016	Total gains (losses) for the period		Purchases	Issues	Sales	Settlements	Transfers into Level 3 <sup>(5)</sup>	Transfers out of Level 3 <sup>(5)</sup>	March 31, 2017	Change in unrealized gains (losses) included in earnings for assets and liabilities still held at March 31, 2017
		Included in earnings	Included in other comprehensive income								
(in millions)											
<b>Assets</b>											
Trading account assets:											
Trading securities <sup>(1)</sup>	¥ 879,946	¥ (3,062) <sup>(2)</sup>	¥ —	¥375,549	¥ —	¥(143,806)	¥(315,002)	¥58,409	¥(52,541)	¥ 799,493	¥ 8,227 <sup>(2)</sup>
Debt securities											
Japanese national government and Japanese government agency bonds											
	—	(1,209)	—	—	—	—	(10,106)	11,315	—	—	—
Japanese prefectural and municipal bonds											
	2,467	84	—	—	—	(2,551)	—	—	—	—	—
Foreign governments and official institutions bonds											
	57,470	(5,273)	—	49,631	—	(49,342)	(50,638)	—	(12)	1,836	83
Corporate bonds											
	98,236	(2,783)	—	2,802	—	(6,659)	(60,640)	47,094 <sup>(6)</sup>	(52,529) <sup>(6)</sup>	25,521	107
Residential mortgage-backed securities											
	23,540	(5,036)	—	38,086	—	—	(8,676)	—	—	47,914	(4,304)
Asset-backed securities											
	630,247	9,437	—	281,792	—	(85,254)	(181,408)	—	—	654,814	11,761
Other debt securities											
	35,944	(392)	—	—	—	—	—	—	—	35,552	(393)
Equity securities											
	32,042	2,110	—	3,238	—	—	(3,534)	—	—	33,856	973
Trading derivatives—net											
	31,254	(2,305) <sup>(2)</sup>	(847)	1,274	(2,968)	—	(13,573)	31,839	(7,429)	37,245	(7,768) <sup>(2)</sup>
Interest rate contracts—net											
	38,213	(1,942)	(457)	—	(2)	—	(6,704)	4,170	(4,727)	28,551	(909)
Foreign exchange contracts—net											
	1,235	(14,291)	15	524	(20)	—	1,035	29,126	(2,766)	14,858	(12,420)
Equity contracts—net											
	(7,915)	12,917	(376)	147	(1,529)	—	(8,155)	(1,465)	64	(6,312)	3,572
Commodity contracts—net											
	(345)	1,397	(12)	603	(1,417)	—	144	—	—	370	2,050
Credit derivatives—net											
	66	(386)	(17)	—	—	—	107	8	—	(222)	(61)
Investment securities:											
Available-for-sale securities											
Debt securities											
Foreign governments and official institutions bonds											
	20,941	—	(1,099)	999	—	—	(742)	—	—	20,099	—
Corporate bonds											
	23,595	22	(463)	26,222	—	(268)	(6,086)	6,835 <sup>(6)</sup>	(12,925) <sup>(6)</sup>	36,932	(419)
Residential mortgage-backed securities											
	15	—	—	—	—	—	—	—	—	15	—
Commercial mortgage-backed securities											
	3,764	—	(282)	—	—	—	(511)	—	—	2,971	—
Asset-backed securities											
	158,281	(3,526)	(26,651)	250,156	—	—	(259,970)	—	(1,371)	116,919	—
Other debt securities											
	168,678	—	(6,587)	23,388	—	—	(24,889)	—	—	160,590	—
Other investment securities											
	24,689	2,432 <sup>(4)</sup>	—	4,012	—	(4,662)	(110)	—	(69)	26,292	(1,270) <sup>(4)</sup>
Others											
	846	280 <sup>(4)</sup>	111	1,230	—	(32)	—	1,415	—	3,850	131 <sup>(4)</sup>
Total	¥1,312,009	¥ (6,159)	¥(35,818)	¥682,830	¥(2,968)	¥(148,768)	¥(620,883)	¥98,498	¥(74,335)	¥1,204,406	¥ (1,099)
<b>Liabilities</b>											
Others	¥ (9,821)	¥(24,383) <sup>(4)</sup>	¥ 17,155	¥ —	¥ 4,062	¥ —	¥ (30,214)	¥59,635	¥ (2,458)	¥ 28,432	¥(15,362) <sup>(4)</sup>
Total	¥ (9,821)	¥(24,383)	¥ 17,155	¥ —	¥ 4,062	¥ —	¥ (30,214)	¥59,635	¥ (2,458)	¥ 28,432	¥(15,362)

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	Total gains (losses) for the period		Purchases	Issues	Sales	Settlements	Transfers into Level 3 <sup>(5)</sup>	Transfers out of Level 3 <sup>(5)</sup>	March 31, 2018	Change in unrealized gains (losses) included in earnings for assets and liabilities still held at March 31, 2018	
	March 31, 2017	Included in earnings									Included in other comprehensive income
(in millions)											
<b>Assets</b>											
Trading account assets:											
Trading securities <sup>(1)</sup> . . . . .	¥ 799,493	¥(25,944) <sup>(2)</sup>	¥ —	¥ 702,402	¥ —	¥(281,927)	¥(376,333)	¥34,986	¥(25,184)	¥ 827,493	¥(26,391) <sup>(2)</sup>
Debt securities											
Japanese national government and Japanese government agency bonds . . . . .											
	—	(4)	—	1,079	—	—	—	—	(1,075)	—	—
Foreign governments and official institutions bonds . . . . .											
	1,836	720	—	107,685	—	(107,157)	(1,064)	—	(973)	1,047	(2)
Corporate bonds . . . . .											
	25,521	(6,424)	—	3,170	—	(533)	(10,391)	34,885 <sup>(6)</sup>	(23,136) <sup>(6)</sup>	23,092	(6,377)
Residential mortgage-backed securities . . . . .											
	47,914	1,014	—	—	—	—	(7,787)	—	—	41,141	829
Asset-backed securities . . . . .											
	654,814	(21,124)	—	576,668	—	(172,324)	(353,397)	—	—	684,637	(19,387)
Other debt securities . . . . .											
	35,552	(2,102)	—	—	—	—	—	—	—	33,450	(2,102)
Equity securities . . . . .											
	33,856	1,976	—	13,800	—	(1,913)	(3,694)	101	—	44,126	648
Trading derivatives—net . . . . .											
Interest rate contracts—net . . . . .	37,245	3,912 <sup>(2)</sup>	520	1,367	(1,518)	—	(23,699)	(466)	(5,242)	12,119	(9,055) <sup>(2)</sup>
Foreign exchange contracts—net . . . . .	28,551	(4,730)	(42)	—	—	—	(8,810)	(2,433)	2,060	14,596	(3,908)
Equity contracts—net . . . . .	14,858	(2,434)	294	26	—	—	(67)	1,996	(7,937)	6,736	1,713
Commodity contracts—net . . . . .	(6,312)	12,518	272	687	(1,154)	—	(17,302)	(29)	635	(10,685)	(5,446)
Credit derivatives—net . . . . .	370	30	(4)	654	(364)	—	(3)	—	—	683	116
	(222)	(1,472)	—	—	—	—	2,483	—	—	789	(1,530)
Investment securities:											
Available-for-sale securities . . . . .	337,526	4,831 <sup>(3)</sup>	(15,344)	319,092	—	(163)	(264,616)	93	(30,759)	350,660	(167) <sup>(3)</sup>
Debt securities											
Foreign governments and official institutions bonds . . . . .											
	20,099	—	(186)	621	—	—	(342)	—	—	20,192	—
Corporate bonds . . . . .											
	36,932	150	(43)	521	—	(52)	(805)	93 <sup>(6)</sup>	(30,759) <sup>(6)</sup>	6,037	(167)
Residential mortgage-backed securities . . . . .											
	15	—	—	—	—	—	—	—	—	15	—
Commercial mortgage-backed securities . . . . .											
	2,971	—	4	—	—	—	(545)	—	—	2,430	—
Asset-backed securities . . . . .											
	116,919	4,681	(9,605)	306,680	—	—	(257,503)	—	—	161,172	—
Other debt securities . . . . .											
	160,590	—	(5,514)	11,270	—	(111)	(5,421)	—	—	160,814	—
Other investment securities . . . . .											
	26,292	1,640 <sup>(7)</sup>	—	3,930	—	(2,782)	(7)	—	(714)	28,359	300 <sup>(7)</sup>
Others . . . . .	3,850	(426) <sup>(8)</sup>	(37)	5,584	—	(311)	—	—	—	8,660	(592) <sup>(8)</sup>
Total . . . . .	¥1,204,406	¥(15,987)	¥(14,861)	¥1,032,375	¥(1,518)	¥(285,183)	¥(664,655)	¥34,613	¥(61,899)	¥1,227,291	¥(35,905)
<b>Liabilities</b>											
Others . . . . .	28,432	4,508 <sup>(4)</sup>	(2,005)	—	6,601	—	(27,824)	1,056	(31,290)	(25,528)	35,010 <sup>(4)</sup>
Total . . . . .	¥ 28,432	¥ 4,508	¥ (2,005)	¥ —	¥ 6,601	¥ —	¥ (27,824)	¥ 1,056	¥(31,290)	¥ (25,528)	¥ 35,010

Notes:

- (1) Includes Trading securities measured under the fair value option.
- (2) Included in Trading account profits (losses)—net and in Foreign exchange gains (losses)—net.

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- (3) Included in Investment securities gains—net.  
(4) Included in Trading account profits (losses)—net.  
(5) All transfers out of Level 3 or into Level 3 were assumed to have occurred at the beginning of the first-half or the second-half of the fiscal year.  
(6) Transfers into (out of) Level 3 for corporate bonds were caused by the decrease (increase) in liquidity or the availability of the quoted prices provided by third-party vendors.  
(7) Included in Investment securities gains—net.  
(8) Included in Other non-interest income.

***Quantitative Information about Level 3 Fair Value Measurements***

The following tables present information on the valuation techniques, significant unobservable inputs and their ranges for each major category of assets and liabilities measured at fair value on a recurring basis and classified in Level 3:

<u>At March 31, 2017</u>	<u>Fair value<sup>(1)</sup></u> <u>(in millions)</u>	<u>Valuation technique</u>	<u>Significant unobservable inputs</u>	<u>Range</u>	<u>Weighted Average<sup>(2)</sup></u>
<b>Assets</b>					
Trading securities and Investment securities:					
Foreign governments and official institutions bonds . . .	¥ 20,099	Return on equity method	Probability of default Recovery rate	0.1%~0.4% 60.0%~70.0%	0.3% 67.0%
Corporate bonds . . . . .	19,313	Discounted cash flow	Market-required return on capital Probability of default Recovery rate	8.0%~10.0% 4.4%~8.8% 41.0%~81.2%	9.0% 5.6% 42.8%
Residential mortgage- backed securities, Commercial mortgage-backed securities and Asset- backed securities . . . .	108,132	Discounted cash flow	Probability of default Recovery rate	1.2%~5.3% 60.0%~76.0%	4.3% 64.7%
	650,814	Internal model <sup>(4)</sup>	Asset correlations Discount factor Prepayment rate Probability of default Recovery rate	7.0%~11.0% 1.2%~1.4% 9.5%~29.5% 0.0%~83.1% 52.8%~80.9%	11.0% 1.2% 29.3% — <sup>(3)</sup> 80.6%
Other debt securities . . .	35,552	Discounted cash flow	Liquidity premium	0.5%~1.0%	0.6%
	160,479	Return on equity method	Probability of default Recovery rate Market-required return on capital	0.0%~25.0% 40.0%~90.0% 8.0%~10.0%	0.3% 71.1% 9.7%



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<u>At March 31, 2017</u>	<u>Fair value<sup>(1)</sup></u> <u>(in millions)</u>	<u>Valuation technique</u>	<u>Significant unobservable inputs</u>	<u>Range</u>	
Trading derivatives—net:					
Interest rate contracts—net . . . .	28,297	Option model	Probability of default	0.1%~13.2%	
			Correlation between interest rates	36.0%~100.0%	
			Correlation between interest rate and foreign exchange rate	20.4%~48.8%	
			Recovery rate	41.0%~48.0%	
			Volatility	21.6%~100.0%	
Foreign exchange contracts—net . . . . .	14,890	Option model	Probability of default	0.1%~8.7%	
			Correlation between interest rates	40.3%~74.0%	
			Correlation between interest rate and foreign exchange rate	46.4%~50.7%	
			Correlation between underlying assets	85.0%	
			Recovery rate	41.0%~48.0%	
			Volatility	16.8%~20.6%	
Equity contracts—net . . . . .	(6,659)	Option model	Correlation between interest rate and equity	33.3%~39.0%	
			Correlation between foreign exchange rate and equity	3.0%~69.2%	
			Correlation between equities	25.5%~81.3%	
			Volatility	29.8%~127.4%	
<u>At March 31, 2018</u>	<u>Fair value<sup>(1)</sup></u> <u>(in millions)</u>	<u>Valuation technique</u>	<u>Significant unobservable inputs</u>	<u>Range</u>	<u>Weighted Average<sup>(2)</sup></u>
<b>Assets</b>					
Trading securities and					
Investment securities:					
Foreign governments and official institutions					
bonds . . . . .	¥ 20,192	Return on equity method	Probability of default	0.0%~0.4%	0.2%
			Recovery rate	60.0%~70.0%	66.7%
			Market-required return on capital	8.0%~10.0%	9.5%
Corporate bonds . . . . .	267	Discounted cash flow	Recovery rate	70.8%	70.8%
Residential mortgage-backed securities,					
Commercial mortgage-backed securities and					
Asset-backed securities . . . . .					
	110,536	Discounted cash flow	Probability of default	1.2%~5.3%	4.5%
			Recovery rate	60.0%~76.0%	66.3%
	684,586	Internal model <sup>(4)</sup>	Asset correlations	9.0%	9.0%
			Discount factor	1.0%	1.0%
			Prepayment rate	37.2%	37.2%
			Probability of default	0.0%~91.3%	— <sup>(3)</sup>
			Recovery rate	65.3%	65.3%
Other debt securities . . . . .	33,450	Discounted cash flow	Liquidity premium	0.5%~2.4%	0.8%
	149,759	Return on equity method	Probability of default	0.0%~25.0%	0.3%
			Recovery rate	40.0%~90.0%	72.5%
			Market-required return on capital	8.0%~10.0%	9.7%

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<u>At March 31, 2018</u>	<u>Fair value<sup>(1)</sup></u> <u>(in millions)</u>	<u>Valuation technique</u>	<u>Significant unobservable inputs</u>	<u>Range</u>
Trading derivatives—net:				
Interest rate contracts—net . . . .	14,460	Option model	Probability of default	0.0%~12.5%
			Correlation between interest rates	34.1%~52.7%
			Correlation between interest rate and foreign exchange rate	19.7%~50.4%
			Recovery rate	41.0%~46.0%
			Volatility	13.4%~100.0%
			Probability of prepayment	100.0%
Foreign exchange contracts—net . . . . .	6,779	Option model	Probability of default	0.0%~12.5%
			Correlation between interest rates	40.3%~74.0%
			Correlation between interest rate and foreign exchange rate	28.1%~50.7%
			Recovery rate	41.0%~46.0%
			Correlation between underlying assets	85.0%
			Volatility	10.3%~16.2%
Equity contracts—net . . . . .	(16,600)	Option model	Correlation between interest rate and equity	37.1%~39.0%
			Correlation between foreign exchange rate and equity	7.0%~65.2%
			Correlation between equities	20.6%~81.7%
			Correlation between underlying assets	76.0%
	6,528	Discounted cash flow	Term of litigation	2.0years

Notes:

- (1) The fair value as of March 31, 2017 and 2018 excludes the fair value of investments valued using vendor prices.
- (2) Weighted averages are calculated by weighing each input by the relative fair value of the respective financial instruments.
- (3) See “Probability of default” in “Sensitivity to and range of unobservable inputs.”
- (4) For further detail of Internal model, refer to the last paragraph of “Trading Account Assets and Liabilities—Trading Account Securities.”

***Sensitivity to and range of unobservable inputs***

***Probability of default***—Probability of default is an estimate of the likelihood that the default event will occur and the MUFG Group will be unable to collect the contractual amounts. A significant increase (decrease) in the default rate would result in a significant decrease (increase) in a fair value through a decrease (increase) in the estimated cash flows. Probability of default used in internal model of Residential mortgage-backed securities, Commercial mortgage-backed securities and Asset-backed securities represents that of underlying assets, whereas probability of default used in other valuation techniques represents the counterparty default risks, determined through the MUFG Group’s credit rating system.

The wide range of probability of default used in the internal model of Residential mortgage-backed securities, Commercial mortgage-backed securities and Asset-backed securities is mainly caused by Asset-backed securities. Asset-backed securities have a large number of underlying loans, mainly corporate loans, in several industries. The MUFG Group primarily makes investments in the senior tranches of such securities, with no investments in the equity portion. Thus, the MUFG Group’s investments have higher priority of payments than mezzanine and equity and even if some of underlying loans become default, the MUFG Group may still be able to receive the full contractual payments.

For derivative contracts, the MUFG Group holds positions with a large number of counterparties with various credit quality, which results in wider range of probability of default. However, the majority of counterparties have higher ratings, categorized as “Normal” in the internal credit rating system, the inputs used to estimate fair value of derivative contracts are concentrated in the lower end of the range.

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**Discount factor and Liquidity premium**—Discount factor and liquidity premium are adjustments to discount rates to reflect uncertainty of cash flows and liquidity of the instruments. When recent prices of similar instruments are unobservable in inactive or less active markets, discount rates are adjusted based on the facts and circumstances of the markets including the availability of quotes and the time since the latest available quotes. A significant increase (decrease) in discount rate would result in a significant decrease (increase) in a fair value.

**Recovery rate and Prepayment rate**—Recovery rate is the proportion of the total outstanding balance of a bond or loan that is expected to be collected in a liquidation scenario. For many debt securities (such as asset-backed securities), there is no directly observable market input for recovery, but indications of recovery levels are available from third-party pricing services. The assumed recovery of a security may differ from its actual recovery that will be observable in the future. Prepayment rate represents the proportion of principal that is expected to be paid prematurely in each period on a security or pool of securities. Prepayment rates change the future cash flows for the investor and thereby change the fair value of the security. Recovery rate and prepayment rate would affect estimation of future cash flows to a certain extent and changes in these inputs could result in a significant increase or decrease in fair value.

**Volatility**—Volatility is a measure of the speed and severity of market price changes and is a key factor in pricing. Typically, instruments can become more expensive if volatility increases. A significant increase (decrease) in volatility would cause a significant increase (decrease) in the value of an option resulting in the significant increase (decrease) in fair value.

The level of volatility generally depends on the tenor of the underlying instrument and the strike price or level defined in the contract. Volatilities for certain combinations of tenor and strike price are not observable. The volatility inputs used to estimate fair value of interest rate contracts are distributed throughout the range.

**Correlation**—Correlation is a measure of the relationship between the movements of two variables (i.e. how the change in one variable influences a change in the other variables). A variety of correlation-related assumptions are required for a wide range of instruments including foreign governments and official institutions bonds, asset-backed securities, corporate bonds, derivatives and certain other instruments. In most cases, correlations used are not observable in the market and must be estimated using historical information. Changes in correlation inputs can have a major impact, favorable or unfavorable, on the value of an instrument, depending on its nature. In addition, the wide range of correlation inputs are primarily due to the complex and unique nature of these instruments. There are many different types of correlation inputs, including cross-asset correlation (such as correlation between interest rate and equity), and same-asset correlation (such as correlation between interest rates). Correlation levels are highly dependent on market conditions and could have a relatively wide range of levels within or across asset classes.

For interest rate contracts and foreign exchange contracts, the diversity in the portfolio held by the MUFG Group is reflected in wide ranges of correlation, as the fair values of transactions with a variety of currencies and tenors are determined using several foreign exchange and interest rate curves. For equity derivative contracts, the wide range of correlation between interest rate and equity is primarily due to the large number of correlation pairs with different maturities of contracts. For credit derivative contracts, the wide range of correlation between underlying assets is primarily due to factors such as reference assets with different maturities, capital structure subordinations, and credit quality.

**Term of litigation**—Term of litigation is the estimated period until the resolution of a certain litigation matter that relates to an issuer's restricted shares ("Covered Litigation") that the MUFG Group purchased, which is referenced in certain swap transactions.

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These swaps are valued using a discounted cash flow methodology and are dependent upon the final resolution of the Covered Litigation. The settlement timing of the Covered Litigation is not observable in the market, therefore the estimated term is classified as a level 3 input.

The restricted shares which the MUFG Group purchased will be convertible to listed shares of the issuer at the end of the Covered Litigation. The restricted shares will be diluted dependent upon the settlement amount of the Covered Litigation and the dilution of the restricted shares is accomplished through an adjustment to the conversion rate of the restricted shares. In order to hedge the reduction of the conversion rate, the MUFG Group entered into certain swaps with the seller which references the conversion rate. The value generated by these trades is subject to the ultimate term of the issuer's litigation, subject to a minimum term referenced within the trade contracts.

**Market-required return on capital**—Market-required return on capital is the return on capital expected by the secondary market. A significant increase (decrease) in the market-required return on capital would result in a significant decrease (increase) in a fair value of a financial asset.

***Valuation Process for Level 3 Fair Value Measurements***

The MUFG Group establishes valuation policies and procedures for measuring fair value, for which the risk management departments ensure that the valuation techniques used are logical, appropriate and consistent with market information. The financial accounting offices ensure that the valuation techniques are consistent with the accounting policies.

In accordance with the valuation policies and procedures, fair value is determined by the risk management departments or similar sections that are independent of the front offices in order to ensure objectivity and validity of measuring fair value. An analysis performed on the determined fair value is periodically reported to management.

When valuation techniques are used to measure fair value, the valuation techniques are required to be pre-approved by the risk management departments. If the risk management departments determine that the techniques are not consistent with market practice, the valuation techniques are modified as necessary.

Fair value measurements are verified for reasonableness by the risk management departments which are responsible to perform an analytical review of the fair value measurements which includes a comparison with market trends and information.

For non-binding prices obtained from independent third parties, internal price verification procedures are performed by the risk management departments. Such verification procedures include comparison of pricing sources and analysis of variances beyond certain thresholds.

Unobservable inputs used in a Level 3 fair value measurement are internally estimated by the risk management departments based upon the market information such as observable inputs. The reasonableness of the inputs is validated by other risk management departments by a comparison analysis between the market value of financial instruments using such Level 3 inputs and the internally estimated fair value, to the extent necessary.

***Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis***

Certain assets and liabilities may be measured at fair value on a nonrecurring basis in periods subsequent to their initial recognition. These assets are subject to fair value adjustments that result from the application of the

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lower of cost or fair value accounting or write-downs of individual assets. The following table presents the carrying value of assets measured at fair value on a nonrecurring basis by level within the fair value hierarchy as of March 31, 2017 and 2018:

	2017				2018			
	Level 1	Level 2	Level 3	Total carrying value	Level 1	Level 2	Level 3	Total carrying value
	(in millions)							
<b>Assets</b>								
Investment securities <sup>(1)</sup> . . . . .	¥ —	¥ —	¥ 2,224	¥ 2,224	¥ —	¥ —	¥ 1,984	¥ 1,984
Loans . . . . .	4,941	9,020	219,963	233,924	3,458	8,329	239,653	251,440
Loans held for sale . . . . .	—	—	6,480	6,480	—	—	22,835	22,835
Collateral dependent loans . . . . .	4,941	9,020	213,483	227,444	3,458	8,329	216,818	228,605
Premises and equipment . . . . .	—	—	3,507	3,507	—	—	34,326	34,326
Intangible assets . . . . .	—	—	1,652	1,652	—	—	9,402	9,402
Goodwill . . . . .	—	—	4,869	4,869	—	—	—	—
Other assets . . . . .	—	—	6,872	6,872	92,223	—	6,196	98,419
Investments in equity method investees <sup>(1)</sup> . . . . .	—	—	—	—	92,223	—	—	92,223
Other . . . . .	—	—	6,872	6,872	—	—	6,196	6,196
Total . . . . .	¥4,941	¥9,020	¥239,087	¥253,048	¥95,681	¥8,329	¥291,561	¥395,571

Note:

- (1) Excludes certain investments valued at net asset value of ¥15,884 million and ¥8,443 million at March 31, 2017 and 2018, respectively. The unfunded commitments related to these investments are ¥5,359 million and ¥1,544 million at March 31, 2017 and 2018, respectively. These investments are in private equity funds and limited partnerships.

The following table presents losses recorded as a result of changes in the fair value of assets measured at fair value on a nonrecurring basis for the fiscal years ended March 31, 2017 and 2018:

	2017	2018
	(in millions)	
Investment securities . . . . .	¥ 1,016	¥ 1,423
Loans . . . . .	63,581	47,352
Loans held for sale . . . . .	55	990
Collateral dependent loans . . . . .	63,526	46,362
Premises and equipment . . . . .	6,798	39,361
Intangible assets . . . . .	5,803	21,900
Goodwill . . . . .	6,638	—
Other assets . . . . .	6,561	30,852
Investments in equity method investees . . . . .	5,465	29,442
Other . . . . .	1,096	1,410
Total . . . . .	¥90,397	¥140,888

Investment securities primarily include impaired cost-method investments which were written down to fair value during the period. The fair values are determined based on recent net asset value and projected future cash flows of investees.

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Loans include loans held for sale and collateral dependent loans. Loans held for sale are recorded at the lower of cost or estimated fair value. The fair value of the loans held for sale is based on secondary market prices, recent transactions or discounted cash flows. These loans are principally classified in Level 3 of the fair value hierarchy, and when quoted prices are available but not traded actively, such loans held for sale are classified in Level 2 of the fair value hierarchy. Collateral dependent loans are measured at fair value of the underlying collateral. Collateral is comprised mainly of real estate and exchange-traded equity securities. The MUFG Group maintains an established process for internally determining the fair value of real estate, using the following valuation techniques and assumptions. Collateral dependent loans that are measured based on underlying real estate collateral are classified in Level 3 of the fair value hierarchy.

- *Replacement cost approach.* The replacement cost approach is primarily used for buildings and the land they are built on. This approach calculates the fair value of the collateral using the replacement cost of the property as of the valuation date. Replacement cost tables and useful life tables used for this approach are developed by subsidiaries of MUFG.
- *Sales comparison approach.* The sales comparison approach is mainly used for land. The fair value of the collateral located in Japan is based on Japanese government official land prices and standard land prices, considering the results of comparison analysis between the official roadside value which is used for tax purposes and the related government official land and standard land prices.
- *Income approach.* The income approach is, as a general rule, applied to all rental properties based on the highest and best use concept. This approach calculates the fair value of the collateral using expected future cash flows. In this approach, the expected annual net operating income is discounted using the related capitalization yield. The significant assumptions within the income approach are the expected annual net operating income and capitalization yield. The expected annual net operating income is estimated based on rental income of the property. The capitalization yield is determined based on the location and use of the property by subsidiaries of MUFG. The capitalization yield may be adjusted to reflect the trends in locations, occupancy rates and rent level and other factors.

Premises and equipment consist of those assets which were written down to fair value. The fair values are determined based on prices obtained from an appraiser or discounted cash flows. These impaired premises and equipment are classified as Level 3 of the fair value hierarchy.

Intangible assets consist of those assets which were written down to fair value. The fair values are determined based on discounted cash flows. These impaired intangible assets are classified as Level 3 of the fair value hierarchy.

Other assets mainly consist of investments in equity method investees which were written down to fair value due to impairment. When investments in equity method investees are marketable equity securities, the fair values are determined based on quoted prices. Impaired investments in equity method investees which are marketable equity securities are classified in either Level 1 or Level 2 of the fair value hierarchy. When investments in equity method investees are nonmarketable equity securities, the fair values are determined using the same methodologies as those for impaired nonmarketable equity securities described above. Impaired investments in equity method investees which are nonmarketable equity securities are classified in Level 3 of the fair value hierarchy.

***Fair Value Option***

The MUFG Group elected the fair value option for foreign currency-denominated debt securities and equity securities held by MUFG Bank and Mitsubishi UFJ Trust and Banking. The election was made to mitigate

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accounting mismatches related to fluctuations of foreign exchange rates by allowing the gains and losses on translation of these securities to be included in current earnings. Had the fair value option not been elected, the gains and losses on translation of these securities would have been reflected in OCI, while the gains and losses on translation of foreign currency-denominated financial liabilities would have been included in current earnings.

The MUFG Group also elected the fair value option for certain financial instruments held by Mitsubishi UFJ Securities Holdings's foreign subsidiaries because those financial instruments are managed on a fair value basis, and these exposures are considered to be trading-related positions. These financial assets are included in Other assets. These financial liabilities are mainly included in Other short-term borrowings and Long-term debt. Unrealized gains and losses on such financial instruments are recognized in the accompanying consolidated statements of income.

The following table presents the gains or losses recorded for the fiscal years ended March 31, 2016, 2017 and 2018 related to the eligible instruments for which the MUFG Group elected the fair value option:

	2016			2017			2018		
	Trading account profits (losses)	Foreign exchange gains (losses)	Total changes in fair value	Trading account profits (losses)	Foreign exchange gains (losses)	Total changes in fair value	Trading account profits (losses)	Foreign exchange gains (losses)	Total changes in fair value
(in millions)									
Financial assets:									
Trading account securities <sup>(1)</sup> . . . .	¥(157,814)	¥(1,058,046)	¥(1,215,860)	¥(464,947)	¥(407,439)	¥(872,386)	¥(148,242)	¥(267,507)	¥(415,749)
Other assets . . . . .	3	—	3	—	—	—	—	—	—
Total . . . . .	<u>¥(157,811)</u>	<u>¥(1,058,046)</u>	<u>¥(1,215,857)</u>	<u>¥(464,947)</u>	<u>¥(407,439)</u>	<u>¥(872,386)</u>	<u>¥(148,242)</u>	<u>¥(267,507)</u>	<u>¥(415,749)</u>
Financial liabilities:									
Other short-term borrowings <sup>(2)</sup> . . . . .									
Long-term debt <sup>(2)</sup> . . . . .	10,443	—	10,443	(93,464)	—	(93,464)	7,554	—	7,554
Total . . . . .	<u>¥ 13,865</u>	<u>¥ —</u>	<u>¥ 13,865</u>	<u>¥(103,844)</u>	<u>¥ —</u>	<u>¥(103,844)</u>	<u>¥ 13,456</u>	<u>¥ —</u>	<u>¥ 13,456</u>

Notes:

- (1) Excludes Danamon's equity securities. See Note 2 for reference.
- (2) Change in value attributable to the instrument-specific credit risk related to those financial liabilities are not material.

The following table presents the differences between the aggregate fair value and the aggregate remaining contractual principal balance outstanding as of March 31, 2017 and 2018 for long-term debt instruments for which the fair value option has been elected:

	2017		2018			
	Remaining aggregate contractual amounts outstanding	Fair value	Fair value over (under) remaining aggregate contractual amounts outstanding	Remaining aggregate contractual amounts outstanding	Fair value	Fair value over (under) remaining aggregate contractual amounts outstanding
(in millions)						
Financial liabilities:						
Long-term debt . . . . .	¥404,510	¥377,423	¥(27,087)	¥347,002	¥333,985	¥(13,017)
Total . . . . .	<u>¥404,510</u>	<u>¥377,423</u>	<u>¥(27,087)</u>	<u>¥347,002</u>	<u>¥333,985</u>	<u>¥(13,017)</u>

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Interest income and expense related to the assets and liabilities for which the fair value option is elected are measured based on the contractual rates and dividend income related to these assets are recognized when the shareholder right to receive the dividend is established. These interest income and expense and dividend income are reported in the accompanying consolidated statements of income as either interest income or expense, depending on the nature of the related asset or liability.

***Estimated Fair Value of Financial Instruments***

The following is a summary of carrying amounts and estimated fair values by level within the fair value hierarchy of financial instruments which are not carried at fair value on a recurring basis in the accompanying consolidated balance sheets as of March 31, 2017 and 2018:

<u>At March 31, 2017</u>	<u>Carrying amount</u>	<u>Estimated fair value</u>			
		<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
		(in billions)			
<b>Financial assets:</b>					
Cash and due from banks . . . . .	¥ 25,683	¥ 25,683	¥25,683	¥ —	¥ —
Interest-earning deposits in other banks . . . . .	38,327	38,327	—	38,327	—
Call loans and funds sold . . . . .	704	704	—	704	—
Receivables under resale agreements . . . . .	8,188	8,188	—	8,188	—
Receivables under securities borrowing transactions . . . . .	11,003	11,003	—	11,003	—
Investment securities <sup>(1)(2)</sup> . . . . .	3,688	3,808	1,206	1,144	1,458
Loans, net of allowance for credit losses <sup>(3)</sup> . . . . .	117,033	118,765	5	257	118,503
Other financial assets <sup>(4)</sup> . . . . .	5,827	5,827	—	5,827	—
<b>Financial liabilities:</b>					
<b>Deposits</b>					
Non-interest-bearing . . . . .	¥ 29,486	¥ 29,486	¥ —	¥ 29,486	¥ —
Interest-bearing . . . . .	160,928	160,948	—	160,948	—
Total deposits . . . . .	190,414	190,434	—	190,434	—
Call money and funds purchased . . . . .	1,975	1,975	—	1,975	—
Payables under repurchase agreements <sup>(5)</sup> . . . . .	17,693	17,693	—	17,693	—
Payables under securities lending transactions . . . . .	5,549	5,549	—	5,549	—
Due to trust account . . . . .	3,335	3,335	—	3,335	—
Other short-term borrowings . . . . .	7,857	7,857	—	7,857	—
Long-term debt <sup>(5)</sup> . . . . .	25,863	26,015	—	26,015	—
Other financial liabilities . . . . .	6,094	6,094	—	6,094	—



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<u>At March 31, 2018</u>	<u>Carrying amount</u>	<u>Estimated fair value</u>			
		<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
			(in billions)		
<b>Financial assets:</b>					
Cash and due from banks . . . . .	¥ 32,648	¥ 32,648	¥32,648	¥ —	¥ —
Interest-earning deposits in other banks . . . . .	43,210	43,210	—	43,210	—
Call loans and funds sold . . . . .	896	896	—	896	—
Receivables under resale agreements . . . . .	5,726	5,726	—	5,726	—
Receivables under securities borrowing transactions . . . . .	9,269	9,269	—	9,269	—
Investment securities <sup>(1)(2)</sup> . . . . .	3,684	3,797	1,197	1,051	1,549
Loans, net of allowance for credit losses <sup>(3)</sup> . . . . .	116,272	117,753	3	330	117,420
Other financial assets <sup>(4)</sup> . . . . .	7,000	7,000	—	7,000	—
<b>Financial liabilities:</b>					
<b>Deposits</b>					
Non-interest-bearing . . . . .	¥ 29,862	¥ 29,862	¥ —	¥ 29,862	¥ —
Interest-bearing . . . . .	165,831	165,825	—	165,825	—
Total deposits . . . . .	195,693	195,687	—	195,687	—
Call money and funds purchased . . . . .	2,453	2,453	—	2,453	—
Payables under repurchase agreements . . . . .	18,135	18,135	—	18,135	—
Payables under securities lending transactions . . . . .	8,170	8,170	—	8,170	—
Due to trust account . . . . .	3,386	3,386	—	3,386	—
Other short-term borrowings . . . . .	6,617	6,617	—	6,617	—
Long-term debt . . . . .	26,861	26,919	—	26,919	—
Other financial liabilities . . . . .	6,642	6,642	—	6,642	—

Notes:

- (1) Includes impaired securities measured at fair value on a nonrecurring basis. Refer to “Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis” for the details of the level classification.
- (2) Excludes cost-method investments of ¥429 billion and ¥437 billion at March 31, 2017 and 2018, respectively, of which the MUFG Group did not estimate the fair value since it was not practical and no impairment indicators were identified. See Note 3 for the details of these cost-method investments.
- (3) Includes loans held for sale and collateral dependent loans measured at fair value on a nonrecurring basis. Refer to “Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis” for the details of the level classification.
- (4) Excludes investments in equity method investees of ¥2,200 billion and ¥2,219 billion at March 31, 2017 and 2018, respectively.
- (5) The table above reflects changes in presentation that were made to long-term repurchase agreements at March 31, 2017. See Note 1 for further information.

The following section describes the valuation techniques adopted by the MUFG Group to estimate fair values of financial instruments that are not recorded at fair value in the accompanying consolidated balance sheets.

**Cash and due from banks, Interest-earning deposits in other banks, Call loans and funds sold, Receivables under resale agreements and Receivable under securities borrowing transactions**—For cash and due from banks, interest-earning deposits in other banks, call loans and funds sold, receivables under resale agreements and receivable under securities borrowing transactions, the carrying amounts are a reasonable estimate of the fair values because of their short-term nature and limited credit risk.

**Investment securities**—The fair values of investment securities other than those classified as Available-for-sale or Held-to-maturity (i.e., nonmarketable equity securities) are not readily determinable as they do not have readily available quoted prices or secondary market prices. The fair values of certain nonmarketable

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equity securities, such as preferred stock convertible to marketable common stock issued by public companies, are determined by utilizing commonly accepted valuation techniques to derive a fair value using the present value of dividend cash flows and option prices. For option prices, the Trinomial Tree Method determines possible paths of future stock prices using a forward rate for a common stock, and the price is calculated by multiplying the possible paths of future stock prices by the expected cash flows generated from the probability of exercising options or upon exercising the options.

Inputs used in the valuation include but are not limited to stock price, volatility and credit spread. The valuation is performed on a quarterly basis. At the time of any sale, the MUFG Group generally separately calculates a valuation to be used in sales price negotiations with the counterparty. The price agreed between the MUFG Group and a counterparty is also used as a reference for validating the appropriateness of previous valuations of the investment. The MUFG Group performs periodic validation of the valuation techniques. Specifically, the sensitivity and appropriateness of the inputs are verified by using different valuation techniques employed by the MUFG Group. It is not practicable for the MUFG Group to estimate the fair value of other nonmarketable securities issued by non-public companies for which a quoted price is not available. For these securities, the MUFG Group is unable to estimate fair value without incurring undue cost because they comprise investments in numerous non-public companies and each investment represents an insignificant percentage relative to each company. Therefore, the above summary does not include the carrying amounts of such investment securities.

**Loans**—The fair value of loans is estimated by discounting expected future cash flows based on types of loans, internal ratings and possibility of prepayment using the discount rates which include adjustments to reflect the expectations about possible variations to the current market rates. For certain residential loans with variable interest rates provided to individual home owners, the carrying amount is presented as the fair value since such carrying amount approximates the fair value, unless the creditworthiness of the borrower has changed significantly since the loan origination. Where quoted prices or estimated fair values are available, primarily for loans to refinancing countries, loans held for sales and certain other foreign loans, the fair values are based on such quoted prices and estimated fair values, including secondary market prices. For receivables from bankrupt, virtually bankrupt, and likely to become bankrupt borrowers, fair value is estimated based mainly on the expected amount to be collected from collateral and guarantees. The carrying amount is presented as the fair value since the fair value approximates such carrying amount.

**Other financial assets**—The estimated fair values of other financial assets, which primarily include accrued interest receivable, customers' acceptance liabilities and accounts receivable, approximate their carrying amounts.

**Non-interest-bearing deposits, Call money and funds purchased, Payables under repurchase agreements and Payable under securities lending transactions**—For non-interest-bearing deposits, the amount payable on demand as of the consolidated balance sheet date (i.e., the carrying amount) is considered to be the fair value. For call money and funds purchased, payables under repurchase agreements and payable under securities lending transactions, the carrying amounts are reasonable estimate of the fair value because of their short-term nature and limited credit risk.

**Interest-bearing deposits**—For variable rate time deposits, the carrying amount is presented as the fair value because the market interest rate is reflected in such deposits within a short time period. Fixed rate time deposits are grouped by certain maturity lengths. The fair value of such deposits is estimated by discounting expected future cash flows using the discount rates that would be applied to newly accepted deposits.

**Due to trust account**—Since these are cash deposits with no maturity, the carrying amount is presented as the fair value as the fair value approximates such carrying amount.

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**Other short-term borrowings**—For most other short-term borrowings, the carrying amount is presented as the fair value since such carrying amount approximates the fair value because of their short-term nature and limited credit risk.

**Long-term debt**—The fair value of corporate bonds issued by the MUFG Group is determined based on quoted prices of those corporate bonds. The fair value of fixed rate corporate bonds without quoted prices is the present value of expected future cash flows from these borrowings, which is discounted at an interest rate generally applicable to similar fixed rate corporate bonds reflecting premium applicable to the MUFG Group. For variable rate corporate bonds without quoted prices, the carrying amount of such bonds is presented as the fair value since such carrying amount approximates the fair value. This is on the basis that the market interest rate is reflected in the fair value of such corporate bonds because such bond terms were set within a short time period and that there has been no significant impact on the fair value of those bonds.

**Other financial liabilities**—The estimated fair values of other financial liabilities, which primarily include accrued interest payable, bank acceptances, accounts payable and obligations under standby letters of credit and guarantees, approximate their carrying amounts. The fair values of obligations under standby letters of credit and guarantees are based on fees received or receivable by the MUFG Group.

The fair values of certain off-balance sheet financial instruments held for purposes other than trading, including commitments to extend credit and commercial letters of credit, are estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the credit quality. The aggregate fair value of such instruments at March 31, 2017 and 2018 was not material.

### **33. STOCK-BASED COMPENSATION**

The following describes the stock-based compensation plans of MUFG, MUFG Bank, Mitsubishi UFJ Trust and Banking, Mitsubishi UFJ Securities Holdings, Mitsubishi UFJ Morgan Stanley Securities and MUFG Americas Holdings.

***MUFG, MUFG Bank, Mitsubishi UFJ Trust and Banking, Mitsubishi UFJ Securities Holdings and Mitsubishi UFJ Morgan Stanley Securities***

On May 16, 2016, MUFG introduced the Board Incentive Plan as a new incentive plan for officers of MUFG, MUFG Bank, Mitsubishi UFJ Trust and Banking, Mitsubishi UFJ Securities Holdings and Mitsubishi UFJ Morgan Stanley Securities. On November 14, 2016, MUFG expanded the Board Incentive Plan to officers who hold unexercised Stock Acquisition Rights granted under the Stock Option Plan. As a result of this transaction, the Stock Option Plan remains available to officers who are on overseas assignment as of the transition date and hold unexercised Stock Acquisition Rights. This transition which consists of the exchange of unexercised Stock Acquisition Rights for common share of MUFG under the Board Incentive Plan was treated as modification of the Stock Option Plan for accounting purpose and incremental compensation cost resulting from the modification was ¥2,028 million.

***Stock Option Plan***

MUFG, MUFG Bank, Mitsubishi UFJ Trust and Banking, Mitsubishi UFJ Securities Holdings and Mitsubishi UFJ Morgan Stanley Securities have the Stock Option Plan.

The Stock Acquisition Rights under the Stock Option Plan were normally issued and granted to officers once a year until the fiscal year ended March 31, 2013. They were normally issued and granted to officers except for outside directors and corporate auditors once a year from the fiscal year ended March 31, 2014.

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The class of shares to be issued or transferred upon exercise of the Stock Acquisition Rights is common shares of MUFG. The number of shares to be issued or transferred upon exercise of each Stock Acquisition Right (“number of granted shares”) is 100 common shares of MUFG. In the event of a stock split or reverse stock split of common shares of MUFG, the number of granted shares shall be adjusted in accordance with the ratio of the stock split or reverse stock split. If any events occur that require the adjustment to the number of granted shares (e.g., mergers, consolidations, corporate separations or capital reductions of MUFG), MUFG shall appropriately adjust the number of granted shares to a reasonable extent.

The contractual term of the Stock Acquisition Rights is approximately 30 years from the date of grant. Some of the Stock Acquisition Rights vest on the date of grant and the rest of the Stock Acquisition Rights granted vest depending on the holders’ service periods as officers.

The Stock Acquisition Rights are only exercisable after the date on which the following conditions are met: (1) holder as a director, a corporate executive or an executive officer is no longer a director, a corporate executive and an executive officer, and (2) holder as a corporate auditor is no longer a corporate auditor, and (3) holder as a senior fellow is no longer a senior fellow. The exercise price is ¥1 per share.

The following is a summary of the Stock Acquisition Rights transactions of MUFG, MUFG Bank, Mitsubishi UFJ Trust and Banking, Mitsubishi UFJ Securities Holdings and Mitsubishi UFJ Morgan Stanley Securities for the fiscal year ended March 31, 2018:

	<u>Number of shares</u>	<u>Weighted average exercise price</u>	<u>Weighted average remaining contractual term</u> (in years)	<u>Aggregate intrinsic value</u> (in millions)
Outstanding, beginning of fiscal year . . . . .	892,800	¥ 1		
Exercised . . . . .	(23,100)	1		
Transitioned to the Board Incentive Plan <sup>(1)</sup> . . . . .	(263,300)	1		
Outstanding, end of fiscal year . . . . .	<u>606,400</u>	¥ 1	24.29	¥422
Exercisable, end of fiscal year . . . . .	<u>—</u>	¥—	—	¥ —

Note:

(1) All shares transitioned to the Board Incentive Plan were granted and vested. See the explanation of the following item, *The Board Incentive Plan*, for more information.

The fair value of the Stock Acquisition Rights is estimated on the date of grant using the Black-Scholes option pricing model that uses the assumptions described in the following table. The risk-free interest rate is based on the Japanese government bonds yield curve in effect at the date of grant based on the expected term. The expected volatility is based on the historical data from traded common shares of MUFG. The expected term is based on the average service period of officers of MUFG, MUFG Bank, Mitsubishi UFJ Trust and Banking, Mitsubishi UFJ Securities Holdings and Mitsubishi UFJ Morgan Stanley Securities, which represents the expected outstanding period of the Stock Acquisition Rights granted. The expected dividend yield is based on the dividend rate of common share of MUFG at the date of grant.

	<u>Fiscal year ended March 31, 2016<sup>(1)</sup></u>
Risk-free interest rate . . . . .	0.07%
Expected volatility . . . . .	28.03%
Expected term . . . . .	4 years
Expected dividend yield . . . . .	2.06%

**mitsubishi UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

Note:

(1) There are no issuances under the Stock Option Plan during the fiscal years ended March 31, 2017 and 2018.

The weighted-average grant date fair value of the Stock Acquisition Rights granted for the fiscal years ended March 31, 2016 was ¥80,200 per 100 shares.

The MUFG Group recognized ¥1,647 million and ¥252 million of compensation costs related to the Stock Acquisition Rights with ¥518 million and ¥77 million of the corresponding tax benefit for the fiscal years ended March 31, 2016 and 2017, respectively.

Cash received from the exercise of the Stock Acquisition Rights for the fiscal years ended March 31, 2016, 2017 and 2018 was ¥4 million, ¥4 million and ¥0 million, respectively. The actual tax benefit realized for the tax deductions from exercise of the Stock Acquisition Rights for the fiscal years ended March 31, 2016, 2017 and 2018 was ¥538 million, ¥651 million and ¥2 million, respectively.

*The Board Incentive Plan*

On May 16, 2016, MUFG's compensation committee approved the introduction of a Board Incentive Plan as a new incentive plan for officers and covers the fiscal years corresponding to the medium-term business plan of MUFG under which common shares of MUFG and cash equivalent to the liquidation value of the common shares of MUFG together with dividends attributable to the common shares of MUFG are delivered and/or provided as compensation. The Board Incentive Plan uses the trust structure called a Board Incentive Plan Trust ("the BIP Trust") and was authorized to purchase up to ¥15,800 million common shares of MUFG in the open market. The BIP Trust initially consists of the BIP Trust I and the BIP Trust II started on May 17, 2016, and will end on August 31, 2018. These trusts period may be extended through the modification of the trust agreement and additional contributions to the trust.

On November 14, 2016, MUFG's compensation committee also approved the introduction of the BIP Trust III, using the same structure as above for officers to implement the transition from the Stock Option Plan under which Stock Acquisition Rights had previously been granted but have not been exercised by officers to the Board Incentive Plan. The BIP Trust III was authorized to purchase up to ¥8,100 million common shares of MUFG in the open market. In addition, on May 15, 2017, The BIP Trust III was also authorized to additional purchase and was revised amount of trust money up to ¥9,600 million common shares of MUFG. The BIP Trust III started on November 15, 2016 and will end on November 30, 2019. If any beneficiary under the BIP Trust III remains as active officers at the initial expiration date, the trust period will be extended for additional three years. The extension of the trust period will be made in the same manner up to 30 years.

MUFG funded and established the BIP Trust, and from time to time, make contributions to the BIP Trust whose beneficiaries are officers of MUFG, MUFG Bank, Mitsubishi UFJ Trust and Banking, Mitsubishi UFJ Securities Holdings and Mitsubishi UFJ Morgan Stanley Securities within the limit approved by MUFG's compensation committee. MUFG Bank, Mitsubishi UFJ Trust and Banking, Mitsubishi UFJ Securities Holdings and Mitsubishi UFJ Morgan Stanley Securities also reimburse MUFG for its contributions to the BIP Trust. The trustee of the BIP Trusts, Mitsubishi UFJ Trust and Banking, acquires common shares of MUFG in the open market in accordance with the instructions from the trust administrator, who is a third party that does not have any interest in MUFG, MUFG Bank, Mitsubishi UFJ Trust and Banking, Mitsubishi UFJ Securities Holdings and Mitsubishi UFJ Morgan Stanley Securities.

During the period of the BIP Trust, certain points are awarded to officers. The number of the points will be determined based on each rank of officers, promotions to a higher rank in the BIP Trust I and based on single-

**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

year financial results and the degree to which the medium-term business plan has been achieved in the BIP Trust II. At December 1, 2016, certain points were awarded to officers who have exchanged their unexercised stock acquisition rights at the transition from the Stock Option Plan to the BIP Trust III. Points of the BIP Trust III are awarded to officers who are on overseas assignment as of the transition date when the officers become domestic residents and waive their unexercised Stock Acquisition Rights.

One point corresponds to one common share of MUFG, and if the number of common share of MUFG owned by the BIP Trusts has increased or decreased due to a stock split, gratis allotment of shares, reverse stock split, etc., the number of common share of MUFG to be delivered and/or provided for one point will be adjusted accordingly.

Officers will receive common shares of MUFG in the number corresponding to a certain percentage of these points and cash equivalent to the liquidation value of the common shares of MUFG corresponding to the remaining points after they are liquidated within the BIP Trusts. As to the BIP Trust I and the BIP Trust III, common shares of MUFG and cash will be delivered and/or provided upon resignation of the officers. As to the BIP Trust II, common shares of MUFG and cash will be delivered and/or provided immediately following the last day of the fiscal years corresponding to the medium-term business plan of MUFG. Dividends arising from common share of MUFG will also be distributed to officers based on the number of the points or the beneficial interest of officers.

The following is a roll-forward of common share of MUFG under the BIP Trust I and the BIP Trust II of MUFG, MUFG Bank, Mitsubishi UFJ Trust and Banking, Mitsubishi UFJ Securities Holdings and Mitsubishi UFJ Morgan Stanley Securities for the fiscal year ended March 31, 2018. For the BIP Trust III, all shares were vested and there is no nonvested shares for the fiscal year ended March 31, 2017 and 2018:

	2017				2018			
	The BIP Trust I		The BIP Trust II		The BIP Trust I		The BIP Trust II	
	Number of Shares	Weighted—average grant—date fair value	Number of Shares	Weighted—average grant—date fair value	Number of Shares	Weighted—average grant—date fair value	Number of Shares	Weighted—average grant—date fair value
Nonvested, beginning of fiscal year .....	—	¥ —	—	¥ —	4,711,821	¥521.60	9,551,841	¥521.60
Granted .....	7,497,800	521.60	11,287,600	521.60	1,317,354	721.50	441,382	721.50
Vested .....	(2,772,141)	521.60	(1,662,334)	521.60	(3,412,714)	590.06	(2,391,545)	548.50
Forfeited .....	(13,838)	521.60	(73,425)	521.60	(530,828)	532.12	(556,329)	528.77
Nonvested, end of fiscal year .....	<u>4,711,821</u>	<u>¥521.60</u>	<u>9,551,841</u>	<u>¥521.60</u>	<u>2,085,633</u>	<u>¥533.17</u>	<u>7,045,349</u>	<u>¥524.43</u>

The total fair value of the common shares of MUFG held by the BIP Trust I and the BIP Trust II that vested during the year ended March 31, 2017 were ¥1,940 million and ¥1,163 million, respectively, and during the year ended March 31, 2018 were ¥2,378 million and ¥1,668 million, respectively.

**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

The following is a summary of compensation costs, the corresponding tax benefit under the BIP Trust for the fiscal year ended March 31, 2017 and 2018 and unrecognized compensation costs as of March 31, 2017 and 2018:

	2017			2018		
	The BIP Trust I	The BIP Trust II	The BIP Trust III	The BIP Trust I	The BIP Trust II	The BIP Trust III
	(in millions)					
Compensation costs . . . . .	¥1,238	¥1,039	¥2,112	¥2,514	¥1,452	¥218
Tax benefit . . . . .	379	318	385	770	445	67
Unrecognized compensation costs . . . . .	1,617	346	—	396	360	—

Unrecognized compensation costs are expected to be recognized over a weighted-average period of 0.3 years for the BIP Trust I and 0.3 years for the BIP Trust II.

***MUFG Americas Holdings***

In April 2010, MUFG Americas Holdings adopted the UnionBanCal Plan (“UNBC Plan”). Under the UNBC Plan, MUFG Americas Holdings grants restricted stock units settled in American Depositary Receipts (“ADRs”) representing common shares of MUFG, to key employees at the discretion of the Human Capital Committee of the Board of Directors (“the Committee”). The Committee determines the number of shares, vesting requirements and other features and conditions of the restricted stock units. Under the UNBC Plan, MUFG ADRs are purchased in the open market upon the vesting of the restricted stock units, through a revocable trust. There is no amount authorized to be issued under the UNBC Plan since all shares are purchased in the open market. These awards generally vest pro-rata on each anniversary of the grant date and generally become fully vested three years from the grant date, provided that the employee has completed the specified continuous service requirement. Generally, the grants vest earlier if the employee dies, is permanently and totally disabled, retires under certain grant, age and service conditions, or terminates employment under certain conditions. MUFG Americas Holdings also issues a small number of off-cycle grants each year, primarily for reasons related to recruitment of new employees.

Under the UNBC Plan, the restricted stock unit participants do not have dividend rights, voting rights or other stockholder rights. The grant date fair value of these awards is equal to the closing price of the MUFG ADRs on date of grant.

Effective July 1, 2014, the U.S. branch banking operations of MUFG Bank were integrated under MUFG Union Bank’s operations and MUFG Americas Holdings assumed the obligations of the stock bonus plan established by MUFG Bank Headquarters for the Americas (“HQA Plan”). The HQA Plan is substantially similar to the UNBC Plan; however, participants in the HQA Plan are entitled to “dividend equivalent credits” on their unvested restricted stock units when MUFG pays dividends to its shareholders. The credit is equal to the dividends that the participants would have received on the shares had the shares been issued to the participants when the restricted stock units were granted. Accumulated dividend equivalents are paid to participants in cash on an annual basis.

Effective June 8, 2015, MUFG Americas Holdings amended and restated the HQA Plan as the MUFG Americas Holdings Plan. The MUFG Americas Holdings Plan is substantially similar to the UNBC and HQA Plans. MUFG Americas Holdings’s future grants will be made under the MUFG Americas Holdings Plan only. “Dividend equivalent credits” arising from grants under the MUFG Americas Holdings Plan are paid to participants in shares on an annual basis. The weighted-average service period for grants issued under the MUFG Americas Holdings Plan with outstanding restricted stock units as of December 31, 2017 was 2.9 years.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

The following table is a roll-forward of the restricted stock units under the Stock Bonus Plans for the fiscal year ended December 31, 2017:

	Restricted Stock Units	
	2017	
	Number of Units	Weighted Average Grant Date Fair Value
Units outstanding, beginning of fiscal year . . . . .	26,725,582	\$5.35
Activity during fiscal year:		
Granted . . . . .	14,362,249	6.53
Vested . . . . .	(11,709,454)	5.58
Forfeited . . . . .	(1,539,963)	5.55
Units outstanding, end of fiscal year . . . . .	<u>27,838,414</u>	5.86

The weighted-average grant date fair value of restricted stock units granted during the fiscal years ended December 31, 2015 and 2016 were \$7.15 and \$4.63, respectively. The total fair value of RSUs that vested during the fiscal years ended December 31, 2015, 2016, and 2017 were ¥6,416 million, ¥5,333 million, and ¥8,414 million, respectively.

The following table is a summary of MUFG Americas Holdings's compensation costs, the corresponding tax benefit for the fiscal years ended December 31, 2015, 2016 and 2017, and unrecognized compensation costs as of December 31, 2015, 2016 and 2017:

	2015	2016	2017
	(in millions)		
Compensation costs . . . . .	¥6,537	¥ 7,292	¥ 7,405
Tax benefit . . . . .	2,542	2,830	2,917
Unrecognized compensation costs . . . . .	7,598	11,183	12,543

At December 31, 2017, approximately ¥12,543 million (pretax) of compensation expense related to unvested grants had not yet been charged to net income. That cost is expected to be amortized into compensation expense over a weighted-average period of 1.5 years.

**34. PARENT COMPANY ONLY FINANCIAL INFORMATION**

Distributions of retained earnings of MUFG Bank and Mitsubishi UFJ Trust and Banking are restricted in order to meet the minimum capital adequacy requirements under the Banking Law. Additionally, retained earnings of these banking subsidiaries are restricted, except for approximately ¥5,672 billion and ¥5,819 billion, in accordance with the statutory reserve requirements under the Companies Act at March 31, 2017 and 2018, respectively. See Notes 19 and 22 for further information.

The Banking Law and related regulations restrict the ability of these banking subsidiaries to extend loans or credit to the parent company. Such loans or credits to the parent company are generally limited to 15% of the banking subsidiary's consolidated total capital, as determined by the capital adequacy guidelines.

At March 31, 2017 and 2018, approximately ¥4,787 billion and ¥5,341 billion, respectively, of net assets of consolidated subsidiaries may be restricted as to payment of cash dividends and loans to the parent company.



**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

The following table presents the parent company only financial information of MUFG:

***Condensed Balance Sheets***

	<u>As of March 31,</u>	
	<u>2017</u>	<u>2018</u>
	(in millions)	
Assets:		
Cash and interest-earning deposits with banking subsidiaries . . . . .	¥ 158,603	¥ 114,784
Investments in subsidiaries and affiliated companies . . . . .	15,798,922	16,720,286
Banking subsidiaries . . . . .	11,961,515	12,638,315
Non-banking subsidiaries and affiliated companies . . . . .	3,837,407	4,081,971
Loans to subsidiaries . . . . .	3,419,961	5,072,330
Banking subsidiaries . . . . .	3,278,961	4,885,830
Non-banking subsidiaries . . . . .	141,000	186,500
Other assets . . . . .	97,742	166,514
Total assets . . . . .	<u>¥19,475,228</u>	<u>¥22,073,914</u>
Liabilities and Shareholders' equity:		
Short-term borrowings from banking subsidiaries . . . . .	¥ 1,667,063	¥ 1,600,179
Long-term debt from non-banking subsidiaries and affiliated companies . . . . .	261,586	264,332
Long-term debt . . . . .	3,433,423	5,088,478
Other liabilities . . . . .	127,624	150,743
Total liabilities . . . . .	<u>5,489,696</u>	<u>7,103,732</u>
Total shareholders' equity . . . . .	<u>13,985,532</u>	<u>14,970,182</u>
Total liabilities and shareholders' equity . . . . .	<u>¥19,475,228</u>	<u>¥22,073,914</u>

**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

*Condensed Statements of Income*

	Fiscal years ended March 31,		
	2016	2017	2018
	(in millions)		
Income:			
Dividends from subsidiaries and affiliated companies . . . . .	¥574,118	¥ 608,504	¥ 576,332
Banking subsidiaries . . . . .	501,788	535,512	487,491
Non-banking subsidiaries and affiliated companies . . . . .	72,330	72,992	88,841
Management fees from subsidiaries . . . . .	24,388	26,095	26,073
Interest income from subsidiaries . . . . .	8,043	48,665	80,670
Foreign exchange gains—net . . . . .	36,715	3,614	24,726
Trading account losses—net . . . . .	(7,907)	(41,279)	(26,749)
Other income . . . . .	975	1,427	1,508
Total income . . . . .	<u>636,332</u>	<u>647,026</u>	<u>682,560</u>
Expense:			
Operating expenses . . . . .	23,074	25,692	26,016
Interest expense to subsidiaries and affiliated companies . . . . .	26,553	28,867	31,426
Interest expense . . . . .	3,429	35,689	65,068
Other expense . . . . .	1,788	2,554	1,791
Total expense . . . . .	<u>54,844</u>	<u>92,802</u>	<u>124,301</u>
Equity in undistributed net income (loss) of subsidiaries and affiliated companies—net . . . . .	216,632	(362,899)	672,421
Income before income tax expense (benefit) . . . . .	798,120	191,325	1,230,680
Income tax expense (benefit) . . . . .	(4,212)	(11,355)	2,520
Net income . . . . .	<u>¥802,332</u>	<u>¥ 202,680</u>	<u>¥1,228,160</u>

**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

*Condensed Statements of Cash Flows*

	Fiscal years ended March 31,		
	2016 <sup>(1)</sup>	2017 <sup>(1)</sup>	2018
	(in millions)		
Operating activities:			
Net income	¥ 802,332	¥ 202,680	¥ 1,228,160
Adjustments and other	(158,564)	371,901	(799,571)
Net cash provided by operating activities	<u>643,768</u>	<u>574,581</u>	<u>428,589</u>
Investing activities:			
Proceeds from sales of investment in affiliated companies	—	1,574	—
Purchase of equity investment in subsidiaries and an affiliated company	—	(91,877)	(53,000)
Net increase in loans to subsidiaries	(1,433,700)	(1,802,664)	(1,682,576)
Other—net	(3,135)	(2,659)	(4,361)
Net cash used in investing activities	<u>(1,436,835)</u>	<u>(1,895,626)</u>	<u>(1,739,937)</u>
Financing activities:			
Net decrease in short-term borrowings from subsidiaries	(84,959)	(32,412)	(41,402)
Proceeds from issuance of long-term debt	1,432,755	1,808,672	1,872,986
Repayment of long-term debt	(22)	(20)	(112,184)
Repayment of long-term debt to affiliated companies	—	(1,136)	(1,090)
Proceeds from sales of treasury stock	2	1	1
Payments for acquisition of treasury stock	(200,053)	(200,028)	(200,038)
Dividends paid	(251,497)	(246,564)	(241,067)
Other—net	(14,366)	(9,333)	(9,677)
Net cash provided by financing activities	<u>881,860</u>	<u>1,319,180</u>	<u>1,267,529</u>
Net increase (decrease) in cash and cash equivalents	88,793	(1,865)	(43,819)
Cash and cash equivalents at beginning of fiscal year	71,675	160,468	158,603
Cash and cash equivalents at end of fiscal year	<u>¥ 160,468</u>	<u>¥ 158,603</u>	<u>¥ 114,784</u>

Note:

(1) The MUFG Group early adopted new guidance on restricted cash retrospectively in the second half of the fiscal year ended March 31, 2018, and prior year amounts were revised. See Note 1 for further information.

**35. SEC REGISTERED FUNDING VEHICLES ISSUING NON-DILUTIVE PREFERRED SECURITIES**

In February 2006, MUFG established MUFG Capital Finance 1 Limited, MUFG Capital Finance 2 Limited and MUFG Capital Finance 3 Limited, wholly-owned funding vehicles incorporated in the Cayman Islands, for the issuance of preferred securities to enhance the flexibility of its capital management.

On March 17, 2006, MUFG Capital Finance 1 Limited, MUFG Capital Finance 2 Limited and MUFG Capital Finance 3 Limited registered with the SEC and issued \$2,300,000,000 in 6.346% non-cumulative preferred securities, €750,000,000 in 4.850% non-cumulative preferred securities and ¥120,000,000,000 in 2.680% non-cumulative preferred securities (collectively, the “Preferred Securities”), respectively. Total net proceeds before expenses were approximately \$4.17 billion. All of the ordinary shares of MUFG Capital Finance 1 Limited, MUFG Capital Finance 2 Limited and MUFG Capital Finance 3 Limited are owned by MUFG. MUFG fully and unconditionally guarantees the payment of dividends and payments on liquidation or

**mitsubishi UFJ Financial Group, Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements—(Continued)**

redemption of the obligations under the Preferred Securities. No other subsidiary of MUFG guarantees the Preferred Securities.

The Preferred Securities entitle holders to receive a non-cumulative preferential cash dividend starting on July 25, 2006 and on January 25 and July 25 of each year thereafter. These funding vehicles will not be obligated to pay dividends on the Preferred Securities upon the occurrence of certain events relating to the financial condition of MUFG. From July 25, 2016, dividends on the Preferred Securities have been re-calculated at a floating rate per annum.

The dollar-denominated and euro-denominated preferred securities are subject to redemption on any dividend payment date on or after July 25, 2016. All the Preferred Securities are subject to redemption in whole (but not in part) at any time upon the occurrence of specified events, in each case at the option of each of the funding vehicles and subject to necessary government approvals.

The Preferred Securities are non-dilutive and not convertible into MUFG's common shares. The Preferred Securities were included as part of MUFG's Tier 1 capital at March 31, 2016 under its capital adequacy requirements.

On July 25, 2011, MUFG redeemed a total of ¥120,000,000,000 of non-cumulative and non-dilutive perpetual preferred securities issued by MUFG Capital Finance 3 Limited.

On July 25, 2016, MUFG redeemed a total of \$2,300,000,000 and €750,000,000 of non-cumulative and non-dilutive perpetual preferred securities issued by MUFG Capital Finance 1 Limited and MUFG Capital Finance 2 Limited, respectively.

### **36. SUBSEQUENT EVENTS**

#### ***Approval of Dividends***

On June 28, 2018, the shareholders approved the payment of cash dividends of ¥10 per share of Common stock, totaling ¥131,934 million, that were payable on June 29, 2018, to the shareholders of record on March 31, 2018.

#### ***Additional Entrustment for the Performance-based Stock Compensation Plan***

MUFG resolved to continue with the Board Incentive Plan with amending it in part at the compensation committee's meeting held at May 15, 2018. According to this resolution, the BIP Trust I and the BIP Trust II, which were founded as a trust structure under the Board Incentive Plan and will be expired on August 31, 2018, will be continued to August 31, 2021 by extending the trust period as approved at the compensation committee's meeting. MUFG also resolved to revise the limited amount of trust money for the BIP Trust I and the BIP Trust II up to ¥16,700 million from ¥15,800 million. See Note 33 for further information regarding the Board Incentive Plan.

#### ***Repurchase and Cancellation of own shares***

From May 16, 2018 to June 4, 2018 MUFG repurchased 72,420,700 shares of MUFG's common stock by market purchases based on the discretionary dealing contract regarding repurchase of own shares for approximately ¥50 billion in aggregate in satisfaction of the resolution adopted at the meeting of the Board of Directors of MUFG held on May 15, 2018. The repurchase plan as authorized by the Board of Directors of MUFG allowed for the repurchase of an aggregate amount of up to 100,000,000 shares, which represents the

**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES**  
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equivalent of 0.76% of the total number of common shares outstanding, or of an aggregate repurchase amount of up to ¥50 billion. The purpose of the repurchase is to enhance the return of earnings to shareholders, to improve capital efficiency, and to implement flexible capital policies. On July 20, 2018, MUFG will cancel all of the acquired shares in satisfaction of the resolution adopted at the meeting of the Board of Directors of MUFG held on May 15, 2018.

\* \* \* \* \*

## EXHIBIT INDEX

Exhibit	Description
1(a)	Articles of Incorporation of Mitsubishi UFJ Financial Group, Inc., as amended on July 6, 2018 (English translation)
1(b)	Board of Directors Regulations of Mitsubishi UFJ Financial Group, Inc., as amended on June 25, 2015 (English translation)
1(c)	Corporation Meetings Regulations of Mitsubishi UFJ Financial Group, Inc., as amended on July 1, 2018 (English translation)
1(d)	Share Handling Regulations of Mitsubishi UFJ Financial Group, Inc., as amended on June 27, 2013 (English Translation)*
1(e)	Charter of the Audit Committee of Mitsubishi UFJ Financial Group, Inc., as amended on July 1, 2018 (English translation)
1(f)	Charter of the Compensation Committee of Mitsubishi UFJ Financial Group, Inc., as amended on July 1, 2018 (English translation)
1(g)	Charter of the Nominating and Governance Committee of Mitsubishi UFJ Financial Group, Inc., as amended on July 1, 2018 (English translation)
1(h)	Charter of the Risk Committee of Mitsubishi UFJ Financial Group, Inc., as amended on July 1, 2018 (English translation)
2(a)	Form of American Depositary Receipt
2(b)	Form of Deposit Agreement, amended and restated as of December 22, 2004, among Mitsubishi Tokyo Financial Group, Inc. (subsequently renamed Mitsubishi UFJ Financial Group, Inc.), The Bank of New York Mellon and the holders from time to time of American Depositary Receipts issued thereunder
7	Statement of Computation of Consolidated Ratio of Earnings to Fixed Charges for the fiscal years ended March 31, 2014, 2015, 2016, 2017 and 2018**
8	Subsidiaries of the Company—see “Item 4.C. Information on the Company—Organizational Structure.”
11	Principles of Ethics and Conduct, Compliance Rules, Compliance Manual, and Rules of Employment of Mitsubishi UFJ Financial Group, Inc. applicable to its principal executive officer, principal financial officer, principal accounting officer and persons performing similar functions (English translation of relevant sections)
12	Certifications required by Rule 13a-14(a) (17 CFR 240.13a-14(a)) or Rule 15d-14(a) (17 CFR 240.15d-14(a))
13	Certifications required by Rule 13a-14(b) (17 CFR 240.13a-14(b)) or Rule 15d-14(b) (17 CFR 240.15d-14(b)) and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. 1350)
15	Consent of independent registered public accounting firm
99(a)	Capitalization and Indebtedness of Mitsubishi UFJ Financial Group, Inc. as of March 31, 2018***
99(b)	Unaudited Reverse Reconciliation of Selected Financial Information of Mitsubishi UFJ Financial Group, Inc. as of and for the fiscal year ended March 31, 2018****
101.INS	XBRL Instance Document
101.SCH	XBRL Schema Document
101.CAL	XBRL Calculation Linkbase Document

<b>Exhibit</b>	<b>Description</b>
101.DEF	XBRL Definition Linkbase Document
101.LAB	XBRL Label Linkbase Document
101.PRE	XBRL Presentation Linkbase Document

Notes:

- \* Incorporated by reference to our registration statement on Form S-8 (File No. 333-204845) filed on June 10, 2015.
- \*\* Deemed to be incorporated as Exhibit 12.1 to the registration statement on Form F-3 (No. 333-209455) of Mitsubishi UFJ Financial Group, Inc. and to be a part thereof.
- \*\*\* Deemed to be incorporated by reference into the registration statement on Form F-3 (No. 333-209455) of Mitsubishi UFJ Financial Group, Inc. and to be a part thereof.
- \*\*\*\* Deemed to be incorporated as Annex A to the registration statement on Form F-3 (No. 333-209455) of Mitsubishi UFJ Financial Group, Inc. and to be a part thereof.





**ARTICLES OF INCORPORATION  
OF  
MITSUBISHI UFJ FINANCIAL GROUP, INC.**

**CHAPTER I.  
GENERAL PROVISIONS**

(English Translation)

*(Trade Name)*

**Article 1.**

The Company shall be called “Kabushiki Kaisha Mitsubishi UFJ Financial Group” and shall be called in English “Mitsubishi UFJ Financial Group, Inc.” (hereinafter referred to as the “Company”).

*(Purpose)*

**Article 2.**

The purpose of the Company shall be to engage in the following businesses as a bank holding company:

1. Administration of management of banks, trust banks, specialized securities companies, insurance companies or other companies which the Company may own as its subsidiaries under the Banking Law;
2. Any businesses incidental to the foregoing businesses mentioned in the preceding item; and
3. Any other businesses in which bank holding companies are permitted to engage under the Banking Law in addition to the foregoing businesses mentioned in the preceding two items.

*(Location of Head Office)*

**Article 3.**

The Company shall have its head office in Chiyoda-ku, Tokyo.

*(Organization)*

**Article 4.**

The Company, being a company with three committees, shall establish the following organizations in addition to the general meeting of shareholders and the Directors:

1. The Board of Directors;
2. The Nominating and Governance Committee (which constitutes a Nominating Committee defined in the Companies Act), the Audit Committee, and the Compensation Committee;
3. Corporate Executives; and
4. An Accounting Auditor.

*(Method of Public Notice)*

**Article 5.**

1. Public notices of the Company shall be given by way of electronic public notice.

2. In cases where the Company is unable to give an electronic public notice due to unavoidable circumstances, public notices of the Company shall be given in the manner of the publication in the *Nihon Keizai Shimbun*.

**CHAPTER II.**  
**SHARES**

*(Total Number of Shares Authorized to be Issued)*

**Article 6.**

The aggregate number of shares authorized to be issued by the Company shall be thirty-three billion eight hundred million (33,800,000,000) shares, and the aggregate number of each class shares authorized to be issued shall be as set forth below; provided, however, that the aggregate number of shares authorized to be issued with respect to the Second to the Fourth Series of Class 5 Preferred Shares shall not exceed four hundred million (400,000,000) in total, the aggregate number of shares authorized to be issued with respect to the First to the Fourth Series of Class 6 Preferred Shares shall not exceed two hundred million (200,000,000) in total, and the aggregate number of shares authorized to be issued with respect to the First to the Fourth Series of Class 7 Preferred Shares shall not exceed two hundred million (200,000,000) in total.

Ordinary Shares:

thirty-three billion (33,000,000,000) shares

The Second Series of Class 5 Preferred Shares:

four hundred million (400,000,000) shares

The Third Series of Class 5 Preferred Shares:

four hundred million (400,000,000) shares

The Fourth Series of Class 5 Preferred Shares:

four hundred million (400,000,000) shares

The First Series of Class 6 Preferred Shares:

two hundred million (200,000,000) shares

The Second Series of Class 6 Preferred Shares:

two hundred million (200,000,000) shares

The Third Series of Class 6 Preferred Shares:

two hundred million (200,000,000) shares

The Fourth Series of Class 6 Preferred Shares:

two hundred million (200,000,000) shares

The First Series of Class 7 Preferred Shares:

two hundred million (200,000,000) shares

The Second Series of Class 7 Preferred Shares:

two hundred million (200,000,000) shares

The Third Series of Class 7 Preferred Shares:

two hundred million (200,000,000) shares

The Fourth Series of Class 7 Preferred Shares:

two hundred million (200,000,000) shares

*(Number of Shares Constituting One (1) Unit of Shares)*

**Article 7.**

The number of shares constituting one (1) unit of shares of the Company shall be one hundred (100) with respect to Ordinary Shares and each class of Preferred Shares, respectively.

*(Rights Pertaining to Fractional Unit Shares)*

**Article 8.**

A Shareholder of the Company may not exercise any rights with respect to fractional unit shares held by such shareholder, except for the following:

1. The rights provided for in each item of Article 189, Paragraph 2 of the Companies Act;
2. The right to make a request pursuant to Article 166, Paragraph 1 of the Companies Act;
3. The right to receive an allotment of offered shares and offered stock acquisition rights in proportion to the number of shares held by such shareholder; and
4. The right to make a request provided for in the following Article.

*(Request for Sale of Fractional Unit Shares)*

**Article 9.**

A shareholder of the Company may request the Company to sell to the shareholder such number of shares which will, when combined with the fractional unit shares already held by such shareholder, constitute one (1) full unit of shares pursuant to the Share Handling Regulations.

*(Record Date)*

**Article 10.**

1. The Company shall deem the shareholders whose names have been entered or recorded in the latest register of shareholders as of March 31 of each year to be the shareholders who are entitled to exercise their rights at the ordinary general meeting of shareholders for the relevant business year.
2. The provision of the preceding paragraph shall apply *mutatis mutandis* to the record date for voting rights at general meetings of class shareholders, where there is a matter to be resolved at an ordinary general meeting of shareholders that requires, in addition to such resolution, a resolution by the relevant general meeting of class shareholders.
3. In addition to the preceding two paragraphs of this article, whenever necessary, the Company may, upon giving prior public notice, fix a date as a record date and may deem the shareholders or registered share pledgees whose names have been entered or recorded in the latest register of shareholders as of such date as the shareholders or the registered share pledgees entitled to exercise their rights.

*(Transfer Agent)*

**Article 11.**

1. The Company shall have a share transfer agent.
2. The share transfer agent and the handling office thereof shall be designated by resolution of the Board of Directors, and public notice thereof shall be given.
3. The establishment and retention of the register of shareholders and the register of stock acquisition rights of the Company and any other businesses with respect to the register of shareholders and the register of stock acquisition rights of the Company shall be handled by the share transfer agent, not by the Company.

*(Share Handling Regulations)*

**Article 12.**

The registration of transfers of shares, the registration of pledges on shares, the entries or records in the register of shareholders and in the register of stock acquisition rights, and any other handling with respect to shares and stock acquisition rights as well as the fees therefor shall be governed by the Share Handling Regulations established by the Board of Directors.

**CHAPTER III**  
**PREFERRED SHARES**

*(Preferred Dividends)*

**Article 13.**

1. The Company shall distribute cash dividends from surplus on Preferred Shares (hereinafter referred to as the “Preferred Dividends”) in such respective amount as prescribed below to the holders of Preferred Shares (hereinafter referred to as the “Preferred Shareholders”) or registered share pledgees who hold pledges over Preferred Shares (hereinafter referred to as the “Registered Preferred Share Pledgees”), whose names have been entered or recorded in the latest register of shareholders as of March 31 of each year, with priority over the holders of Ordinary Shares (hereinafter referred to as the “Ordinary Shareholders”) or registered share pledgees who hold pledges over Ordinary Shares (hereinafter referred to as the “Registered Ordinary Share Pledgees”); provided, however, that in the event that the Preferred Interim Dividends provided for in Article 14 hereof have been paid in the relevant business year, the amount so paid shall be deducted accordingly from the amount of the Preferred Dividends set forth below for each relevant class of Preferred Shares.

The Second to the Fourth Series of Class 5 Preferred Shares:

Amount to be determined by resolution of the Board of Directors adopted at the time of issuance of the Class 5 Preferred Shares, up to two hundred fifty (250) yen per share per year

The First to the Fourth Series of Class 6 Preferred Shares:

Amount to be determined by resolution of the Board of Directors adopted at the time of issuance of the Class 6 Preferred Shares, up to one hundred twenty-five (125) yen per share per year

The First to the Fourth Series of Class 7 Preferred Shares:

Amount to be determined by resolution of the Board of Directors adopted at the time of issuance of the Class 7 Preferred Shares, up to one hundred twenty-five (125) yen per share per year

2. If the aggregate amount paid to a Preferred Shareholder or Registered Preferred Share Pledgee as cash dividends from surplus in any particular business year is less than the prescribed amount of the relevant Preferred Dividends, the unpaid amount shall not be carried over to nor cumulated in subsequent business years.
3. The Company shall not distribute any dividends from surplus to any Preferred Shareholder or Registered Preferred Share Pledgee in excess of the prescribed amount of the relevant Preferred Dividends except for the distribution from surplus in the process of the corporate split (*kyushu-bunkatsu*) pursuant to Article 758, Item 8 (b) or Article 760, Item 7 (b) of the Companies Act, or the distribution from surplus in the process of the corporate split (*shinsetsu-bunkatsu*) pursuant to Article 763, Item 12 (b) or Article 765 Paragraph 1, Item 8 (b) of the said act.

*(Preferred Interim Dividends)*

**Article 14.**

In the event of payment of Interim Dividends provided for in Article 46 of these Articles (hereinafter referred to as the “Preferred Interim Dividends”), the Company shall make a cash distribution from surplus in

such respective amount as prescribed below for each class of Preferred Shares to the Preferred Shareholders or Registered Preferred Share Pledges with priority over the Ordinary Shareholders or Registered Ordinary Share Pledges.

The Second to the Fourth Series of Class 5 Preferred Shares:

Amount to be determined by resolution of the Board of Directors adopted at the time of issuance of the Class 5 Preferred Shares, up to one hundred twenty-five (125) yen per share

The First to the Fourth Series of Class 6 Preferred Shares:

Amount to be determined by resolution of the Board of Directors adopted at the time of issuance of the Class 6 Preferred Shares, up to sixty-two and fifty hundredths (62.50) yen per share

The First to the Fourth Series of Class 7 Preferred Shares:

Amount to be determined by resolution of the Board of Directors adopted at the time of issuance of the Class 7 Preferred Shares, up to sixty-two and fifty hundredths (62.50) yen per share

*(Distribution of Residual Assets)*

**Article 15.**

1. If the Company distributes its residual assets in cash upon liquidation, the Company shall pay cash to the Preferred Shareholders or Registered Preferred Share Pledges with priority over the Ordinary Shareholders or Registered Ordinary Share Pledges in such respective amount as prescribed below:

The Second to the Fourth Series of Class 5 Preferred Shares:

Two thousand five hundred (2,500) yen per share

The First to the Fourth Series of Class 6 Preferred Shares:

Two thousand five hundred (2,500) yen per share

The First to the Fourth Series of Class 7 Preferred Shares:

Two thousand five hundred (2,500) yen per share

2. The Company shall not make a distribution of residual assets other than as provided for in the preceding paragraph to the Preferred Shareholders or Registered Preferred Share Pledges.

*(Voting Rights)*

**Article 16.**

Unless otherwise provided for by laws or regulations, the Preferred Shareholders shall not have voting rights at any general meeting of shareholders; provided, however, that the Preferred Shareholders shall have voting rights from (i) the commencement of an ordinary general meeting of shareholders in the event that no proposal for declaration of the Preferred Dividends be paid to the Preferred Shareholders is submitted to such ordinary general meeting of shareholders or (ii) the close of an ordinary general meeting of shareholders in the event that such proposal is rejected at such ordinary general meeting of shareholders, until, in either case, a proposal for declaration of the Preferred Dividends be paid to the Preferred Shareholders is approved at an ordinary general meeting of shareholders.

*(Consolidation or Split of Preferred Shares and Rights to Be Allotted Shares, etc.)*

**Article 17.**

1. Unless otherwise provided for by laws or regulations, the Company shall not consolidate or split any Preferred Shares.
2. The Company shall not grant the Preferred Shareholders any rights to be allotted shares or stock acquisition rights.
3. The Company shall not grant the Preferred Shareholders any rights for the free allotment of shares or stock acquisition rights.

*(Provisions for Acquisition)*

**Article 18.**

1. In respect of the Second to the Fourth Series of Class 5 Preferred Shares and/or the First to the Fourth Series of Class 6 Preferred Shares, the Company may, after issuance of the respective Preferred Shares and after the lapse of the period designated by resolution of the Board of Directors adopted at the time of the issuance of respective Preferred Shares, acquire such Preferred Shares, in whole or in part, in exchange for the amount of cash as deemed appropriate as the acquisition price giving due consideration to the prevailing market conditions, as determined by such resolution of the Board of Directors, on a certain date as separately determined by the Company by a resolution of the Board of Directors after the issue of the relevant Preferred Shares.
2. Partial acquisition shall be effected pro rata or in lot.

*(Right to Request Acquisition)*

**Article 19.**

Any holder of the First to the Fourth Series of Class 6 or the First to the Fourth Series of Class 7 Preferred Shares may request acquisition of such Preferred Shares during the period in which such Preferred Shareholder is entitled to request acquisition as determined by resolution of the Board of Directors adopted at the time of issuance of such Preferred Shares, in exchange for Ordinary Shares of the Company in the number as is calculated by the formula designated by such resolution.

*(Mandatory Acquisition)*

**Article 20.**

1. The Company shall mandatorily acquire any of the First to the Fourth Series of Class 6 Preferred Shares or the First to the Fourth Series of Class 7 Preferred Shares for which no request for acquisition is made during the period in which the holders of such Preferred Shares are entitled to request acquisition on the day immediately following the last day of such period in exchange for Ordinary Shares in the number as is obtained by dividing an amount equivalent to the subscription price per each relevant Preferred Share by the average daily closing price (including closing bids or offered prices) of Ordinary Shares of the Company (in regular trading) as reported by the Tokyo Stock Exchange for the thirty (30) consecutive trading days (excluding a trading day or days on which no closing price or closing bid or offered price is reported) commencing on the forty-fifth (45th) trading day prior to such date; provided, however, that such calculation shall be made to the second decimal place denominated in yen, and rounded up to one decimal place when the fraction beyond it is equal to or more than 0.05 yen, discarding amounts less than 0.05 yen. If the relevant average price is less than the amount determined by resolution of the Board of Directors adopted at the time of issuance of respective Preferred Shares, the relevant Preferred Shares shall be acquired in exchange for Ordinary Shares in the number as is obtained by dividing an amount equivalent to the subscription price per each relevant Preferred Shares by an amount so determined by such resolution of the Board of Directors.

2. After issuance of the Second to the Fourth Series of Class 5 Preferred Shares, the First to the Fourth Series of Class 6 Preferred Shares and/or the First to the Fourth Series of Class 7 Preferred Shares, upon the occurrence of a certain event that requires the acquisition of the relevant Preferred Shares pursuant to the capital adequacy requirements applicable to the Company and which event shall be determined by resolution of the Board of Directors adopted at the time of the issuance of the relevant Preferred Shares, the Company shall mandatorily acquire the relevant Preferred Shares in whole on an acquisition date which falls after the occurrence of the certain event. The acquisition date shall be either of a certain date which falls after the occurrence of the relevant certain event and which date shall be determined by such resolution of the Board of Directors, giving due consideration to such capital adequacy requirements and other factors, or a date separately determined by the Company by resolution of the Board of Directors adopted after the occurrence of the relevant certain event. The Company shall mandatorily acquire the relevant Preferred Shares in exchange for Ordinary Shares or free of consideration, and whether such acquisition shall be made in exchange for Ordinary Shares or free of consideration shall be determined by resolution of the Board of Directors adopted at the time of issuance of the relevant Preferred Shares, giving due consideration to the market conditions and other factors. The formula for calculating the number of Ordinary Shares in case where the relevant Preferred Shares shall be acquired in exchange for Ordinary Shares shall be determined by resolution of the Board of Directors adopted at the time of issuance of the relevant Preferred Shares, giving due consideration to the market price of Ordinary Shares, the subscription price of the relevant Preferred Shares and other factors.
3. In the calculation of the number of Ordinary Shares provided for in the preceding two paragraphs of this article, if any number less than one (1) share is yielded, such fractions shall be handled by the method provided for in Article 234 of the Companies Act.

*(Order of Priority)*

**Article 21.**

All classes of Preferred Shares shall rank *pari passu* with each other in respect of the payment of Preferred Dividends and Preferred Interim Dividends and the distribution of residual assets.

*(Prescription Period)*

**Article 22.**

The provisions set forth in Article 47 of these Articles shall apply *mutatis mutandis* to the payment of Preferred Dividends and Preferred Interim Dividends.

## **CHAPTER IV.**

### **GENERAL MEETING OF SHAREHOLDERS**

*(Convocation)*

**Article 23.**

1. An ordinary general meeting of shareholders shall be convened within three (3) months from the last day of each business year.
2. An extraordinary general meeting of shareholders shall be convened whenever necessary.

*(Chairman)*

**Article 24.**

1. The Director concurrently serving as President and Representative Corporate Executive shall act as chairman of general meetings of shareholders.

2. If the Director concurrently serving as President and Representative Corporate Executive is unable to act as such, one of the other Directors shall act as chairman in accordance with the order of priority determined in advance by the Board of Directors.

*(Disclosure via Internet and Deemed Delivery of Reference Documents, etc. for General Meetings of Shareholders)*

**Article 25.**

Upon convening a general meeting of shareholders, the Company may deem that the information required to be described or indicated in the reference documents for the general meeting of shareholders, business reports, financial statements and consolidated financial statements shall have been provided to the shareholders when such information is disclosed, pursuant to the Ministry of Justice Ordinances, through a method that uses the Internet.

*(Method of Resolution)*

**Article 26.**

1. Unless otherwise provided for by law or regulation or these Articles of Incorporation, resolutions of a general meeting of shareholders shall be adopted by an affirmative vote of a majority of the voting rights of the shareholders in attendance who are entitled to vote.
2. Resolutions of a general meeting of shareholders provided for in Article 309, Paragraph 2 of the Companies Act and resolutions of a general meeting of shareholders for which the method of resolution provided for in the said Paragraph shall be applied *mutatis mutandis* pursuant to the Companies Act and other laws and regulations shall be adopted by an affirmative vote of two-thirds (2/3) or more of the voting rights of the shareholders in attendance who hold in the aggregate not less than one-third (1/3) of the total number of voting rights of all shareholders who are entitled to vote.

*(Voting by Proxy)*

**Article 27.**

1. Shareholders may exercise their voting rights at a general meeting of shareholders by appointing one (1) proxy who is one (1) shareholder of the Company entitled to exercise its own voting rights at such meeting.
2. In the case of the preceding paragraph, the shareholder or the proxy thereof shall submit to the Company a document evidencing authority of the proxy to act as such at each general meeting of shareholders.

*(Minutes)*

**Article 28.**

The proceedings of general meetings of shareholders shall be stated or recorded in the minutes pursuant to laws and regulations.

*(General Meetings of Holders of Classes of Shares)*

**Article 29.**

1. The provisions of Articles 24, 25, 27 and 28 of these Articles shall apply *mutatis mutandis* to general meetings of class shareholders.
2. The provisions of Article 26, Paragraph 1 of these Articles shall apply *mutatis mutandis* to the resolutions of general meetings of class shareholders made pursuant to Article 324, Paragraph 1 of the Companies Act.



3. The provisions of Article 26, Paragraph 2 of these Articles shall apply *mutatis mutandis* to the resolutions of general meetings of class shareholders made pursuant to Article 324, Paragraph 2 of the Companies Act.

## CHAPTER V.

### DIRECTORS AND BOARD OF DIRECTORS

*(Number of Directors and Method of Election)*

#### **Article 30.**

1. The Company shall have not more than twenty (20) Directors, who shall be elected at a general meeting of shareholders.
2. A resolution for the election of Directors shall be adopted at a general meeting of shareholders by an affirmative vote of a majority of the voting rights of the shareholders in attendance who hold voting rights representing in the aggregate one-third (1/3) or more of the total number of voting rights of all shareholders who are entitled to vote.
3. Resolutions for the election of Directors shall not be made by cumulative voting.

*(Term of Office)*

#### **Article 31.**

The term of office of Directors shall expire at the close of the ordinary general meeting of shareholders held in respect of the last business year ending within one (1) year after their election.

*(Board of Directors)*

#### **Article 32.**

1. The Board of Directors shall decide the business execution of the Company and oversee the performance of duties of Corporate Executives and Directors.
2. Unless otherwise provided for by laws and regulations, the Board of Directors may delegate decisions on the business execution of the Company to Corporate Executives.
3. Unless otherwise provided for by laws and regulations, the Director determined in advance by the Board of Directors shall convene meetings of the Board of Directors and act as chairman. If the Director determined in advance by the Board of Directors is unable to act as such, one of the other Directors shall act as Chairman and Director in accordance with the order of priority determined in advance by the Board of Directors.
4. Notice to convene a meeting of the Board of Directors shall be given to each Director at least three (3) days prior to the date of such meeting; provided, however, that the foregoing shall not apply in cases of emergency.
5. Unless otherwise provided for by law or regulation, resolutions of a meeting of the Board of Directors shall be adopted by an affirmative vote of a majority of the Directors present who constitute in number a majority of all the Directors of the Company.
6. With respect to the matters to be resolved by the Board of Directors, the Company shall deem that such matters were approved by a resolution of the Board of Directors when all the Directors express their agreement in writing or by an electromagnetic device.
7. The proceedings of meetings of the Board of Directors shall, pursuant to laws and regulations, be stated or recorded in the minutes, to which the Directors present shall put their names and affix their seals or electronic signatures.

*(Exemption from Liability of Directors)*

**Article 33.**

In accordance with the provisions of Article 426, Paragraph 1 of the Companies Act, the Company may, by a resolution of the Board of Directors, exempt Directors (including former Directors) from their liabilities provided for in Article 423, Paragraph 1 of the Companies Act within the limits stipulated by laws and regulations provided that such Director has acted in good faith and without gross negligence.

*(Limited Liability Agreement with Directors)*

**Article 34.**

Pursuant to the provisions of Article 427, Paragraph 1 of the Companies Act, the Company may execute agreements with Directors other than Executive Directors etc., which limit the liability of such Directors provided for in Article 423, Paragraph 1 of the Companies Act; provided, however, that the limit of the liability under such agreements shall be the greater of an amount determined in advance which shall not be less than ten million (10,000,000) yen or the minimum liability amount prescribed by laws or regulations.

## **CHAPTER VI.**

### **Committees**

*(Method of Appointment of Committee Members)*

**Article 35.**

The members of the Nominating and Governance Committee (which constitutes a Nominating Committee defined in the Companies Act), the Audit Committee, and the Compensation Committee shall be appointed from among the Directors by the resolution of the Board of Directors.

*(Authority etc. of Committees)*

**Article 36.**

Matters concerning the Nominating and Governance Committee (which constitutes a Nominating Committee defined in the Companies Act), the Audit Committee, and the Compensation Committee shall be governed by the Regulations thereof established by each Committee, as well as by applicable laws and regulations, these Articles of Incorporation, or resolutions of the Board of Directors.

## **CHAPTER VII.**

### **Corporate Executives**

*(Method of Election)*

**Article 37.**

Corporate Executives shall be elected by the Board of Directors.

*(Term of Office)*

**Article 38.**

The term of office of Corporate Executives shall expire at the close of the first meeting of the Board of Directors convened after the close of the ordinary general meeting of shareholders held in respect of the last business year ending within one (1) year after their election.

*(Representative Corporate Executive and Corporate Executive with Executive Power)*

**Article 39.**

1. The Board of Directors shall, by its resolution, elect Representative Corporate Executive(s) from among the Corporate Executives.
2. The Board of Directors may, by its resolution, appoint the President and Corporate Executive, Chairman and Corporate Executive, Deputy Chairman and Corporate Executive(s), Deputy President and Corporate Executive(s), Senior Managing Corporate Executive (s) and Managing Corporate Executive (s).

*(Exemption from Liability of Corporate Executives)*

**Article 40.**

In accordance with the provisions of Article 426, Paragraph 1 of the Companies Act, the Company may, by a resolution of the Board of Directors, exempt Corporate Executives (including former Corporate Executives) from their liabilities provided for in Article 423, Paragraph 1 of the Companies Act within the limits stipulated by laws and regulations provided that such Corporate Executive has acted in good faith and without gross negligence.

**CHAPTER VIII.  
ACCOUNTING AUDITOR**

*(Method of Election)*

**Article 41.**

The Accounting Auditor shall be elected at a general meeting of shareholders.

*(Term of Office)*

**Article 42.**

1. The term of office of the Accounting Auditor shall expire at the close of the ordinary general meeting of shareholders held in respect of the last business year ending within one (1) year after his/her assumption of office.
2. The Accounting Auditor shall be deemed to be reappointed at a general meeting of shareholders provided that there is no resolution to the contrary.

**CHAPTER IX.  
ACCOUNTS**

*(Business Year)*

**Article 43.**

The business year of the Company shall commence on April 1 of each year and end on March 31 of the following year.

*(Acquisition of Own Shares)*

**Article 44.**

Unless otherwise provided for by laws or regulations, the company may determine by a resolution of the Board of Directors to acquire its own shares by obtaining consent of the shareholders as provided for in Article 459, Paragraph 1, Item 1 of the Companies Act.

*(Year-End Dividends)*

**Article 45.**

The Company shall distribute cash dividends from surplus (referred to as the “Year-End Dividends” in these Articles of Incorporation) to the shareholders or registered share pledgees whose names have been entered or recorded in the latest register of shareholders as of March 31 of each year.

*(Interim Dividends)*

**Article 46.**

By resolution of the Board of Directors, the Company may distribute cash dividends from surplus pursuant to Article 454, Paragraph 5 of the Companies Act (referred to as the “Interim Dividends” in these Articles of Incorporation) to the shareholders or registered share pledgees whose names have been entered or recorded in the latest register of shareholders as of September 30 of each year.

*(Prescription Period for Payment of Dividends)*

**Article 47.**

In the event that the dividends from surplus are to be paid in cash, the Company shall be released from the obligation to distribute dividends from surplus if such distribution has not been accepted after the lapse of five (5) full years from the date of commencement of payment thereof. Year-End Dividends and Interim Dividends of the Company shall bear no interest.

**Additional Rule**

*(Transitional Measure Regarding Exemption from Liability of Corporate Auditors)*

**Article 1.**

In accordance with the provisions of Article 426, Paragraph 1 of the Companies Act, the Company may, by a resolution of the Board of Directors, exempt Corporate Auditors (including former Corporate Auditors) from their liabilities provided for in Article 423, Paragraph 1 of the Companies Act in relation to the acts conducted before the close of the 10th Ordinary General Meeting of Shareholders within the limits stipulated by laws and regulations provided that such Corporate Auditor has acted in good faith and without gross negligence.

- End -

**Date of Establishment**

April 2, 2001

**Date of Amendment**

June 27, 2002

June 27, 2003

June 29, 2004

June 29, 2005

October 1, 2005 (However, the Amendments to Articles of 5, 11, 12 (except for the amendment to Article 12 changing the reference to Article 37 into that to Article 38), 13,17, 18 and 39 shall be effective from October 3, 2005.)

June 29, 2006

June 28, 2007 (However, the Amendments to Article 6, Article 8 through Article 16, Article 19, Article 21, Article 50 and Article 51 (except for the deletions in the Articles of Incorporation pertaining to Class 9 Preferred Shares and Class 10 Preferred Shares) shall be effective from September 30, 2007.)

June 26, 2009

June 27, 2013

June 25, 2015

June 29, 2016

July 6, 2018

[Translation]

## **BOARD OF DIRECTORS REGULATIONS**

### **Article 1. Purpose**

The purpose of these Regulations is to enable the proper and smooth operation of MUFG's Board of Directors.

### **Article 2. Amendment or Abolishment**

The amendment or abolishment of these Regulations shall be decided through a resolution by the Board of Directors.

### **Article 3. Organization**

The Board of Directors shall be composed of all the directors.

### **Article 4. Authority**

The Board of Directors shall decide key management policies and other matters of business execution by MUFG and oversee the execution of duties by directors and corporate executives.

### **Article 5. Delegation to Corporate Executives**

1. The Board of Directors shall delegate decisions on business execution to corporate executives in principle, excluding matters mandatorily required to be decided by the Board of Directors under the Companies Act; provided, however, that decisions on particularly important matters of business execution shall be made by the Board of Directors.
2. "Decisions on particularly important matters of business execution" refers to decisions on matters that are particularly important and fundamental to MUFG, such as the following.
  - i. Matters that would have a particularly material effect on key management policies
  - ii. Matters that would have a particularly material effect on the establishment of the internal control system
  - iii. Matters that would have a particularly material effect on the Group's creditworthiness and reputation
  - iv. Matters that would have a particularly material effect on the Group's business performance

### **Article 6. Meetings**

Meetings of the Board of Directors shall be held at least once every three months in principle; provided, however, that extraordinary meetings of the Board of Directors may also be held in cases of emergency.

### **Article 7. Convener**

1. A meeting of the Board of Directors shall be convened by the director who concurrently serves as Chairman.
2. If the director who concurrently serves as Chairman is unable to act as such or if no director who concurrently serves as Chairman has been designated, one of the other directors shall act as a substitute in accordance with the order predetermined by the Board of Directors.

3. A director or corporate executive may request the convener to convene a meeting of the Board of Directors as necessary by submitting a document stating the agenda of the meeting.

4. A person appointed by each committee from among the committee members may convene a meeting of the Board of Directors in accordance with the provisions of laws and regulations.

#### **Article 8. Convocation Notice**

1. Notice of convocation of a meeting of the Board of Directors shall be issued to each Director at least three (3) days prior to the date of the meeting; provided, however, that the foregoing shall not apply in cases of emergency.

2. If the unanimous consent of the directors is obtained, a meeting of the Board of Directors may be held without taking the convocation procedures.

#### **Article 9. Chairman**

1. The director who concurrently serves as Chairman shall act as the Chairman of the Board of Directors.

2. If the director who concurrently serves as Chairman is unable to act as such or if no director who concurrently serves as Chairman has been designated, one of the other directors shall act as a substitute in accordance with the order predetermined by the Board of Directors.

#### **Article 10. Committees**

1. MUFG shall establish a Nominating and Governance Committee<sup>(Note)</sup>, a Compensation Committee, and an Audit Committee.

2. Each committee shall exercise its legal authority, deliberate on specified matters, and make recommendations to the Board of Directors.

3. The Board of Directors may establish optional committees in addition to the three committees specified in Paragraph 1.

Note: A “nominating committee” as defined under the Companies Act

#### **Article 11. Resolutions**

1. Unless otherwise provided for by law or regulation, resolutions by the Board of Directors shall be adopted by the affirmative vote of a majority of the directors present who constitute in number a majority of all the directors entitled to vote.

2. Directors with special interests in a matter to be resolved as set out in the preceding paragraph may not participate in the resolution regarding that matter.

3. In the case where a director proposes a matter for resolution and the directors entitled to vote regarding that manner unanimously consent to that proposal in writing or electronically, the Board of Directors shall be deemed to have approved that proposal.

#### **Article 12. Matters for Resolution**

1. Each of the following items shall be decided through resolutions by the Board of Directors.

- The Group’s management strategy, capital policy, and resource allocation
- Business management framework and risk management policy

- Oversight of status of business execution and progress of business performance (approval of financial statements)
- Appointments
- Corporate culture
- Conflicts of interest (matters concerning the approval of competing transactions or self-dealings by directors or corporate executives)
- Other decisions on business execution (decisions on matters definitively specified as matters that may not be delegated to corporate executives and other particularly important matters of business execution)

### **Article 13. Reports**

1. Each corporate executive shall report on the status of business execution to the Board of Directors; provided, however, that such a report may be made on his or her behalf by other corporate executives.
2. Directors and corporate executives who have conducted competing transactions or self-dealings shall report material facts concerning such transactions to the Board of Directors.
3. In the case where a director, accounting auditor, or corporate executive has notified all directors of a matter to be reported to the Board of Directors, reporting of that matter to the Board of Directors shall not be required.

### **Article 14. Minutes**

Minutes of the Board of Directors shall be prepared in writing, shall have the names and the seals of the directors present affixed, and shall be kept at the head office for ten years, in accordance with laws and regulations.

### **Supplementary Provisions**

1. These Regulations shall be effective from October 1, 2005.

#### Revisions

Amended as of May 1, 2006

Amended as of June 29, 2006

Amended as of December 24, 2010

Amended as of June 25, 2015



[Translation]

## **CORPORATION MEETINGS REGULATIONS**

### **Chapter I. General Provisions**

#### **Article 1. General Provisions**

1. These Rules shall govern the structure and operation of both the Executive Committee (as provided for in Article 11 of the Office Organization Rules) and Committees (as provided for in Article 12 of the Office Organization Rules).
2. Corporate Policy Meetings shall be held to help in the discussion and decision making of the Executive Committee. These Rules shall govern the structure and operation of Corporate Policy Meetings.

#### **Article 2. Amendment and Abolition**

The amendment and abolition of these Rules shall be determined by resolution of the Executive Committee.

#### **Article 3. Jurisdiction**

The Corporate Planning Division has jurisdiction over these Rules.

### **Chapter II. Executive Committee**

#### **Article 4. Members and Attendees**

1. The Executive Committee shall consist of all Representative Corporate Executives, as well as Corporate Executives and Executive Officers nominated by the President & CEO of the Company ("Committee Members").
2. The President & CEO may, if they deem necessary, require any senior Group officers and Heads of the Business Groups to attend meetings of the Executive Committee as members.
3. The President & CEO may, if they deem it necessary, require any of the Members of the Board of Directors other than the Committee Members, the Executive Officers and the Members of the Board of Directors of relevant subsidiaries of the Company, etc., to attend meetings of the Executive Committee.
4. Members of the Audit Committee may attend meetings of the Executive Committee.

#### **Article 5. Chairman**

1. The President & CEO shall convene meetings of the Executive Committee and shall preside over the meetings.
2. If the President & CEO is unable to act as such, one of the other Corporate Executives shall act in their place, in accordance with the order of priority previously determined by the Executive Committee.

#### **Article 6. Meeting Dates**

Meetings of the Executive Committee shall be held, in principle, once every two (2) weeks; however, they may be held at any time if the need arises.

#### **Article 7. Matters to be Discussed and Determined**

1. The Executive Committee shall, in principle, discuss and determine the following general important matters concerning management of the Company pursuant to the basic policies determined by the Board of Directors:
  - 1) Matters entrusted by the Board of Directors;
  - 2) Matters concerning execution of policies concerning general management and control of the Company;

- 3) Matters concerning company financial results;
  - 4) Matters concerning company shares, etc.;
  - 5) Matters concerning nominations, compensation, etc.;
  - 6) Matters concerning important matters concerning the subsidiaries of the Company, etc.;
  - 7) Matters concerning important matters concerning the administration and management of the subsidiaries of the Company, etc.;
  - 8) Matters concerning the establishment of, amendment to and abolition of rules, etc.;
  - 9) Matters concerning regulatory compliance and risk management;
  - 10) Matters required to be submitted to the Executive Committee by provisions stipulated in various rules and regulations; and
  - 11) Any other matters requiring executive action.
2. The matters to be discussed and determined set forth in the preceding paragraph shall be submitted by any of the Committee Members in control of such matters, or senior Group officers and Heads of the Business Groups pursuant to Article 4 Paragraph 2, or any of the Members of the Board of Directors other than the Committee Members or the Executive Officers pursuant to Article 4 Paragraph 3.

#### **Article 8. Method of Discussion and Determination**

1. The proceedings of a meeting of the Executive Committee shall be determined by the President & CEO with the unanimous consent of all the Committee Members present who shall constitute in number a majority of the Committee Members.
2. If unanimous consent is not given by the Committee Members present at a meeting, the President & CEO shall determine the relevant items of business with consideration to the opinions of all Members present, upon consultation with the Chairman, or in the event a Deputy Chairman is appointed, with the Chairman and the Deputy Chairman.

#### **Article 9. Discussion and Determination in Writing**

1. Notwithstanding the provisions of Article 7, in special circumstances, the circulation of a written resolution drafted by the person making such proposal may be substituted for the holding of a meeting of the Executive Committee.
2. In the case of the preceding paragraph, the person making such proposal must report to the next Executive Committee meeting on the matters discussed and determined.

#### **Article 10. Emergency Procedures**

1. In case of emergency, such as a natural disaster, etc., if there is no time for discussion at the Executive Committee or for circulation of a written resolution, irrespective of the provisions set forth in Article 7, the President & CEO may take any and all expedient steps as may be necessary as matters of urgency.
2. In the case of the preceding paragraph, the President & CEO shall immediately report on such steps to the Executive Committee.

#### **Article 11. Reporting and Exchange of Information**

Each of the Committee Members or senior Group officers and Heads of the Business Groups pursuant to Article 4 Paragraph 2, or any of the Members of the Board of Directors other than the Committee Members or the Executive Officers pursuant to Article 4 Paragraph 3 shall, at meetings of the Executive Committee, report on the state of execution of their duties and shall also exchange general information with one another.

#### **Article 12. Meeting Minutes**

The Corporate Administration Division shall record a summary of the proceedings of meetings of the Executive Committee and the results thereof in the minutes, and the President & CEO shall sign their name or affix their seal to such minutes, which shall then be kept at the Company Head Office for ten (10) years.

#### **Article 13. Communication**

The matters resolved by the Executive Committee shall be rapidly communicated to the relevant Executive Officers and Heads of Divisions, etc.

### Chapter III. Committees

#### **Article 14. Purpose and Matters to be Deliberated**

1. A committee shall arrange, examine and deliberate on the following matters upon a mandate given by the President & CEO in order to contribute to the discussions and decision-making of the Executive Committee.
  1. Matters concerning management policies of the entire group;
  2. Matters concerning management plans of the entire group;
  3. Matters concerning risk management of the entire group;
  4. Matters concerning the setting up of management and execution policies among the subsidiaries of the Company; and
  5. Any other specified matters necessary for deliberation by the Executive Committee.

#### **Article 15. Establishment and Membership**

1. The Executive Committee shall establish a committee, which shall consist of several members appointed by the President & CEO.
2. The President & CEO may appoint Members of the Board of Directors with Executive Power, etc. of the subsidiaries of the Company to be members, as described in the preceding paragraph.

#### **Article 16. Chairman**

1. Each committee shall have a chairman.
2. The chairman of the committee shall preside over the committee.
3. The committee may have a vice-chairman if necessary.
4. The President & CEO shall appoint a chairman and a vice-chairman of the committee from among its members.
5. If the chairman of the committee is prevented from acting as such, the vice-chairman or any other member appointed by the President & CEO shall act on the chairman's behalf.

#### **Article 17. Secretariat**

1. Each committee shall have a secretariat.
2. The secretariat shall be under the direction of the chairman of the committee and shall be responsible for committee administrative matters.

#### **Article 18. Convocation**

The chairman of the committee shall convene meetings of the committee.

#### **Article 19. Deliberation**

1. Committee members must make efforts to attend meetings of their committees where they shall carefully and actively discuss matters from the viewpoint of the Group as a whole, so that the deliberations of the committee can be completed in a timely manner.
2. If a member is to be absent from a meeting, they may submit their written opinions to the chairman of the committee in advance.
3. If necessary, the committee may require persons concerned to attend a meeting of the committee so that the committee may hear their opinions.
4. If necessary, the committee may require a division or subsidiary of the Company, etc. to submit materials or to make other cooperative efforts.

#### **Article 20. Submissions and Reports**

1. The chairman of the committee or a member of the committee nominated by the chairman shall, from time to time, submit or report on important matters deliberated at the committee to the Executive Committee.
2. In reports set forth in the preceding paragraph the minority opinions of the committee must be included.
3. If a long period of time is required for the deliberations in Article 20 Paragraph 1 the chairman of the committee or a member of the committee nominated by the chairman must provide interim reports to the Executive Committee about the state of the deliberations.

#### **Article 21. Working Groups**

A committee may establish working groups to ensure smooth deliberation.

### Chapter IV. Corporate Policy Meetings

#### **Article 22. Purpose and Matters to be Deliberated**

The purpose of Corporate Policy Meetings is to exchange views from a wide range of perspectives and discuss the basic direction of important matters with regard to the management and administration of the Company Group on a consolidated basis, to contribute to decision-making at the Executive Committee.

#### **Article 23. Composition**

Corporate Policy Meetings shall consist of relevant Executive Committee Members, relevant Members of the Board of Directors, Corporate Executives, Executive Officers and Heads of Divisions, and Members of the Board of Directors, etc. of relevant subsidiaries of the Company.

#### **Article 24. Meeting Dates**

Corporate Policy Meetings shall be held whenever required.

#### **Article 25. Secretariat**

The secretariat of Corporate Policy Meetings shall share jurisdiction with the Corporate Planning Division over matters to be deliberated.

#### **Article 26. Submissions and Reports**

In principle, matters to be deliberated at Corporate Policy Meetings shall be submitted or reported to the Executive Committee.

## Chapter V. Business Group Management Meetings

### **Article 27. Purpose and Matters to be Deliberated**

Business Group Management Meetings shall be established in each Business Group under Article 6 of the Office Organization Rules to deliberate and exchange views from a wide range of perspectives regarding the management of the Business Group, and to contribute to the management of the Business Group.

### **Article 28. Composition**

Business Group Management Meetings shall consist of the Head of the Business Group, relevant Executive Committee Members, relevant Members of the Board of Directors, Corporate Executives, Executive Officers and Heads of Divisions, and Members of the Board of Directors, etc. of relevant subsidiaries of the Company.

### **Article 29. Holding of meetings**

Business Group Management Meetings shall be held in each Business Group, in principle two (2) times a year.

### **Article 30. Secretariat**

The Corporate Planning Division and the division in charge of planning in each Business Group shall jointly be responsible for being the secretariat of Business Group Management Meetings.

## Chapter VI. Unit Management Meetings

### **Article 31. Purpose and Matters to be Deliberated**

Unit Management Meetings shall be held by each Unit organized pursuant to the provisions under Articles 7, 8, 9, 10, 11 and 12 of the Rules of Organization for the purposes of exchanging opinions and deliberating on the Unit's operations from a broad perspective, thereby aiming to contribute to the management of the Unit.

### **Article 32. Composition**

The members of each Unit Management Meeting shall be composed of the Head of the Business Group that is responsible for the Unit, the Head of the Unit, the relevant Members of the Executive Committee, relevant Members of the Board of Directors, and relevant Corporate Executives, Executive Officers and Heads of Divisions, as well as Members of the Board of Directors, etc. of relevant subsidiaries.

### **Article 33. Holding of meetings**

Unit Management Meetings shall be held by each Unit, in principle, two (2) times a year.

### **Article 34. Secretariat**

The Corporate Planning Division, the division in charge of planning in each Business Group and the division in charge of planning in each Unit shall jointly be responsible for acting as the secretariat for the Unit Management Meetings of the Unit.

## Supplementary Provisions

1. These Rules shall become effective as from October 1, 2005.

### Amendment History

July 31, 2006	Amendment to Article 4 Paragraph 2
December 24, 2010	Changes to layout by chapters.
April 1, 2013	Amendment to Article 4
May 14, 2014	Amendment to Article 3, Article 4
March 31, 2015	Amendment to Article 22, Article 24, Article 25 Addition of Chapter V. (Article 27, Article 28, Article 29)
April 1, 2015	Rules in effect
June 23, 2015	Addition to Article 3, number of other Articles moved down. Amendment to Article 2, Article 4, Article 5, Article 7, Article 8, Article 10, Article 11, Article 12, Article 14, Article 15, Article 16, Article 23, Article 28
June 25, 2015	Rules in effect
July 3, 2015	Amendment to Article 4, Article 7, Article 11, Article 27, Article 28, Article 29, Article 30 Rules in effect
July 1, 2018	Addition of Chapter VI. (Article 31, Article 32, Article 33, Article 34) Rules in effect

## Audit Committee Charter

(English Translation)

### 1 Purpose

- 1.1 The Audit Committee (“Committee”), as a committee of the Board of Directors (“Board”) of Mitsubishi UFJ Financial Group, Inc. (“Company”), shall oversee the Company’s operations as set forth herein.
- 1.2 Pursuant to the provisions of the Companies Act of Japan, the Committee shall conduct an audit on the execution by the members of the Board and the corporate executive officers of the Company of their respective duties and responsibilities (“Companies Act Audit”) and shall prepare a report on such audit.
- 1.3 The Committee shall assist the Board with oversight of the operations of the Company and its subsidiaries (collectively, “Group”) by overseeing the following:
  - (1) financial reporting,
  - (2) risk management and internal controls,
  - (3) compliance,
  - (4) internal audits, and
  - (5) external audits.
- 1.4 The above purpose shall include all such duties and responsibilities as are imposed by the laws, regulations and rules in Japan (“Japanese Law”) and the U.S. Securities Exchange Act of 1934, the rules of the U.S. Securities and Exchange Commission (“SEC”) and the rules of the New York Stock Exchange (“U.S. Law” and, together with Japanese Law, “Applicable Laws”) on companies, including the Company, which are publicly listed in Japan and in the United States.

### 2 Composition

- 2.1 Membership
  - (1) The Committee shall consist of five or more non-executive directors who shall be appointed as members of the Committee (“Committee Members”) by the Board each year based on recommendations of the Nominating and Governance Committee of the Company.
  - (2) Each Committee Member shall have such qualifications as are required by Applicable Laws for members of audit committees, including the independence requirements under U.S. Law, and have such expertise and work experience as are necessary to fulfill the duties and responsibilities of a Committee Member. The Committee shall collectively maintain appropriate knowledge and expertise relating to the capital markets and the financial sector.
  - (3) At least one Committee Member shall be an “audit committee financial expert” as determined by the Board in accordance with Item 16A of Form 20-F.
- 2.2 The Board shall appoint a Committee Member who is an “independent outside director” as such term is defined by Japanese Law to serve as the Committee Chair. The Committee Chair shall not concurrently serve as the chair of any other committees of the Board (except any such subcommittee as the Committee may create pursuant to Section 4.5 hereof). The Committee Chair shall (1) call meetings of the Committee, (2) establish the agendas for the meetings in consultation with the other Committee Members, (3) preside at the meetings, and (4) communicate and share information with the other Committee Members and the Chairs of the Board and the other committees of the Board as appropriate.

- 2.3 Each Committee Member shall report to the Board on the Committee's discussions and actions as appropriate.
- 2.4 The Committee may have up to two Committee Members engaged in Committee activities on a full-time basis ("full-time committee members"). The full-time committee members shall attend meetings of the other committees of the Board, and the Executive Committee, the Disclosure Committee and other committees and organizations of the Company as appropriate, and shall report to the Committee on such meetings.
- 2.5 The Committee shall establish a secretariat office to assist the Committee in administering and managing the operations of the Committee. The secretariat office shall be staffed with employees from the Internal Audit Division of the Company and such other persons as the Committee determines appropriate.

### **3 Operations**

- 3.1 The Committee shall meet once a month unless it otherwise determines, in which case it shall meet as it deems necessary.
- 3.2 The quorum for a meeting of the Committee shall be a simple majority of the Committee Members.
- 3.3 The Committee may, as it deems necessary, have the external auditor, other members of the Board, the Chief Audit Officer (Group CAO), the Chief Compliance Officer (Group CCO), the Chief Financial Officer (Group CFO) and other corporate executive officers and employees of the Company, and any external adviser retained pursuant to Section 4.6 hereof attend its meetings.
- 3.4 The Committee shall, as necessary, communicate with other members of the Board and the corporate executive officers and other employees of the Company. The Committee shall, as appropriate, exchange opinions with the representative corporate executive officers of the Company.
- 3.5 The Committee shall, as necessary, obtain reports from management and other employees of the Company with respect to such matters subject to the oversight of the audit committees, audit and supervisory committees, and corporate auditors ("audit committees and other committees") of the Company's subsidiaries as the Committee deems may have a material impact on the Group.
- 3.6 The Committee shall, as it deems necessary, obtain the assistance of the Group CAO and Internal Audit Division of the Company, through their cooperation with the internal audit divisions of the Company's subsidiaries or other appropriate means, with the Committee's coordination with the audit committees and other committees of the Company's subsidiaries.
- 3.7 The Committee shall have prepared and maintained minutes of its meetings to properly record its discussions, deliberations, reports, and other actions and activities. The Committee may, as it deems appropriate, make such minutes, in part or whole, available to other members of the Board.
- 3.8 The Committee shall report to the Board on the Committee's discussions, deliberations, reports, and other actions and activities as appropriate, and shall make recommendations to the Board as necessary.
- 3.9 The Committee shall conduct an annual evaluation of the performance of its duties and responsibilities and shall report the results of such evaluation to the Board.

### **4 Authority**

- 4.1 The Committee shall have such authority as is necessary to fulfill its purpose set forth in Section 1 hereof and its duties and responsibilities set forth in Section 5 hereof in accordance with Applicable Laws and any such other authority as is granted to it by Applicable Laws.
- 4.2 The Committee shall have the authority to request such information relating to the operations of the Group as it deems necessary from the external auditor, other members of the Board, and the corporate executive officers and other employee of the Company in accordance with Applicable Laws.



- 4.3 The Committee shall have the authority to request, in accordance with Applicable Laws, from the audit committees and other committees of the Company's subsidiaries such information relating to their discussions, deliberations, reports, and other actions and activities, as well as investigations conducted by them and other matters as it deems necessary.
- 4.4 The Committee shall have the authority to conduct any such investigation relating to the Group's operations and assets and other matters as it deems necessary in accordance with Applicable Laws.
- 4.5 The Committee shall have the authority to delegate any of its duties and responsibilities, together with the necessary authority, to one or more subcommittees consisting of one or more Committee Members as the Committee determines appropriate.
- 4.6 The Committee shall have the authority, in its sole discretion, to retain and obtain the advice and assistance of such external advisers as it determines necessary.
- 4.7 The Company shall provide such funding and other resources as the Committee determines appropriate for the fulfillment of the Committee's purpose and duties and responsibilities set forth herein.

## **5 Duties and Responsibilities**

### **5.1 Companies Act Audits**

- (1) The Committee shall conduct a Companies Law Audit on the execution by the members of the Board and the corporate executive officers of the Company of their respective duties and responsibilities based on such audit policy and plans as the Committee adopts for each fiscal year.
- (2) The Committee shall, as appropriate, report to the Board on its audit policy and plan for such Companies Law Audit.
- (3) The Committee shall report to the Board on the results of its Companies Act Audit in the form of an audit report to be included in the Company's Annual Business Report for each fiscal year or otherwise presented.

### **5.2 Oversight of Financial Reporting**

- (1) The Committee shall discuss with the external auditor and management, and examine, the following matters relating to financial reporting:
  - The Company's financial statements and accompanying notes prepared in accordance with Japanese Law and generally accepted accounting principles in Japan ("Japanese GAAP") (including the Company's non-consolidated and consolidated financial statements and accompanying schedules prepared in accordance with the Companies Act and the Company's non-consolidated and consolidated full-year and semi-annual financial statements and accompanying notes prepared in accordance with the Financial Instruments and Exchange Act of Japan) (collectively, the "Japanese GAAP Financial Statements").
  - The Company's financial information prepared in accordance with U.S. Law and generally accepted accounting principles in the United States ("U.S. GAAP") and filed with the SEC (including the Company's financial statements, accompanying notes and financial analysis and discussion filed on Form 20-F with, and the Company's semi-annual financial statements, accompanying notes and financial analysis and discussion submitted on Form 6-K to, the SEC) (collectively, the "U.S. GAAP Financial Information").
  - The Company's quarterly reports prepared in accordance with Japanese GAAP (including the Company's quarterly reports prepared in accordance with the Financial Instrument and Exchange Act) ("Japanese GAAP Quarterly Reports").
- (2) The Committee shall examine the financial information included in the Company's earnings releases (*kessan-tanshin*), press releases, investor relations materials and other information that

are published in connection with the Japanese GAAP Financial Statements, the U.S. GAAP Financial Information and the Japanese GAAP Quarterly Reports prior to their publication, considering discussions of the Disclosure Committee and the Executive Committee and other relevant information.

- (3) The Committee shall discuss with the external auditor, the Internal Audit Division and management, and examine, the Group's critical accounting policies and practices (including those accounting policies and practices which relate to such items as critical accounting estimates, items requiring a high degree of judgment, items involving uncertainty such as contingent liabilities, and related party transactions) and related disclosures.
- (4) The Committee shall obtain reports from the external auditor and management with respect to any material communications relating to the Group's financial and accounting matters between the external auditor and management in accordance with Applicable Laws. The Committee shall discuss with the external auditor and management, and examine, disagreements between them regarding such matters to resolve such disagreements.
- (5) The Committee shall prepare a report based on the result of its examination of the Company's non-consolidated and consolidated financial statements and accompanying schedules prepared in accordance with Japanese GAAP and present such report to the Board.

### 5.3 Oversight of Risk Management and Internal Controls

- (1) The Committee shall obtain reports from management, the Internal Audit Division and the external auditor on, examine and evaluate any significant risks and the risk management and corporate governance frameworks of the Group and the operation of such frameworks.
- (2) The Committee shall communicate and coordinate, as appropriate, with the Risk Committee of the Company with respect to the Group's risk management through such means as the participation of the full-time committee members in meetings of the Risk Committee and discussions with the Risk Committee, as necessary.
- (3) The Committee shall obtain reports from management, the Internal Audit Division and the external auditor on, discuss and examine the following matters relating to the Group's internal control over financial reporting:
  - The Group's accounting and financial reporting processes and the frameworks for internal controls over the Group's accounting and financial reporting and the operation of such frameworks.
  - Management's assessment of the effectiveness of such processes and internal controls, the Internal Audit Division's audit relating to management's assessment of the same, and the external auditor's evaluation of the same.
  - Any significant deficiency, material weakness or other similar issue identified through such assessment, audit or evaluation.
  - Management's responses to any such deficiency, weakness or issue.
  - Any fraud, or reasonably suspected fraud, that involves management or other employees who have a significant role in the Group's processes and internal controls described above.
- (4) The Committee shall obtain reports from management, the Internal Audit Division and the external auditor on, discuss and examine the framework for the disclosure controls for the Company's disclosures and the operation of such framework.

### 5.4 Oversight of Compliance

- (1) The Committee shall oversee the framework for the Group's compliance with Applicable Laws and other applicable laws, regulations and rules and the operation of such framework.

- (2) The Committee shall obtain reports from management on, and examine, the status of any material failure of the Group to comply with Applicable Laws or other applicable laws, regulations or rules, and any legal proceedings or regulatory matters.
- (3) The Committee shall review the Group's codes of ethics and other internal rules, monitor compliance with such codes and rules, and evaluate the framework for ensuring compliance with such codes and rules.
- (4) The Committee shall establish procedures (i) pertaining to complaints received by the Company regarding accounting, internal accounting controls and auditing matters and (ii) for the confidential, anonymous submission by Group employees of concerns regarding questionable accounting or auditing matters, and shall handle any such complaint and concern received through such procedures in a confidential and appropriate manner. The Committee shall obtain reports from the audit committees and other committees of the Company's subsidiaries on, and examine, their handling of concerns received directly from subsidiary employees pertaining to the same matters.

#### 5.5 Oversight of Internal Audits

- (1) The Committee shall review and evaluate the framework for the Group's internal audit function and the operation of such framework.
- (2) The Committee shall obtain the Internal Audit Division's explanations on, and discuss with such Division, such Division's proposed audit plan, risk assessment based on which such plan has been prepared, audit focus areas, and staffing plan including retention of any external expert, and shall approve such audit plan.
- (3) The Committee shall obtain the Internal Audit Division's reports on, and discuss with such Division, any significant matters relating to an internal audit, including the execution, findings and results of, and communications with management regarding, the internal audit, and shall provide instructions, as necessary, to such Division.
- (4) The Committee shall examine the evaluation of the Internal Audit Division periodically performed, and any recommendation made, by an external third party and shall evaluate the Internal Audit Division's responses to such evaluation or recommendation.
- (5) The Committee shall obtain reports from the Internal Audit Division on, and evaluate, the performance of its duties and responsibilities, and such Division's measures designed to continuously improve and enhance the internal audit function, including audit methodologies and human resource development, and the implementation of such measures.
- (6) The Committee shall determine the appointment of the Group CAO and other personnel who perform significant internal audit functions, and shall communicate such determination to the Nominating and Governance Committee of the Board.
- (7) The Committee shall perform an annual evaluation of the Group CAO, considering the performance of the Internal Audit Division, and submit such evaluation to the Compensation Committee of the Board.

#### 5.6 Oversight of External Audits

- (1) The Committee shall oversee the work of the external auditor and obtain reports directly from the external auditor.
- (2) The Committee shall set a policy for the appointment, termination and non-appointment of the external auditor and, in accordance with such policy, determine whether to submit to shareholder vote a proposal for the appointment, termination and non-appointment of the external auditor.
- (3) The Committee shall obtain the external auditor's explanations on the external auditor's proposed annual audit plan, any material changes in such plan, the risk assessment based on which such

plan has been prepared, audit focus areas, estimated audit work hours and other related matters, and shall discuss and evaluate such plan.

- (4) The Committee shall obtain from, and discuss with, the external auditor an estimate of audit work hours and a fee proposal for auditing the Company's financial statements and internal control over financial reporting based on the external auditor's audit plan, and shall approve such estimate and proposal.
- (5) The Committee shall, as appropriate, obtain the external auditor's reports on, and discuss with the external auditor, any significant matters relating to the Company's accounting, internal controls and financial reporting, including the execution, findings and results of, and communications with management regarding, the external auditor's audit, and shall examine and evaluate the audit performed by the external auditor.
- (6) The Committee shall pre-approve any non-audit services to be provided to the Group by the external auditor and any of its domestic and overseas member firms by ensuring, prior to the provision of such services, that such non-audit services are not prohibited under Applicable Laws or other applicable laws, regulations or rules. The Committee shall establish appropriate policies and procedures for pre-approving such non-audit services.
- (7) The Committee shall obtain explanations from the external auditor on, and evaluate, the external auditor's compliance, and the framework for ensuring compliance, with the auditor independence standards under Applicable Laws and other applicable laws, regulations and rules.
- (8) The Committee shall obtain from the external auditor reports on, and examine, any material issues raised by any quality-control reviews (including any internal or peer quality-control reviews and any inquiries, inspections or investigations by governmental or professional authorities in Japan, the United States and other jurisdictions) and any steps taken to deal with such issues, and shall evaluate the quality of services provided by the external auditor.
- (9) The Committee shall, at least annually, receive the external auditor's explanation or presentation on, and evaluate, the external auditor's audit quality-control framework (including the frameworks for executing audit work with required expertise and for ensuring compliance with the applicable independence requirements).
- (10) The Committee shall examine and evaluate whether all of the matters that the external auditor is required to communicate to the Committee under Applicable Laws and other applicable laws, regulations and rules have been appropriately communicated to the Committee.
- (11) The Committee shall set the Group's hiring policies for employees or former employees of the external auditor and evaluate the implementation of such policies.

## **6 Coordination with the Audit Committees and Other Committees of the Company's Subsidiaries**

- 6.1 The Committee shall monitor the oversight of the operations of the Company's domestic and overseas subsidiaries by their audit committees and other committees through coordination with such audit committees and other committees in accordance with Sections 6.2, 6.3 and 6.4 hereof to ensure the effective and efficient oversight of the operations of the Group.
- 6.2 The Committee shall coordinate with the audit committees and other committees of MUFG Bank, Ltd., Mitsubishi UFJ Trust and Banking Corporation, Mitsubishi UFJ Securities Holding Co., Ltd. and Mitsubishi UFJ NICOS Co., Ltd. in the following manner or otherwise as appropriate:
  - (1) The Committee shall obtain reports from such audit committees and other committees on, and discuss with such audit committees, the audit plans, the execution of such plans and the audit reports relating to their respective Companies Act Audits.

- (2) The Committee shall obtain from such audit committees and other committees information relating to their discussions and other activities and, if determined necessary by the Committee, request such audit committees and other committees to submit minutes of their meetings and other meeting materials and otherwise provide reports on their discussions and other activities in accordance with Applicable Laws.
- (3) The full-time committee members shall, as necessary, attend meetings of such audit committees and other committees and report to the Committee on such meetings as appropriate.

The Committee shall coordinate with the audit committees and other committees of the Company's other subsidiaries in Japan, as necessary, by obtaining reports from such audit committees and other committees on, and discussing with such audit committees and other committees, their respective Companies Act Audits and other matters.

In coordinating with the audit committees and other committees of the Company's subsidiaries in Japan as set forth above, the Committee shall consider all applicable requirements under Japanese Laws, including any requirement for such audit committees and other committees to maintain their independence with respect to decision-making.

- 6.3 The Committee shall coordinate with the Audit & Finance Committee ("AFC") of MUFG Americas Holdings Corporation ("MUAH") in the following manner or otherwise as appropriate:
  - (1) The Committee shall obtain from the AFC, through cooperation with the AFC, reports on the AFC's oversight of the operations of MUAH and, if determined necessary by the Committee, request the AFC to submit minutes of their meetings and other meeting materials and otherwise provide reports on its discussions and other activities in accordance with Applicable Laws.
  - (2) The Committee shall, as necessary, hold meetings and other communications between Committee Members and members of the AFC, and the participating Committee Members shall report to the Committee on such meetings and other communications.
  - (3) The Committee shall cooperate with the AFC in maintaining the AFC's independence, considering the requirements of U.S. Laws to which the AFC is subject, including any requirement for the AFC to maintain its independence with respect to decision-making.
- 6.4 The Committee shall, as necessary, coordinate with the audit committees and other committees of the Company's overseas subsidiaries other than MUAH and request for information from such audit committees and other committees. In making such coordination and request, the Committee shall, as necessary, coordinate with the audit committees and other committees of the Company's domestic subsidiaries that are intermediate holding companies of such overseas subsidiaries. In coordinating with such audit committees and other committees, the Committee shall consider the requirements of all applicable local and other laws, regulations and rules to which such audit committees and other committees are subject, including any requirement for such audit committees and other committees to maintain their independence with respect to decision-making.
- 6.5 The Committee shall, as necessary, provide the audit committees and other committees of the Company's subsidiaries with appropriate assistance, including the following, designed to enhance the oversight of the operations of the Group by such audit committees and other committees:
  - (1) plan and provide training and other sessions for the members of such audit committees and other committees, and
  - (2) implement, as appropriate, measures to promote interactions and communications among the Committee and such audit committees and other committees to enhance the performance of their duties and responsibilities, including providing such audit committees and other committees with information to help enhance their administration and operations.

**7 Amendments**

- 7.1 The Committee shall annually review this Charter in terms of its effectiveness, appropriateness and other criteria, considering the Committee's self-evaluation conducted in accordance with Section 3.9 hereof, and determine whether the Charter should be amended. If the Committee determines that any amendment to the Charter is necessary, the Committee shall propose such amendment to the Board.

End

**Date of Establishment**

December 1, 2017

**Date of Amendment**

July 1, 2018

## Compensation Committee Charter

(English Translation)

### 1. Purpose

- 1.1 The purpose of the Compensation Committee (“Committee”) is to decide and make reports and recommendations to the Board of Directors on matters concerning compensation for directors and officers of MUFG, and to discuss and make reports and recommendations to the Board of Directors on compensation for directors and officers of MUFG’s subsidiaries.
- 1.2 The organization and operation of Committee established pursuant to the provisions under the Articles of Incorporation are in accordance with applicable laws and regulations, the Articles of Incorporation or under the directions from the Board of Directors, or as stipulated by these Charter.

### 2. Organization

- 2.1 The Committee shall be composed of directors consisting of at least two outside directors (Note) and the President and Group Chief Executive Officer, with the majority of members being outside directors. Members shall be appointed through a resolution by the Board of Directors.  
  
Note: Includes non-executive directors with a high degree of independence; the same applies hereinafter.
- 2.2 The chairman of the Committee shall be appointed from among outside directors through a resolution by the Board. The chairman of the Committee shall lead the Committee and ensure the effectiveness of the Committee while reporting the status of performance of its duties to the Board of Directors.
- 2.3 The Committee shall be chaired by the chairman.
- 2.4 If the chairman is unable to act as such, one of the other members of the Committee shall chair the meeting in accordance with the order predetermined by the Committee.
- 2.5 The Committee Secretariat shall be established in the Corporate Administration Division (the Board of Directors Secretariat).

### 3. Operations

- 3.1 Meetings of the Committee shall be held at least once a year in principle. In addition, extraordinary meetings may be held at any time the members deem necessary.
- 3.2 A meeting of the Committee shall be convened by the chairman of the Committee; provided, however, that other members of the Committee may also convene a meeting.
- 3.3 Convocation notices shall be issued by the convener to each member of the Committee at least three days prior to the date of the Committee meeting in principle; provided, however, that the foregoing shall not apply in cases of emergency. Also, if the unanimous consent of the members of the Committee is obtained, a meeting may be held without taking the convocation procedures.
- 3.4 Resolutions of the Committee shall be adopted with the affirmative vote of a majority of the members present who constitute in number a majority of all the members entitled to vote.
- 3.5 Members with a special interest in a matter to be resolved as set out in the preceding paragraph may not participate in the resolution.
- 3.6 If deemed necessary, the chairman of Committee may request MUFG’s executive officers or those who are not the members of the Nominating and Governance Committee including external advisers as defined in 4.5 below to attend the meeting of the committee and provide reports or explanations.

- 3.7 The chairman of the Committee, or a member designated by the chairman of the Committee, shall report or make recommendations to the Board of Directors; provided, however, that if there is a difference of opinion among Committee members, all such opinions shall be reported.
- 3.8 If requested by Committee, directors, executive officers, corporate officers and employees of MUFG and its subsidiaries are required to attend the meeting of Committee and provide explanations on matters requested by Committee.
- 3.9 The Committee may ask for reports and opinions from persons other than the Committee members, as necessary.
- 3.10 Committee shall prepare the minutes of its meeting, thereby recording the details of questions and answers of agenda, deliberations, reports, resolutions, and activities in an appropriate manner.
- 3.11 The committee members who attended the committee meeting shall sign or affix their names and seals on the minutes of the meeting.
- 3.12 The minutes described in the preceding paragraph shall be kept within the Corporate Administration Division (the Board of Directors Secretariat) for ten years from the date of the meeting of the committee.
- 3.13 The Committee shall conduct an annual evaluation of the performance of its duties and responsibilities and shall report the results of such evaluation to the Board..

#### **4. Authority**

- 4.1 The Committee shall decide the following matters.
  - i. Policy regarding decisions on compensation for individual directors, executive officers and corporate officers (hereinafter referred to as “Directors and Officers”) of MUFG.
  - ii. Details concerning the establishment, amendment or abolition of systems relating to compensation for MUFG’s Directors and Officers.
  - iii. Details of compensation for individual directors and executive officers in accordance with the policy described in Item i. If the individual concurrently serves as a director, officer or employee of any of the subsidiaries of MUFG, the Compensation Committee shall in the same way decide the aggregate amount of compensation for such individual, inclusive of the compensation (standard amount in case of bonuses) to be received as a director, officer or employee of the subsidiary and decided by the subsidiary. Audit Committee shall report on the results of annual performance review of executive officers in charge of audits.
  - iv. Establishment, amendment and abolition of other basic policies, rules or details necessary for the execution of duties by the Committee (excluding matters to be resolved by the Board of Directors).
- 4.2 The Committee shall discuss the following matters.
  - i. Details concerning the establishment, amendment or abolition of systems relating to compensation for the Directors and Officers of MUFG’s subsidiaries.
  - ii. Compensation for chairmen, deputy chairmen and presidents of MUFG’s subsidiaries.
  - iii. Compensation for locally hired Directors and Officers of MUFG, its subsidiaries and overseas subsidiaries (excluding directors and executive officers of MUFG).
- 4.3 The Committee, in its decisions described in Paragraph 1, Item iii and its discussion described in Paragraph 2, Item ii, shall decide and discuss the respective matters falling under each of the following categories.
  - i. For fixed amounts of monetary compensation: the amount for each individual;
  - ii. For unfixed amounts of monetary compensation: specific methods for the calculation of the amount for each individual; and
  - iii. For non-monetary compensation: the specific details of the compensation for each individual.



- 4.4 MUFU's subsidiaries and overseas subsidiaries stated in Paragraphs 1 and 2 shall be decided through a resolution by the Committee.
- 4.5 The committee may appoint external advisers to request them to participate in discussions by the committee.
- 4.6 The Company shall provide such funding and other resources as the Committee determines appropriate for the fulfillment of the Committee's purpose and duties and responsibilities set forth herein.

## **5. Coordination with subsidiaries**

- 5.1 In cases where Audit & Supervisory Committees of main subsidiaries express their opinions on the details or results of deliberations as listed below among the deliberation items as set forth in Section 4.2, the Committee shall take into consideration such opinions.
  - i. Details of establishment, reform and/or discontinuation of systems concerning compensation of executive officers of main subsidiaries
  - ii. Compensation of chairman, deputy chairman, CEO, and president of main subsidiaries
  - iii. Compensation of locally hired executive officers of main subsidiaries (excluding directors and corporate executive officers of the Company)

## **6. Amendments**

- 6.1 The Committee shall annually review this Charter in terms of its effectiveness, appropriateness and other criteria, considering the Committee's self-evaluation conducted in accordance with Section 3.13 hereof, and determine whether the Charter should be amended. If the Committee determines that any amendment to the Charter is necessary, the Committee shall propose such amendment to the Board.

End

### **Date of Establishment**

December 1, 2017

### **Date of Amendment**

July 1, 2018

## Nominating and Governance Committee Charter

(English Translation)

### 1. Purpose

- 1.1 The purpose of the Nominating and Governance Committee (“Committee”) is to decide the content of proposals submitted to the general meetings of shareholders regarding election and removal of directors and to discuss and make reports and recommendations to the Board of Directors on important personnel matters of MUFG and subsidiaries and various matters concerning the corporate governance of MUFG.
- 1.2 The organization and operation of Committee established pursuant to the provisions under the Articles of Incorporation are in accordance with applicable laws and regulations, the Articles of Incorporation or under the directions from the Board of Directors, or as stipulated by these Charter.

### 2. Organization

#### 2.1 Organization of Committee

- (1) The Committee shall be composed of directors consisting of at least two outside directors (Note) and the President and Group Chief Executive Officer, with the majority of members being outside directors. Members shall be appointed through a resolution by the Board of Directors.

Note: Includes non-executive directors with a high degree of independence; the same applies hereinafter.

- 2.2 The chairman of the Committee shall be appointed from among outside directors through a resolution by the Board. The chairman of the Committee shall lead the Committee and ensure the effectiveness of the Committee while reporting the status of performance of its duties to the Board of Directors.
- 2.3 The Committee shall be chaired by the chairman.
- 2.4 If the chairman is unable to act as such, one of the other members of the Committee shall chair the meeting in accordance with the order predetermined by the Committee.
- 2.5 The Committee Secretariat shall be established in the Corporate Administration Division (the Board of Directors Secretariat).

### 3. Operations

- 3.1 Meetings of the Committee shall be held at least four times a year in principle. In addition, extraordinary meetings may be held at any time the members deem necessary.
- 3.2 Committee meetings may be held by means such as telephone conference as necessary.
- 3.3 A meeting of the Committee shall be convened by the chairman of the Committee; provided, however, that other members of the Committee may also convene a meeting.
- 3.4 Convocation notices shall be issued by the convener to each member of the Committee at least three (3) days prior to the date of the Committee meeting in principle; provided, however, that the foregoing shall not apply in cases of emergency. Also, if the unanimous consent of the members of the Committee is obtained, a meeting may be held without taking the convocation procedures.
- 3.5 Resolutions of the Committee shall be adopted with the affirmative vote of a majority of the members present who constitute in number a majority of all the members entitled to vote.
- 3.6 Members with a special interest in a matter to be resolved as set out in the preceding paragraph may not participate in the resolution.

- 3.7 If deemed necessary, the chairman of Committee may request MUFG's executive officers or those who are not the members of the Nominating and Governance Committee including external advisers as defined in 4.4 below to attend the meeting of the committee and provide reports or explanations.
- 3.8 The chairman of the Committee, or a member designated by the chairman of the Committee, shall report or make recommendations to the Board of Directors; provided, however, that if there is a difference of opinion among Committee members, all such opinions shall be reported.
- 3.9 If requested by Committee, directors, executive officers, corporate officers and employees of MUFG and its subsidiaries are required to attend the meeting of Committee and provide explanations on matters requested by Committee.
- 3.10 The Committee may ask for reports and opinions from persons other than the Committee members, as necessary.
- 3.11 Committee shall prepare the minutes of its meeting, thereby recording the details of questions and answers of agenda, deliberations, reports, resolutions, and activities in an appropriate manner.
- 3.12 The committee members who attended the committee meeting shall sign or affix their names and seals on the minutes of the meeting.
- 3.13 The minutes described in the preceding paragraph shall be kept within the Corporate Administration Division (the Board of Directors Secretariat) for ten years from the date of the meeting of the committee.
- 3.14 The Committee shall conduct an annual evaluation of the performance of its duties and responsibilities and shall report the results of such evaluation to the Board.

#### **4. Authority**

- 4.1 The Committee shall decide the content of proposals submitted to the general meetings of shareholders regarding election and removal of directors.
- 4.2 The Committee shall discuss the following matters.
  - i. The annual assessment of the Board of Directors and the Board Committees
  - ii. Matters concerning the scale, function and organizational structure of the Board of Directors and the Board Committees and policy, framework and status concerning corporate governance of MUFG's major subsidiaries
  - iii. Appointment and removal of members of the Board Committees of MUFG
  - iv. Personnel matters concerning the executive officers (excluding those in charge of audits) of MUFG (Audit Committee shall report on appointment and removal of executive officers in charge of audits)
  - v. Personnel matters concerning the chairmen, deputy chairmen, or presidents of MUFG's subsidiaries
  - vi. Personnel matters concerning the key officers of overseas subsidiaries
- 4.3 MUFG's subsidiaries and overseas subsidiaries stated in Paragraph 2 shall be decided through a resolution by the Committee.
- 4.4 The committee may appoint external advisers to request them to participate in discussions by the committee.
- 4.5 The Company shall provide such funding and other resources as the Committee determines appropriate for the fulfillment of the Committee's purpose and duties and responsibilities set forth herein.

#### **5. Coordination with subsidiaries**

- 5.1 In cases where Audit & Supervisory Committees or independent outside directors of main subsidiaries express their opinions on the details or results of deliberations on the "HR related matters concerning

chairman, deputy chairman, CEO, and president of main subsidiaries” as set forth in Section 4.2, the Committee shall take into consideration such opinions.

- 5.2 In cases where Audit & Supervisory Committees or independent outside directors of main subsidiaries express their opinions on the details or results of deliberations on “policy and framework, status of corporate governance of main subsidiaries” as set forth in Section 4.2, the Committee shall take into consideration such opinions.

## **6. Amendments**

- 6.1 The Committee shall annually review this Charter in terms of its effectiveness, appropriateness and other criteria, considering the Committee’s self-evaluation conducted in accordance with Section 3.14 hereof, and determine whether the Charter should be amended. If the Committee determines that any amendment to the Charter is necessary, the Committee shall propose such amendment to the Board.

End

### **Date of Establishment**

December 1, 2017

### **Date of Amendment**

July 1, 2018

## Risk Committee Charter

(English Translation)

### 1 Purpose

- 1.1 The Risk Committee (“Committee”), as a committee of the Board of Directors (“Board”) of Mitsubishi UFJ Financial Group, Inc. (“Company”), shall review and deliberate matters relating to the risk management operations of the Company and its subsidiaries (collectively, “Group”).
- 1.2 To assist the Board with oversight of the operations of the Group, the Committee shall review and deliberate the following matters, and shall make reports and recommendations to the Board on such reviewed and deliberated matters as the Committee determines to be material:
  - (1) material matters relating to the risk management operations,
  - (2) matters relating to Top Risk Matters, and
  - (3) such other material matters as the Committee deems necessary to be reviewed and discussed by it.
- 1.3 The Committee shall perform such duties and responsibilities in relation to the U.S. Risk Committee as are imposed on the Committee under Section 6 below.

### 2 Composition

#### 2.1 Membership

- (1) The Committee shall consist of two or more “outside directors”<sup>(Note)</sup>, and executive officers and the majority of the members shall be outside directors. The members shall be appointed by the Board.

(Note): Outside directors are including inside directors who are non-executive and highly independent.
  - (2) Each Committee member shall have such expertise and work experience as well as understanding regarding the Group’s risk profile and risk management as are necessary to fulfill the duties and responsibilities of the Committee. The Committee members shall collectively maintain appropriate knowledge and expertise relating to risks affecting the financial sector and the management of such risks.
- 2.2 The Board shall appoint a Committee member who is an outside director to serve as the Committee Chair. The Committee Chair shall (1) call meetings of the Committee, (2) establish the agendas for the meetings in consultation with the other Committee members, and (3) preside at the meetings.
  - 2.3 If the Committee Chair is unable to fulfill his or her duties as the Committee Chair, another Committee member shall act in the place, and perform such duties, of the Committee Chair according to such order of substitution by Committee members as shall be pre-determined by the Committee.
  - 2.4 The secretariat office of the Committee shall be established within Corporate Risk Management Division, Credit & Investment Management Division and Corporate Administration Division (the Secretariat Office of the Board of Directors).

### 3 Operations

- 3.1 The Committee shall meet once each quarter unless it otherwise determines, in which case it shall meet as it deems necessary.

- 3.2 A resolution of the Committee shall be adopted with the affirmative vote of a simple majority of the members present at a meeting, the quorum for which shall be a simple majority of the members who are entitled to vote. Any member who is interested in a matter to be resolved by the Committee may not participate in the resolution of the matter.
- 3.3 Non-executive directors may attend meetings and share their opinions with the Committee.
- 3.4 Meetings of the Committee shall be attended by the members of the Committee and, as instructed by the Committee Chair, by members of the Committee's secretariat office. The Committee may, as it deems necessary, request directors, corporate executive officers, executive officers, general managers and other employees of the Group as well as any external adviser retained pursuant to Section 4.3 hereof attend its meetings.
- 3.5 The Committee may, as it deems necessary, share information relating to its review and deliberation with divisions and offices of the Company and with the Company's subsidiaries through any person who attends a meeting of the Committee pursuant to Section 3.4 hereof.
- 3.6 The Committee Chair or a Committee member who is designated by the Committee Chair shall make reports and recommendations to the Board on such matters which have been reviewed and deliberated by the Committee as the Committee determines to be material. If Committee members or other persons participating in the review and deliberation of such matters have opinions regarding such matters which differ from the Committee's reports or recommendations, the Committee shall disclose such opinions to the Board.
- 3.7 The Committee shall, as it deems necessary, obtain reports on material matters relating to risk management from the Group Chief Risk Officer as well as the Corporate Risk Management Division, the Credit & Investment Management Division and other divisions of the Company involved in risk management, and shall coordinate with them as appropriate.
- 3.8 The Committee shall have prepared minutes of its meetings to properly record its discussions, deliberations and reports, and shall have such minutes appropriately maintained.
- 3.9 The Committee shall conduct an annual evaluation of the performance of its duties and responsibilities and shall report the results of such evaluation to the Board.

#### **4 Authority**

- 4.1 The Committee shall have the authority, among other things, to have divisions or offices of the Company or the subsidiaries of the Company to provide information relevant to the Committee's review and deliberation, to conduct investigations, to consider measures to be implemented, and to provide reports or explanations on the implementation of measures during a meeting of the Committee, so as to assist the Committee in making recommendations and reports to the Board.
- 4.2 In the event that the Committee makes a recommendation to the Board, the Committee shall have the authority to have any division or office of the Company tasked with working on such recommendation report to the Committee on the progress on such work and other relevant matters.
- 4.3 The Committee shall have the authority, upon a resolution of the Board, to retain such external experts as it determines necessary and have such experts participate in discussions of the Committee.
- 4.4 The Company shall provide the funding and other resources as the Committee determines appropriate for the fulfillment of the Committee's purpose and duties and responsibilities set forth herein.
- 4.5 The Committee shall have the authority to appropriately fulfill any and all such duties and responsibilities in relation to the U.S. Risk Committee as are imposed on the Committee under Section 6 hereof.

## **5 Duties and Responsibilities**

### **5.1 Review and Deliberation of Material Matters Relating to the Risk Management Operations of the Group**

- (1) The Committee shall, as it determines necessary, review and deliberate the following matters relating to the risk taking and the risk management of the Group:
  - compliance with the risk capacity and appetite limits in light of each risk management indicator, and
  - other material matters relating to the risk taking and the risk management of the Group.
- (2) The Committee shall, as it determines necessary, review and deliberate the following matters relating to the risk management framework and the risk management methodologies of the Group:
  - the risk appetite framework process and the risk appetite statement (including the risk culture), and
  - other material matters relating to the risk management framework and the risk management methodologies of the Group.
- (3) The Committee shall, as it determines necessary, review and deliberate the following matters relating to plans, measures and other aspects of the operations of the Group from a risk management perspective:
  - risk appetite analyses (including capital allocation) in the process of preparing business plans,
  - stress test scenarios and results, and
  - other material matters relating to plans, measures and other aspects of the operations of the Group.

### **5.2 Review and Deliberation of Top Risk Matters**

- (1) The Committee shall review and deliberate risks which, if they materialize, are expected to have a material impact on the operations of the Group as well as emerging risks and increasing risks to the Group.

### **5.3 Review and Deliberation of Other Material Matters Determined to Be Appropriate for the Committee's Review and Deliberation**

- (1) The Committee shall review and deliberate such matters other than those set forth in Sections 5.1 and 5.2 hereof as the Committee Chair determines appropriate for the Committee's review and deliberation.

### **5.4 Reports and Recommendations to the Board**

- (1) The Committee shall make reports and recommendations to the Board on such matters set forth in Sections 5.1, 5.2 and 5.3 hereof as the Committee determines to be material.

### **5.5 Communication and Coordination with the Audit Committee**

- (1) The Committee shall communicate and coordinate, as appropriate, with the Audit Committee with respect to the matters set forth in Sections 5.1, 5.2 and 5.3 hereof.

## **6 Relationship with the U.S. Risk Committee**

- 6.1 The Committee shall approve by resolution any amendment to, or the abolishment of, the U.S. Risk Committee Policy and the U.S. Risk Committee Operating Procedure and the appointment of the Chair of the U.S. Risk Committee.

- 6.2 The Committee shall receive the report or the recommendation on the material matters which have been reviewed and deliberated at the U.S. Risk Committee based on the U.S. Risk Committee Policy.
- 6.3 The Committee shall monitor the operations of the U.S. Risk Committee and periodically report to the Board on the results of such monitoring.
- 6.4 The Committee shall provide prior consent to such liquidity risk tolerance for the Combined U.S. Operations as is established by the U.S. Risk Committee.
- 6.5 The Committee may, as it determines necessary, express its view to, or request information from, the U.S. Risk Committee regarding the U.S. Risk Committee's discussion or determination on a material matter. In the event that the Committee expresses its view to, or requests information from, the U.S. Risk Committee pursuant to this Section 6.5, the Committee shall make a report or recommendation to the Board regarding such communication and the results of such communication.
- 6.6 The Committee and the Nominating and Governance Committee shall discuss candidates for the U.S. Risk Committee and make reports or recommendations to the Board on such candidates prior to the Board's resolution on the appointment of any member of the U.S. Risk Committee.

## **7 Amendments**

- 7.1 The Committee shall annually review this Charter in terms of its effectiveness, appropriateness and other criteria, considering the Committee's self-evaluation conducted in accordance with Section 3.9 hereof, and determine whether the Charter should be amended. If the Committee determines that any amendment to the Charter is necessary, the Committee shall propose such amendment to the Board.

End

### **Date of Establishment**

December 1, 2017

### **Date of Amendment**

July 1, 2018



Effective October 1, 2007 the Company's American Depositary Share ("ADS") Ratio Changed from 1,000:1 (One Thousand ADSs Representing One Ordinary Share) to 1:1 (One ADS Representing One Ordinary Share)

**THE BANK OF NEW YORK  
AMERICAN DEPOSITARY RECEIPT  
FOR ORDINARY SHARES OF  
MITSUBISHI UFJ FINANCIAL GROUP, INC.  
(INCORPORATED UNDER THE LAWS OF JAPAN)**

The Bank of New York, as depositary (hereinafter called the "Depositary"), hereby certifies that \_\_\_\_\_, or registered assigns IS THE OWNER OF \_\_\_\_\_

**AMERICAN DEPOSITARY SHARES**

representing deposited ordinary Shares (herein called "Shares") of Mitsubishi UFJ Financial Group, Inc. incorporated under the laws of Japan (herein called the "Company"). At the date hereof, each American Depositary Share represents one-thousandth of one Share deposited under the deposit agreement at the Tokyo, Japan office of The Bank of Tokyo-Mitsubishi, Ltd. (herein called the "Custodian"). The Depositary's Corporate Trust Office is located at a different address than its principal executive office. Its Corporate Trust Office is located at 101 Barclay Street, New York, N.Y. 10286, and its principal executive office is located at One Wall Street, New York, N.Y. 10286.

**THE DEPOSITARY'S CORPORATE TRUST OFFICE ADDRESS IS  
101 BARCLAY STREET, NEW YORK, N.Y. 10286**

**1. THE DEPOSIT AGREEMENT.**

This American Depositary Receipt is one of an issue (herein called "Receipts"), all issued and to be issued upon the terms and conditions set forth in the deposit agreement, dated as of September 19, 1989, as amended and restated April 2, 2001, as further amended and restated December 22, 2004 (herein called the "Deposit Agreement"), by and among the Company, the Depositary, and all Owners (as defined below) and holders from time to time of Receipts issued thereunder, each of whom by accepting a Receipt agrees to become a party thereto and become bound by all the terms and conditions thereof. The Deposit Agreement sets forth the rights of Owners and holders of the receipts and the rights and duties of the Depositary in respect of the Shares deposited thereunder and any and all other securities, property and cash from time to time received in respect of such Shares and held thereunder (such Shares, securities, property, and cash are herein called "Deposited Securities"). Copies of the Deposit Agreement are on file at the Depositary's Corporate Trust Office in New York City and at the office of the Custodian.

The statements made on the face and reverse of this Receipt are summaries of certain provisions of the Deposit Agreement and are qualified by and subject to the detailed provisions of the Deposit Agreement, to which reference is hereby made. For the purposes of this Receipt, the term "Owner" shall mean the person in whose name a Receipt is registered on the books of the Depositary maintained for such purpose.

**2. SURRENDER OF RECEIPTS AND WITHDRAWAL OF SHARES.**

Upon surrender at the Corporate Trust office of the Depositary of this Receipt, and upon payment of the fee of the Depositary provided in this Receipt, and subject to the terms and conditions of the following two paragraphs and of the Deposit Agreement, the Owner hereof is entitled to delivery, to him or upon his order, of the Deposited Securities at the time represented by the American Depositary Shares for which this Receipt is issued. Delivery of such Deposited Securities may be made by the delivery of certificates in the name of the

Owner hereof or as ordered by him. Such delivery will be made at the option of the Owner hereof, either at the office of the Custodian or at the corporate Trust Office of the Depositary, provided that the forwarding of certificates for Shares or other Deposited Securities for such delivery at the Corporate Trust Office of the Depositary shall be at the risk and expense of the Owner hereof.

The delivery of Receipts against deposits of Shares generally or against deposits of particular Shares may be suspended, or the transfer of Receipts in particular instances may be refused, or the registration of transfer of outstanding Receipts generally may be suspended, during any period when the register of shareholders of the Company or the transfer books of the Depositary are closed, or if any such action is deemed necessary or advisable by the Depositary or the Company at any time or from time to time because of any requirement of law or of any government or governmental body or commission, or under any provision of the Deposit Agreement, or for any other reason. The surrender of outstanding Receipts and withdrawal of Deposited Securities may not be suspended subject only to (i) temporary delays caused by closing the transfer books of the Depositary or the Company or the Deposit of Shares in connection with voting at a shareholders' meeting, or the payment of dividends, (ii) the payment of fees, taxes and similar charges, and (iii) compliance with any U.S. or foreign laws or governmental regulations relating to the Receipts or to the withdrawal of the Deposited Securities. Without limitation of the foregoing, the Depositary shall not knowingly accept for deposit under the Deposit Agreement any Shares required to be registered under the provisions of the Securities Act of 1933, unless a registration statement is in effect as to such Shares.

In all instances, the American Depositary Shares evidenced by this Receipt may only be presented for cancellation and release of the underlying Shares or other Deposited Securities in multiples of 1,000 American Depositary Shares. Holders of Receipts representing less than 1,000 American Depositary Shares will not be entitled to delivery of any underlying Shares or other Deposited Securities unless such Receipts, together with other Receipts presented by the same holder or Owner at the same time, represent in the aggregate at least 1,000 American Depositary Shares. If any American Depositary Shares are surrendered but not cancelled pursuant to the preceding sentence, the Depositary shall execute and deliver a Receipt or Receipts evidencing the balance of American Depositary Shares not so cancelled to the person or persons surrendering the same.

### **3. TRANSFERS, SPLIT-UPS, AND COMBINATIONS OF RECEIPTS.**

The transfer of this Receipt is registrable on the books of the Depositary at its Corporate Trust Office by the Owner hereof in person or by duly authorized attorney, upon surrender of this Receipt properly endorsed for transfer or accompanied by proper instruments of transfer and funds sufficient to pay any applicable transfer taxes and the fees and expenses of the Depositary and upon compliance with such regulations, if any, as the Depositary may establish for such purpose. This Receipt may be split into other such Receipts, or may be combined with other such Receipts into one Receipt, evidencing the same aggregate number of American Depositary Shares as the Receipt or Receipts surrendered. As a condition precedent to the execution and delivery, registration of transfer, split-up, combination, or surrender of any Receipt, the delivery of any distribution thereon, or withdrawal of any Deposited Securities, the Depositary or the Custodian (i) may require payment from the depositor of Shares or the presenter of the Receipt of a sum sufficient to reimburse it for any tax or other governmental charge and any stock transfer or registration fee with respect thereto (including any such tax or charge and fee with respect to Shares being deposited or withdrawn) and payment of any applicable fees as provided in this Receipt, (ii) may require the production of proof satisfactory to it as to the identity and genuineness of any signature and (iii) may also require compliance with such regulations, if any, as the Depositary may establish consistent with the provisions of the Deposit Agreement.

### **4. LIABILITY OF OWNER FOR TAXES.**

If any tax or other governmental charge shall become payable with respect to any Receipt or any Deposited Securities represented hereby, such tax or other governmental charge shall be payable by the Owner hereof to the Depositary. The Depositary may refuse to effect any transfer of this Receipt or any withdrawal of Deposited Securities represented hereby until such payment is made, and may withhold any dividends or other distributions, or may sell for the account of the Owner hereof any part or all of the Deposited Securities represented by this

Receipt, and may apply such dividends or other distributions or the proceeds of any such sale in payment of such tax or other governmental charge, the Owner hereof remaining liable for any deficiency.

#### **5. WARRANTIES OF DEPOSITORS.**

Every person depositing Shares under the Deposit Agreement shall be deemed thereby to represent and warrant that such Shares and each certificate therefor are validly issued, fully paid, non-assessable, and free of any pre-emption rights of the holders of outstanding Shares and that the person making such deposit is duly authorized so to do. Every such person shall also be deemed to represent that, to the best of such person's knowledge, the deposit of Shares and the sale of Receipts by that person are not restricted under the Securities Act of 1933. Such representations and warranties shall survive the deposit of Shares and issuance of Receipts.

#### **6. FILING PROOFS, CERTIFICATES, AND OTHER INFORMATION.**

Any person presenting Shares for deposit or any Owner of a Receipt may be required from time to time to file such proof of citizenship or residence, exchange control approval, or such information relating to the registration on the books of the Company (or the appointed agent of the Company for transfer and registration of Shares) of the Shares presented for deposit or other information, to execute such certificates and to make such representations and warranties, as the Depositary may deem necessary or proper. The Depositary may withhold the delivery or registration of transfer of any Receipt or the distribution or sale of any dividend or other distribution or rights or of the proceeds thereof or the delivery of any Deposited Securities until such proof or other information is filed or such certificates are executed.

#### **7. CHARGES OF DEPOSITARY.**

The following charges shall be incurred by any party depositing or withdrawing Shares or by any party surrendering Receipts or to whom Receipts are issued (including, without limitation, issuance pursuant to a stock dividend or stock split declared by the Company or an exchange of stock regarding the Receipts or Deposited Securities or a distribution of Receipts pursuant to Section 4.03 of the Deposit Agreement), whichever applicable: (1) taxes and other governmental charges, (2) such registration fees as may from time to time be in effect for the registration of transfers of Shares generally on the Share register of the Company or foreign registrar and applicable to transfers of Shares to the name of the Depositary or its nominee or the Custodian or its nominee on the making of deposits or withdrawals hereunder, (3) such cable, telex and facsimile transmission expenses as are expressly provided in the Deposit Agreement, (4) such expenses as are incurred by the Depositary in the conversion of foreign currency pursuant to Section 4.05 of the Deposit Agreement, (5) a fee of \$5.00 or less per 100 American Depositary Shares (or portion thereof) for the execution and delivery of Receipts pursuant to Section 2.03, 4.03 or 4.04 of the Deposit Agreement and the surrender of Receipts pursuant to Section 2.05 or 6.02 of the Deposit Agreement, (6) to the extent permitted by any securities exchange on which the American Depositary Shares may be listed for trading, a fee of \$.02 or less per American Depositary Share (or portion thereof) for any cash distribution made pursuant to the Deposit Agreement, including, but not limited to Sections 4.01 through 4.04 of the Deposit Agreement, and (7) a fee for the distribution of securities pursuant to Section 4.02 of the Deposit Agreement, such fee being in an amount equal to the fee for the execution and delivery of American Depositary Shares referred to above which would have been charged as a result of the deposit of such securities (for purposes of this clause 7 treating all such securities as if they were Shares) but which securities are instead distributed by the Depositary to Owners.

#### **8. PRE-RELEASE OF RECEIPTS.**

The Depositary may issue Receipts against the delivery by the Company (or any agent of the Company recording Share ownership) of rights to receive Shares from the Company (or any such agent). No such issue of Receipts will be deemed a "Pre-Release" that is subject to the restrictions of the following paragraph.

Unless requested in writing by the Company to cease doing so, the Depositary may, notwithstanding Section 2.03 of the Deposit Agreement, execute and deliver Receipts prior to the receipt of Shares pursuant to Section 2.02 of the Deposit Agreement ("Pre-Release"). The Depositary may, pursuant to Section 2.05 of the

Deposit Agreement, deliver Shares upon the receipt and cancellation of Receipts which have been Pre-Released, whether or not such cancellation is prior to the termination of such Pre-Release or the Depositary knows that such Receipt has been Pre-Released. The Depositary may receive Receipts in lieu of Shares in satisfaction of a Pre-Release. Each Pre-Release will be (a) preceded or accompanied by a written representation and agreement from the person to whom Receipts are to be delivered (the "Pre-Releasee") that the Pre-Releasee, or its customer, (i) owns the Shares or Receipts to be remitted, as the case may be, (ii) assigns all beneficial rights, title and interest in such Shares or Receipts, as the case may be, to the Depositary in its capacity as such and for the benefit of the Owners, and (iii) will not take any action with respect to such Shares or Receipts, as the case may be, that is inconsistent with the transfer of beneficial ownership (including, without the consent of the Depositary, disposing of such Shares or Receipts, as the case may be), other than in satisfaction of such Pre-Release, (b) at all times fully collateralized with cash, U.S. government securities or such other collateral as the Depositary determines, in good faith, will provide substantially similar liquidity and security, (c) terminable by the Depositary on not more than five (5) business days notice, and (d) subject to such further indemnities and credit regulations as the Depositary deems appropriate. The number of Shares not deposited but represented by American Depositary Shares outstanding at any time as a result of Pre-Releases will not normally exceed thirty percent (30%) of the Shares deposited under the Deposit Agreement; provided, however, that the Depositary reserves the right to disregard such limit from time to time as it deems reasonably appropriate, and may, with the prior written consent of the Company, change such limit for purposes of general application. The Depositary will also set Dollar limits with respect to Pre-Release transactions to be entered into under the Deposit Agreement with any particular Pre-Releasee on a case-by-case basis as the Depositary deems appropriate. For purposes of enabling the Depositary to fulfill its obligations to the Owners under the Deposit Agreement, the collateral referred to in clause (b) above shall be held by the Depositary as security for the performance of the Pre-Releasee's obligations to the Depositary in connection with a Pre-Release transaction, including the Pre-Releasee's obligation to deliver Shares or Receipts upon termination of a Pre-Release transaction (and shall not, for the avoidance of doubt, constitute Deposited Securities thereunder).

The Depositary may retain for its own account any compensation received by it in connection with the foregoing

## **9. TITLE TO RECEIPTS.**

It is a condition of this Receipt and every successive holder and Owner of this Receipt (and to the American Depositary Shares evidenced hereby) by accepting or holding the same consents and agrees, that title to this Receipt when properly endorsed or accompanied by proper instruments of transfer, is transferable by delivery with the same effect as in the case of a negotiable instrument, provided, however, that the Depositary, notwithstanding any notice to the contrary, may treat the Owner hereof as the absolute owner hereof for the purpose of determining the person entitled to distribution of dividends or other distributions or to any notice provided for in the Deposit Agreement or for all other purposes.

## **10. VALIDITY OF RECEIPT.**

This Receipt shall not be entitled to any benefits under the Deposit Agreement or be valid or obligatory for any purpose, unless this Receipt shall have been executed by the Depositary by the manual or facsimile signature of a duly authorized signatory of the Depositary and, if a registrar shall have been appointed, countersigned by the manual or facsimile signature of a duly authorized officer of the Registrar.

## **11. REPORTS; INSPECTION OF TRANSFER BOOKS.**

The Company currently furnishes the Securities and Exchange Commission (hereinafter called the Commission) with certain public reports and documents required by foreign law or otherwise under the Securities Exchange Act of 1934. Such reports and Communications will be available for inspection and copying by holders and Owners at the public reference facilities maintained by the Commission located at 450 Fifth Street, N.W., Washington, D.C. 20549.

The Depositary will make available for inspection by Owners of Receipts at its Corporate Trust Office any reports and communications, including any proxy soliciting material, received from the Company which are both (a) received by the Depositary as the holder of the Deposited Securities and (b) made generally available to the holders of such Deposited Securities by the Company. The Depositary will also send to Owners of Receipts copies of such reports when furnished by the Company pursuant to the Deposit Agreement.

The Depositary will keep books for the registration of Receipts and transfers of Receipts which at all reasonable times shall be open for inspection by the Owners of Receipts, provided that such inspection shall not be for the purpose of communicating with Owners of Receipts in the interest of a business or object other than the business of the Company or a matter related to the Deposit Agreement or the Receipts.

## **12. DIVIDENDS AND DISTRIBUTIONS.**

Whenever the Depositary receives any cash dividend or other cash distribution on any Deposited Securities, the Depositary will, if at the time of receipt thereof any amount received in a foreign currency can in the judgment of the Depositary be converted on a reasonable basis into United States dollars (“Dollars”) transferable to the United States, and subject to the Deposit Agreement, convert such dividend or distribution into Dollars and will distribute the amount thus received to the Owners of Receipts entitled thereto, in proportion to the number of American Depositary Shares representing such Deposited Securities held by them, respectively, provided, however, that in the event that the Company or the Depositary is required to withhold and does withhold from any cash dividend or other cash distribution in respect of any Deposited Securities an amount on account of taxes, the amount distributed to the Owners of Receipts for American Depositary Shares representing such Deposited Securities shall be reduced accordingly.

Whenever the Depositary receives any distribution other than cash, Shares, or rights upon any Deposited Securities, the Depositary will cause the securities or property received by it to be distributed to the Owners of Receipts entitled thereto, in proportion to the number of American Depositary Shares representing such Deposited Securities held by them, respectively, in any manner that the Depositary may deem equitable and practicable for accomplishing such distribution; provided, however, that if in the opinion of the Depositary such distribution cannot be made proportionately among the Owners of Receipts entitled thereto, or if for any other reason (including any requirement that the Company or the Depositary withhold an amount on account of taxes) the Depositary deems such distribution not to be feasible, the Depositary may adopt such method as it may deem equitable and practicable for the purpose of effecting such distribution, including the sale, at public or private sale, of the securities or property thus received, or any part thereof, and the net proceeds of any such sale shall be distributed by the Depositary to the Owners of Receipts entitled thereto as in the case of a distribution received in cash.

If any distribution consists of a dividend in, or free distribution of, Shares, the Depositary may, and shall if the Company shall so request, distribute to the Owners of outstanding Receipts entitled thereto, in proportion to the number of American Depositary Shares representing such Deposited Securities held by them respectively, additional Receipts for an aggregate number of American Depositary Shares representing the amount of Shares received as such dividend or free distribution. In lieu of delivering Receipts for fractional American Depositary Shares in any such case, the Depositary will sell the amount of Shares represented by the aggregate of such fractions and distribute the net proceeds, all in the manner and subject to the conditions set forth in the Deposit Agreement. If additional Receipts are not so distributed, each American Depositary Share shall thenceforth also represent the additional Shares distributed upon the Deposited Securities represented thereby.

In the event that the Depositary determines that any distribution in property (including Shares and rights to subscribe therefor) is subject to any tax which the Depositary is obligated to withhold, the Depositary may dispose of all or a portion of such property (including Shares and rights to subscribe therefor) in such amounts and in such manner as the Depositary deems necessary and practicable to pay any such taxes, at public or private sale, and the Depositary shall distribute the net proceeds of any such sale after deduction of such taxes to the Owners of Receipts entitled thereto.

### **13. RIGHTS.**

In the event that the Company offers or causes to be offered to the holders of any Deposited Securities any rights to subscribe for additional Shares or any rights of any other nature, the Depositary, after consultation with the Company, will have discretion as to the procedure to be followed in making such rights available to the Owners of Receipts or in disposing of such rights on behalf of such Owners and making the net proceeds available in Dollars to such Owners; provided, however, that the Depositary will, if requested by the Company, take action as follows:

(i) if at the time of the offering of any rights the Depositary determines that it is lawful and feasible to make such rights available to Owners of Receipts by means of warrants or otherwise, the Depositary will distribute warrants or other instruments therefor in such form as it may determine to the Owners entitled thereto, in proportion to the number of American Depositary Shares representing such Deposited Securities, or employ such other method as it may deem feasible in order to facilitate the exercise, sale or transfer of rights by such Owners; or

(ii) if at the time of the offering of any rights the Depositary determines that it is not lawful or not feasible to make such rights available to Owners of Receipts by means of warrants or otherwise, or if the rights represented by such warrants or such other instruments, are not exercised and appear to be about to lapse, the Depositary in its discretion may sell such rights or such warrants, or other instruments at public or private sale, at such place or places and upon such terms as it may deem proper, and may allocate the net proceeds of such sales for the account of the Owners of Receipts otherwise entitled to such rights, warrants, or other instruments, upon an averaged or other practicable basis without regard to any distinctions among such Owners because of exchange restrictions, or the date of delivery of any Receipt or Receipts, or otherwise.

If registration under the Securities Act of 1933 of the securities to which any rights relate is required in order for the Company to offer such rights to Owners of Receipts and sell the securities represented by such rights, the Depositary will not offer such rights to the Owners of Receipts unless and until such a registration statement is in effect, or unless the offering and sale of such securities to the Owners of such Receipts are exempt from registration under the provisions of such Act.

### **14. RECORD DATES.**

Whenever any cash dividend or other cash distribution shall become payable or any distribution other than cash shall be made, or whenever rights shall be issued with respect to the Deposited Securities, or whenever for any reason the Depositary causes a change in the number of Shares that are represented by each American Depositary Share or whenever the Depositary shall receive notice of any meeting of holders of Shares or other Deposited Securities, the Depositary will fix a record date for the determination of the Owners of Receipts who will be entitled to receive such dividend, distribution or rights, or the net proceeds of the sale thereof, or to give instructions for the exercise of voting rights at any such meeting, or for fixing the date on or after which each American Depositary Share will represent the changed number of Shares, subject to the provisions of the Deposit Agreement.

### **15. VOTING OF DEPOSITED SECURITIES.**

Upon receipt of notice of any meeting of holders of Shares or other Deposited Securities, the Depositary shall, as soon as practicable thereafter, mail to the Owners a notice, which shall contain (a) such information as is contained in such notice of meeting, (b) a statement that the Owners as of the close of business on a specified record date will be entitled, subject to any applicable provision of Japanese law and of the Articles of Incorporation of the Company, to instruct the Depositary as to the exercise of the voting rights, if any, pertaining to the amount of Shares or other Deposited Securities represented by their respective American Depositary Shares and (c) a brief statement as to the manner in which such instructions may be given, including an express indication that instructions may be given, or deemed given in accordance with the last sentence of this Article 15, to the Depositary to give a discretionary proxy to a person designated by the Company. Upon the written request of an Owner on the specified record date, received on or before the date established by the Depositary for such purpose (the "Instruction Date"), the Depositary shall endeavor in so far as practicable to vote or cause to be

voted the amount of Shares or other Deposited Securities represented by such Receipt in accordance with the instructions set forth in such request. So long as Japanese law provides that votes may only be cast with respect to one or more whole Shares or other Deposited Securities, the Depositary shall aggregate voting instructions to the extent such instructions are the same and vote such whole Shares or other Deposited Securities in accordance with the Owners' instructions. If after aggregation of all instructions to vote received by the Depositary, any portion of which constitutes instructions with respect to less than a whole Share or other Deposited Security, the Depositary will not vote or cause to be voted the Shares or other Deposited Securities to which such portion of the instructions apply. The Depositary shall not vote or attempt to exercise the right to vote that attaches to the Shares or other Deposited Securities, other than in accordance with such instructions or deemed instructions. If no instructions are received by the Depositary from any Owner with respect to any of the Deposited Securities represented by the American Depositary Shares evidenced by such Owner's Receipts on or before the Instruction Date, the Depositary shall deem such Owner to have instructed the Depositary to give a discretionary proxy to a person designated by the Issuer with respect to such Deposited Securities and the Depositary shall give a discretionary proxy to a person designated by the Issuer to vote such Deposited Securities provided, that no such instruction shall be given with respect to any matter as to which the Issuer informs the Depositary (and the Issuer agrees to provide such information as promptly as practicable in writing) that (x) the Issuer does not wish such proxy given, (y) substantial opposition exists or (z) such matter materially and adversely affects the rights of holders of shares.

#### **16. CHANGES AFFECTING DEPOSITED SECURITIES.**

Upon any change in nominal value, change in par value, split-up, consolidation, or any other reclassification of Deposited Securities, or upon any recapitalization, reorganization, merger or consolidation, or sale of assets affecting the Company or to which it is a party, any securities which shall be received by the Depositary or a Custodian in exchange for or in conversion of or in respect of Deposited Securities shall be treated as new Deposited Securities under the Deposit Agreement, and American Depositary Shares shall thenceforth represent the new Deposited Securities so received in exchange or conversion, unless additional Receipts are delivered pursuant to the following sentence. In any such case the Depositary may, and shall if the Company shall so request, execute and deliver additional Receipts as in the case of a dividend on the Shares, or call for the surrender of outstanding Receipts to be exchanged for new Receipts specifically describing such new Deposited Securities.

#### **17. LIABILITY OF THE DEPOSITARY, THE CUSTODIAN AND THE COMPANY.**

None of the Depositary, the Custodian, or the Company shall incur any liability to any Owner or holder of any Receipt, if by reason of any provision of any present or future law of the United States or any other country, or of any other governmental authority, or by reason of any provision, present or future, of the Articles of Incorporation of the Company, or by reason of any act of God or war or other circumstances beyond its control, the Depositary, the Custodian or the Company shall be prevented or forbidden from doing or performing any act or thing which by the terms of the Deposit Agreement it is provided shall be done or performed; nor shall the Depositary, the Custodian, or the Company incur any liability to any Owner or holder of a Receipt by reason of any non-performance or delay, caused as aforesaid, in the performance of any act or thing which by the terms of the Deposit Agreement it is provided shall or may be done or performed, or by reason of any exercise of, or failure to exercise, any discretion provided for in the Deposit Agreement. Where, by the terms of a distribution pursuant to Sections 4.01, 4.02, or 4.03 of the Deposit Agreement, or an offering or distribution pursuant to Section 4.04 of the Deposit Agreement, or for any other reason, such distribution or offering is not and may not lawfully be made available to Owners of Receipts, and the Depositary may not lawfully dispose of such distribution or offering on behalf of such Owners and make the net proceeds available to such Owners, then the Depositary shall not make such distribution or offering, and shall allow any rights, if applicable, to lapse. The Company assumes no obligation nor shall it be subject to any liability under the Deposit Agreement to Owners or holders of Receipts, except that it agrees to perform its obligations specifically set forth in the Deposit Agreement without negligence or bad faith. Neither the Depositary nor the Custodian assumes any obligation nor shall either of them be subject to any liability under the Deposit Agreement to any Owner or holder (including, without limitation, liability with respect to the validity or worth of the Deposited Securities), except that the

Depository agrees to perform its obligations specifically set forth in the Deposit Agreement without negligence or bad faith. Neither the Depository nor the Company shall be under any obligation to appear in, prosecute or defend any action, suit, or other proceeding in respect of any Deposited Securities or in respect of the Receipts, which in its opinion may involve it in expense or liability, unless indemnity satisfactory to it against all expense and liability be furnished as often as may be required, and the Custodian shall not be under any obligation whatsoever with respect to such proceedings, the responsibility of the Custodian being solely to the Depository. None of the Depository, the Custodian, or the Company shall be liable for any action or nonaction by it in reliance upon the advice of or information from legal counsel, accountants, any person presenting Shares for deposit, any Owner or holder of a Receipt, or any other person believed by it in good faith to be competent to give such advice or information or for any translation of any notice, report or other document made by a translator believed by it to be competent. The Depository shall not be responsible for any failure to carry out any instructions to vote any of the Deposited Securities, or for the manner in which any such vote is cast or the effect of any such vote, provided that any such action or nonaction is in good faith. The Depository shall not be liable for any acts or omissions made by a successor depository whether in connection with a previous act or omission of the Depository or in connection with a matter arising wholly after the removal or resignation of the Depository, provided that in connection with the issue out of which such potential liability arises the Depository performed its obligations without negligence or bad faith while it acted as Depository. The Depository may own and deal in any class of securities of the Company and its affiliates and in Receipts. The Company has agreed in the Deposit Agreement to indemnify the Depository and any Custodian against, and hold each of them harmless from, any liability or expense (including, but not limited to, the reasonable fees and expenses of counsel) which may arise out of acts performed or omitted, in accordance with the provisions of the Deposit Agreement and of the Receipts, as the same may be amended, modified or supplemented from time to time, (i) by either the Depository or a Custodian, except for any liability or expense arising out of the negligence or bad faith of either of them, or (ii) by the Company or any of its agents. The indemnities contained in the preceding sentence shall not extend to any liability or expense which arises solely and exclusively out of a Pre-Release (as defined in Section 2.09 of the Deposit Agreement) of a Receipt or Receipts in accordance with Section 2.09 of the Deposit Agreement and which would not otherwise have arisen had such Receipt or Receipts not been the subject of a Pre-Release pursuant to Section 2.09 of the Deposit Agreement; provided, however, that the indemnities provided in the preceding sentence shall apply to any such liability or expense (i) to the extent that such liability or expense would have arisen had a Receipt or Receipts not been the subject of a Pre-Release, or (ii) which may arise out of any misstatement or alleged misstatement or omission or alleged omission in any registration statement, proxy statement, prospectus (or placement memorandum), or preliminary prospectus (or preliminary placement memorandum) relating to the offer or sale of American Depositary Shares, except to the extent any such liability or expense arises out of (a) information relating to the Depository or any Custodian (other than the Company), as applicable, furnished in writing and not materially changed or altered by the Company expressly for use in any of the foregoing documents, or, (b) if such information is provided, the failure to state a material fact necessary to make the information provided not misleading. Any person entitled to indemnification pursuant to the preceding sentence who seeks indemnification under the Deposit Agreement shall notify the Company of the commencement of any indemnifiable action or claim promptly after such person becomes aware of such commencement and shall consult in good faith with the Company as to the conduct of the defense of such action or claim (including the compromise or settlement thereof), which shall be reasonable in the circumstances. No disclaimer of liability under the Securities Act of 1933 is intended by any provision of the Deposit Agreement.

#### **18. RESIGNATION AND REMOVAL OF THE DEPOSITORY; APPOINTMENT OF SUCCESSOR CUSTODIAN.**

The Depository may at any time resign as Depository under the Deposit Agreement by written notice of its election so to do delivered to the Company, such resignation to take effect upon the appointment of a successor depository and its acceptance of such appointment as provided in the Deposit Agreement. The Depository may at any time be removed by the Company by 120 days prior written notice of such removal, which shall become effective upon the later to occur of (i) the 120th day after delivery of the notice to the Depository or (ii) appointment of a successor depository and its acceptance of such appointment as provided in the Deposit Agreement. Whenever the Depository in its discretion determines that it is in the best interest of the Owners of Receipts to do so, it may appoint a substitute or additional custodian or custodians.



## **19. AMENDMENT.**

The form of the Receipts and any provisions of the Deposit Agreement may at any time and from time to time be amended by agreement between the Company and the Depositary in any respect which they may deem necessary or desirable. Any amendment which shall impose or increase any fees or charges (other than taxes and other governmental charges, registration fees, cable, telex or facsimile transmission costs, delivery costs or other such expenses), or which shall otherwise prejudice any substantial existing right of Owners of Receipts, shall, however, not become effective as to outstanding Receipts until the expiration of three months after notice of such amendment shall have been given to the Owners of outstanding Receipts. Every Owner of a Receipt at the time any amendment so becomes effective shall be deemed, by continuing to hold such Receipt, to consent and agree to such amendment and to be bound by the Deposit Agreement as amended thereby. In no event shall any amendment impair the right of the Owner of any Receipt to surrender such Receipt and receive therefor the Deposited Securities represented thereby.

## **20. TERMINATION OF DEPOSIT AGREEMENT.**

The Depositary will at any time at the direction of the Company terminate the Deposit Agreement by mailing notice of such termination to the Owners of all Receipts then outstanding at least 30 days prior to the date fixed in such notice for such termination. The Depositary may likewise terminate the Deposit Agreement if at any time 60 days shall have expired after the Depositary shall have delivered to the Company a written notice of its election to resign and a successor depositary shall not have been appointed and accepted its appointment as provided in the Deposit Agreement. If any Receipts shall remain outstanding after the date of termination, the Depositary thereafter shall discontinue the registration of transfers of Receipts, shall suspend the distribution of dividends to the Owners thereof, and shall not give any further notices or perform any further acts under the Deposit Agreement, except that the Depositary shall continue to collect dividends and other distributions pertaining to Deposited Securities, shall sell rights as provided in the Deposit Agreement, and shall continue to deliver Deposited Securities, together with any dividends or other distributions received with respect thereto and the net proceeds of the sale of any rights or other property, in exchange for Receipts surrendered to the Depositary. At any time after the expiration of one year from the date of termination, the Depositary may sell the Deposited Securities then held under the Deposit Agreement and may thereafter hold uninvested the net proceeds of any such sale, together with any other cash then held by it thereunder, without liability for interest, for the pro rata benefit of the Owners of Receipts which have not theretofore been surrendered, such Owners thereupon becoming general creditors of the Depositary with respect to such net proceeds. After making such sale, the Depositary shall be discharged from all obligations under the Deposit Agreement, except to account for such net proceeds and other cash. Upon the termination of the Deposit Agreement, the Company shall be discharged from all obligations under the Deposit Agreement except for its obligations to the Depositary with respect to indemnification, charges, and expenses.

## **21. COMPLIANCE WITH U.S. SECURITIES LAWS.**

Notwithstanding anything in the Deposit Agreement or this Receipt to the contrary, the Company and the Depositary each agrees that it will not exercise any rights it has under the Deposit Agreement to permit the withdrawal or delivery of Deposited Securities in a manner which would violate the U.S. securities laws, including, but not limited to, Section I.A.(1) of the General Instructions to the Form F-6 Registration Statement, as amended from time to time, under the Securities Act of 1933.

## **22. GOVERNING LAW.**

This Receipt and all rights under the Deposit Agreement and provisions hereof shall be governed by and construed in accordance with the laws of the State of New York, United States of America. It is understood that notwithstanding any present or future provision of the laws of the State of New York, the rights of holders of Shares, and the duties and obligations of the Company in respect of such holders, as such, shall be governed by the laws of Japan.

**MITSUBISHI TOKYO FINANCIAL GROUP, INC.  
(F/K/A THE BANK OF TOKYO-MITSUBISHI, LTD.)**

**AND**

**THE BANK OF NEW YORK**

**As Depositary**

**AND**

**OWNERS AND HOLDERS OF AMERICAN DEPOSITARY RECEIPTS**

**Deposit Agreement**

**Dated as of September 19, 1989**

**Amended and Restated as of April 2, 2001**

**As further Amended and Restated as of December 22, 2004**

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## DEPOSIT AGREEMENT

**DEPOSIT AGREEMENT** dated as of September 19, 1989, as amended and restated as of April 2, 2001, as further amended and restated as of December 22, 2004, among MITSUBISHI TOKYO FINANCIAL GROUP, INC., incorporated under the laws of Japan (herein called the Issuer), THE BANK OF NEW YORK, a New York banking corporation (herein called the Depositary), and all Owners and holders from time to time of American Depositary Receipts issued hereunder.

### WITNESSETH:

**WHEREAS**, the Issuer desires to provide, as hereinafter set forth in this Deposit Agreement, for the deposit of Shares of Common Stock (herein called Shares) of the Issuer from time to time with the Depositary or with the Tokyo, Japan office of The Bank of Tokyo-Mitsubishi, Ltd. (in such capacity herein called the Custodian), as agent of the Depositary for the purposes set forth in this Deposit Agreement, for the creation of American Depositary Shares representing the Shares so deposited and for the execution and delivery of American Depositary Receipts in respect of the American Depositary Shares; and

**WHEREAS**, the American Depositary Receipts are to be substantially in the form of Exhibit A annexed hereto, with appropriate insertions, modifications and omissions, as hereinafter provided in this Deposit Agreement;

**NOW, THEREFORE**, in consideration of the premises, it is agreed by and between the parties hereto as follows:

#### ARTICLE 1. DEFINITIONS.

The following definitions shall for all purposes, unless otherwise clearly indicated, apply to the respective terms used in this Deposit Agreement:

##### **SECTION 1.01. Issuer.**

The term "Issuer" shall mean Mitsubishi Tokyo Financial Group, Inc. incorporated under the laws of Japan, and its successors.

##### **SECTION 1.02. Depositary; Corporate Trust Office.**

The term "Depositary" shall mean The Bank of New York, a New York banking corporation, and any successor as depositary hereunder. The term "Corporate Trust Office", when used with respect to the Depositary, shall mean the office of the Depositary which at the date of this Deposit Agreement is located at 101 Barclay Street, New York, New York, 10286.

##### **SECTION 1.03. Custodian.**

The term "Custodian" shall mean the principal office of The Bank of Tokyo-Mitsubishi, Ltd., as agent of the Depositary for the purposes of this Deposit Agreement, and any other firm or corporation which may hereafter be appointed by the Depositary pursuant to the terms of Section 5.05, as substitute or additional custodian or custodians hereunder, as the context shall require and the term "Custodians" shall mean all of them, collectively.

##### **SECTION 1.04. Deposit Agreement.**

The term "Deposit Agreement" shall mean this amended and restated Deposit Agreement, as the same may be amended from time to time in accordance with the provisions hereof.

**SECTION 1.05. *Shares.***

The term “Shares” shall mean Shares of Common Stock in registered form of the Issuer, par value 50,000 yen each, heretofore validly issued and outstanding and fully paid, non-assessable and free of any pre-emption rights of the holders of outstanding Shares or hereafter validly issued and outstanding and fully paid, non-assessable and free of any pre-emption rights of the holders of outstanding Shares or interim certificates representing such Shares.

**SECTION 1.06. *Deposited Securities.***

The term “Deposited Securities” as of any time shall mean Shares at such time deposited or deemed to be deposited under this Deposit Agreement and any and all other securities, property and cash received by the Depository or the Custodian in respect thereof and at such time held hereunder, subject as to cash to the provisions of Section 4.05.

**SECTION 1.07. *Receipts.***

The term “Receipts” shall mean the American Depositary Receipts issued hereunder evidencing American Depositary Shares.

**SECTION 1.08. *American Depositary Shares.***

The term “American Depositary Shares” shall mean the rights represented by the Receipts issued hereunder and the interests in the Deposited Securities represented thereby. Each American Depositary Share shall represent one-thousandth of one Share, until there shall occur a distribution upon Deposited Securities covered by Section 4.03 or a change in Deposited Securities covered by Section 4.08 with respect to which additional Receipts are not executed and delivered, and thereafter American Depositary Shares shall evidence the amount of Shares or Deposited Securities specified in such Sections.

**SECTION 1.09. *Owner.***

The term “Owner” shall mean the person in whose name a Receipt is registered on the books of the Depository maintained for such purpose.

**SECTION 1.10. *Registrar.***

The term “Registrar” shall mean any bank or trust company having an office in the Borough of Manhattan, The City of New York, which shall be appointed to register Receipts and transfers of Receipts as herein provided.

**SECTION 1.11. *Dollars.***

The term “Dollars” shall mean United States dollars.

**SECTION 1.12. *Delivery; Deposit; Surrender; Transfer; Withdrawal.***

The terms “deliver”, “deposit”, “surrender”, “transfer” or “withdraw”, when used (i) with respect to Shares: (a) in the case of book-entry Shares, shall refer to an entry or entries in an account or accounts maintained by institutions authorized under applicable law to effect transfers of securities, or (b) in the case of certificated Shares, to the physical delivery, deposit, surrender, transfer or withdrawal of certificates representing the Shares and (ii) with respect to American Depositary Shares evidenced by Receipts, (a) in the case of American Depositary Shares available in book-entry form, shall refer to appropriate adjustments in the records maintained

by (1) the Depository, (2) the Depository Trust Company (“DTC”) or its nominee, or (3) institutions that have accounts with DTC, as applicable, or (b) otherwise, shall refer to the physical delivery, deposit, surrender, transfer or withdrawal of such American Depository Shares evidenced by Receipts.

**SECTION 1.13. *Securities Act of 1933.***

The term “Securities Act of 1933” shall mean the United States Securities Act of 1933, as from time to time amended.

**SECTION 1.14. *Commission.***

The term “Commission” shall mean the Securities and Exchange Commission of the United States or any successor governmental agency in the United States.

**SECTION 1.15. *Restricted Securities.***

The term “Restricted Securities” shall mean Shares as defined above, or Receipts representing such Shares, which are acquired directly or indirectly from the Issuer or its affiliates (as defined in Rule 144 to the Securities Act of 1933) in a transaction or chain of transactions not involving any public offering or which are subject to resale limitations under Regulation D under that Act or both, or which are held by an officer, director (or persons performing similar functions) or other affiliate of the Issuer, or which are subject to other restrictions on sale or deposit under the laws of the United States, Japan, or under a shareholder agreement or the Articles of Incorporation and the Share Handling Regulations of the Issuer.

**SECTION 1.16. *Yen.***

The term “yen” shall mean Japanese yen.

**ARTICLE 2. FORM OF RECEIPTS, DEPOSIT OF SHARES, EXECUTION AND DELIVERY, TRANSFER AND SURRENDER OF RECEIPTS.**

**SECTION 2.01. *Form and Transferability of Receipts.***

Definitive Receipts shall be substantially in the form set forth in Exhibit A annexed to this Deposit Agreement, with appropriate insertions, modifications and omissions, as hereinafter provided. Such Receipts shall be executed by the Depository by the manual or facsimile signature of a duly authorized signatory of the Depository and, if a Registrar for the Receipts shall have been appointed, countersigned by the manual or facsimile signature of a duly authorized officer of the Registrar. No Receipt shall be entitled to any benefits under this Deposit Agreement or be valid or obligatory for any purpose, unless such Receipt shall have been executed by the Depository by the manual or facsimile signature of a duly authorized signatory and, if a Registrar shall have been appointed, countersigned by the manual or facsimile signature of a duly authorized officer of the Registrar. The Depository shall maintain books on which each Receipt so executed and delivered as hereinafter provided and the transfer of each such Receipt shall be registered. Receipts bearing the manual or facsimile signature of a duly authorized signatory of the Depository who was at any time a proper signatory of the Depository shall bind the Depository, notwithstanding that such signatory has ceased to hold such office prior to the execution of such Receipts by the Registrar and their delivery or did not hold such office at the date of such Receipts.

The Receipts may be endorsed with or have incorporated in the text thereof such legends or recitals or changes not inconsistent with the provisions of this Deposit Agreement as may be required by the Depository or required to comply with any applicable law or regulations thereunder or with the rules and regulations of any securities exchange upon which Receipts may be listed or to conform with any usage with respect thereto, or to

indicate any special limitations or restrictions to which any particular Receipts are subject by reason of the date of issuance of the underlying Deposited Securities or otherwise.

Title to a Receipt (and to the American Depositary Shares evidenced thereby), when properly endorsed or accompanied by proper instruments of transfer, shall be transferable by delivery with the same effect as in the case of a negotiable instrument; provided, however, that the Depositary, notwithstanding any notice to the contrary, may treat the Owner thereof as the absolute owner thereof for the purpose of determining the person entitled to distribution of dividends or other distributions or to any notice provided for in this Deposit Agreement and for all other purposes.

## **SECTION 2.02. *Deposit of Shares.***

Subject to the terms and conditions of this Deposit Agreement, Shares or evidence of rights to receive Shares may be deposited by delivery thereof to any Custodian hereunder, accompanied by any appropriate instrument or instruments of transfer, or endorsement, in form satisfactory to the Custodian, together with all such certifications as may be required by the Depositary or the Custodian in accordance with the provisions of this Deposit Agreement and, if the Depositary requires, together with a written order directing the Depositary to execute and deliver to, or upon the written order of, the person or persons stated in such order a Receipt or Receipts for the number of American Depositary Shares representing such deposit. No Share shall be accepted for deposit unless accompanied by evidence satisfactory to the Depositary that any necessary approval has been granted by the governmental body in Japan, if any, which is then performing the function of the regulation of currency exchange if required by the Depositary. Shares presented for deposit at any time, whether or not the transfer books of the Issuer (or the appointed agent of the Issuer for transfer and registration of Shares) are closed, shall also be accompanied by an agreement or assignment, or other instrument satisfactory to the Depositary, which will provide for the prompt transfer to the Custodian of any dividend, or right to subscribe for additional Shares or to receive other property which any person in whose name the Shares are or have been recorded may thereafter receive upon or in respect of such deposited Shares, or in lieu thereof, such agreement of indemnity or other agreement as shall be satisfactory to the Depositary.

At the request and risk and expense of any person proposing to deposit Shares, and for the account of such person, the Depositary may receive certificates for Shares to be deposited, together with the other instruments herein specified, for the purpose of forwarding such Share certificates to the Custodian for deposit hereunder.

Subject to the terms and conditions of this Deposit Agreement, Shares may also be deposited hereunder in connection with the delivery of Receipts to represent distributions under Section 4.03 or upon exercise of the rights to subscribe referred to in Section 4.04; provided, however, that in such event if by operation of applicable provisions of the Japanese Commercial Code or any other Japanese law no certificate for any number of Shares issued upon such distribution or upon such exercise is issuable, such number of Shares which would form a part of the Deposited Securities in respect of the Receipts to be delivered pursuant to Section 4.03 or 4.04 shall be deemed to be deposited hereunder without delivery of such certificate to the Custodian if such Shares are registered in the name of the Depositary or its nominee or the Custodian or its nominee on the books of the Issuer at the time of the issue of such Shares.

Upon each delivery to a Custodian of a certificate or certificates for Shares to be deposited hereunder, together with the other documents above specified, such Custodian shall, as soon as transfer and recordation can be accomplished, present such certificate or certificates to the Issuer (or the appointed agent of the Issuer for transfer and registration of Shares), for transfer and recordation of the Shares being deposited in the name of the Depositary or its nominee or such Custodian or its nominee.

Deposited Securities shall be held by the Depositary or by a Custodian for the account and to the order of the Depositary or at such other place or places as the Depositary shall determine.



**SECTION 2.03. *Execution and Delivery of Receipts.***

Upon receipt by any Custodian of any deposit pursuant to Section 2.02 hereunder (and in addition, if the transfer books of the Issuer (or the appointed agent of the Issuer for the transfer and registration of Shares) are open, the Depositary may require a proper acknowledgment or other evidence from the Issuer satisfactory to the Depositary that any Deposited Securities have been recorded upon the books of the Issuer (or the appointed agent of the Issuer for the transfer and registration of Shares) in the name of the Depositary or its nominee or such Custodian or its nominee), together with the other documents required as above specified, such Custodian shall notify the Depositary of such deposit and the person or persons to whom or upon whose written order a Receipt or Receipts are deliverable in respect thereof and the number of American Depositary Shares to be evidenced thereby. Such notification shall be made by letter or, at the request and risk and expense of the person making the deposit, by cable, telex or facsimile transmission. Upon receiving such notice from such Custodian, or upon the receipt of Shares by the Depositary, the Depositary, subject to the terms and conditions of this Deposit Agreement, shall execute and deliver at its Corporate Trust Office, to or upon the order of the person or persons entitled thereto, a Receipt or Receipts, registered in the name or names and evidencing any authorized number of American Depositary Shares requested by such person or persons, but only upon payment to the Depositary of the fee of the Depositary for the execution and delivery of such Receipt or Receipts, and of all taxes and governmental charges and fees payable in connection with such deposit and the transfer of the Deposited Securities.

**SECTION 2.04. *Transfer of Receipts; Combination and Split-up of Receipts.***

The Depositary, subject to the terms and conditions of this Deposit Agreement, shall register transfers on its transfer books from time to time of Receipts, upon any surrender of a Receipt, by the Owner in person or by duly authorized attorney, properly endorsed or accompanied by proper instruments of transfer, and duly stamped as may be required by the laws of the State of New York and of the United States of America. Thereupon the Depositary shall execute a new Receipt or Receipts and deliver the same to or upon the order of the person entitled thereto.

The Depositary, subject to the terms and conditions of this Deposit Agreement, shall upon surrender of a Receipt or Receipts for the purpose of effecting a split-up or combination of such Receipt or Receipts, execute and deliver a new Receipt or Receipts for any authorized number of American Depositary Shares requested, evidencing the same aggregate number of American Depositary Shares as the Receipt or Receipts surrendered.

The Depositary may appoint one or more co-transfer agents for the purpose of effecting transfers, combinations and split-ups of Receipts at designated transfer offices on behalf of the Depositary. In the event a co-transfer agent is appointed it shall carry out its functions on behalf of the Depositary in accordance with any applicable laws, requirements of any stock exchange upon which the Receipts or the American Depositary Shares are listed and in accordance with the instructions of the Depositary. In carrying out its functions, a co-transfer agent may require evidence of authority and compliance with applicable laws and other requirements by holders or Owners or persons entitled thereto and will be entitled to protection and indemnity to the same extent as the Depositary.

**SECTION 2.05. *Surrender of Receipts and Withdrawal of Shares.***

Upon surrender at the Corporate Trust Office of the Depositary of a Receipt for the purpose of withdrawal of the Deposited Securities represented thereby, and upon payment of the fee of the Depositary for the cancellation of Receipts, and subject to the terms and conditions of this Deposit Agreement, the Owner of such Receipt shall be entitled to delivery, to him or upon his order, of the amount of Deposited Securities at the time represented by such Receipt. Delivery of such Deposited Securities may be made by the delivery of certificates to such Owner or as ordered by him. Such delivery shall be made, as hereinafter provided, without unreasonable delay.

A Receipt surrendered for such purposes may be required by the Depositary to be properly endorsed in blank or accompanied by proper instruments of transfer in blank, and if the Depositary requires, the Owner thereof shall execute and deliver to the Depositary a written order directing the Depositary to cause the Deposited Securities being withdrawn to be delivered to or upon the written order of a person or persons designated in such order. Thereupon the Depositary shall direct one (or more) of the Custodians to deliver at the Tokyo, Japan office of such Custodian, subject to Sections 2.06, 3.01 and 3.02, and to the other terms and conditions of this Deposit Agreement, to or upon the written order of the person or persons designated in the order delivered to the Depositary if so required by the Depositary and as above provided, the amount of Deposited Securities represented by such Receipt, except that the Depositary may make delivery to such person or persons at the Corporate Trust Office of the Depositary of any dividends or distributions with respect to the Deposited Securities represented by such Receipt, or of any proceeds of sale of any dividends, distributions or rights, which may at the time be held by the Depositary.

At the request, risk and expense of any Owner so surrendering a Receipt, and for the account of such Owner, the Depositary shall direct the Custodian to forward a certificate or certificates and other proper documents of title for the Deposited Securities represented by such Receipt to the Depositary for delivery at the Corporate Trust Office of the Depositary. Such direction shall be given by letter or, at the request, risk and expense of such Owner, by cable, telex or facsimile transmission.

**SECTION 2.06. *Limitations on Execution and Delivery, Transfer and Surrender of Receipts.***

As a condition precedent to the execution and delivery, registration, registration of transfer, split-up, combination or surrender of any Receipt, the delivery of any distribution thereon, or the withdrawal of any Deposited Securities, the Depositary or the Custodian (i) may require payment from the depositor of Shares or the presenter of the Receipt of a sum sufficient to reimburse it for any tax or other governmental charge and any stock transfer or registration fee with respect thereto (including any such tax or charge and fee with respect to Shares being deposited or withdrawn) and payment of any applicable fees as herein provided, (ii) may require the production of proof satisfactory to it as to the identity and genuineness of any signature and (iii) may also require compliance with such regulations, if any, as the Depositary may establish consistent with the provisions of this Deposit Agreement.

The delivery of Receipts against deposits of Shares generally or against deposits of particular Shares may be suspended, or the transfer of Receipts in particular instances may be refused, or the registration of transfer of outstanding Receipts generally may be suspended, during any period when the register of shareholders of the Issuer or the transfer books of the Depositary are closed, or if any such action is deemed necessary or advisable by the Depositary or the Issuer at any time or from time to time because of any requirement of law or of any government or governmental body or commission, or under any provision of this Deposit Agreement; the surrender of outstanding Receipts and withdrawal of Deposited Securities may not be suspended subject only to (i) temporary delays caused by closing the transfer books of the Depositary or the Issuer or the deposit of Shares in connection with voting at a shareholders' meeting, or the payment of dividends, (ii) the payment of fees, taxes and similar charges, and (iii) compliance with any United States or foreign laws or governmental regulations relating to the Receipts or to the withdrawal of the Deposited Securities. Without limitation of the foregoing, the Depositary shall not knowingly accept for deposit under this Deposit Agreement any Shares required to be registered under the provisions of the Securities Act of 1933, unless a registration statement is in effect as to such Shares.

In all instances, the American Depositary Shares evidenced by a Receipt may only be presented for cancellation and release of the underlying Shares or other Deposited Securities in multiples of 1,000 American Depositary Shares. Holders of Receipts representing less than 1,000 American Depositary Shares will not be entitled to delivery of any underlying Shares or other Deposited Securities unless such Receipts, together with other Receipts presented by the same holder or Owner at the same time, represent in the aggregate at least 1,000 American Depositary Shares. If any American Depositary Shares are surrendered but not cancelled pursuant to

the preceding sentence, the Depository shall execute and deliver a Receipt or Receipts evidencing the balance of American Depositary Shares not so cancelled to the person or persons surrendering the same.

**SECTION 2.07. *Lost Receipts, etc.***

In case any Receipt shall be mutilated, destroyed, lost or stolen, the Depository shall execute and deliver a new Receipt of like tenor, in exchange and substitution for such mutilated Receipt upon cancellation thereof, or in lieu of and in substitution for such destroyed or lost or stolen Receipt, upon the Owner thereof filing with the Depository (a) a request for such execution and delivery before the Depository has notice that the Receipt has been acquired by a bona fide purchaser and (b) a sufficient indemnity bond and satisfying any other reasonable requirements imposed by the Depository.

**SECTION 2.08. *Cancellation and Destruction of Surrendered Receipts.***

All Receipts surrendered to the Depository shall be cancelled by the Depository. The Depository is authorized to destroy Receipts so cancelled.

**SECTION 2.09. *Pre-Release of Receipts.***

The Depository may issue Receipts against the delivery by the Issuer (or any agent of the Issuer recording Share ownership) of rights to receive Shares from the Issuer (or any such agent). No such issue of Receipts will be deemed a "Pre-Release" that is subject to the restrictions of the following paragraph.

Unless requested in writing by the Issuer to cease doing so, the Depository may, notwithstanding Section 2.03 hereof, execute and deliver Receipts prior to the receipt of Shares pursuant to Section 2.02 ("Pre-Release"). The Depository may, pursuant to Section 2.05, deliver Shares upon the receipt and cancellation of Receipts which have been Pre-Released, whether or not such cancellation is prior to the termination of such Pre-Release or the Depository knows that such Receipt has been Pre-Released. The Depository may receive Receipts in lieu of Shares in satisfaction of a Pre-Release. Each Pre-Release will be (a) preceded or accompanied by a written representation and agreement from the person to whom Receipts are to be delivered (the "Pre-Releasee") that the Pre-Releasee, or its customer, (i) owns the Shares or Receipts to be remitted, as the case may be, (ii) assigns all beneficial rights, title and interest in such Shares or Receipts, as the case may be, to the Depository in its capacity as such and for the benefit of the Owners, and (iii) will not take any action with respect to such Shares or Receipts, as the case may be, that is inconsistent with the transfer of beneficial ownership (including, without the consent of the Depository, disposing of such Shares or Receipts, as the case may be), other than in satisfaction of such Pre-Release, (b) at all times fully collateralized with cash, U.S. government securities or such other collateral as the Depository determines, in good faith, will provide substantially similar liquidity and security, (c) terminable by the Depository on not more than five (5) business days notice, and (d) subject to such further indemnities and credit regulations as the Depository deems appropriate. The number of Shares not deposited but represented by American Depositary Shares outstanding at any time as a result of Pre-Releases will not normally exceed thirty percent (30%) of the Shares deposited hereunder; provided, however, that the Depository reserves the right to disregard such limit from time to time as it deems reasonably appropriate, and may, with the prior written consent of the Issuer, change such limit for purposes of general application. The Depository will also set Dollar limits with respect to Pre-Release transactions to be entered into hereunder with any particular Pre-Releasee on a case-by-case basis as the Depository deems appropriate. For purposes of enabling the Depository to fulfill its obligations to the Owners under the Deposit Agreement, the collateral referred to in clause (b) above shall be held by the Depository as security for the performance of the Pre-Releasee's obligations to the Depository in connection with a Pre-Release transaction, including the Pre-Releasee's obligation to deliver Shares or Receipts upon termination of a Pre-Release transaction (and shall not, for the avoidance of doubt, constitute Deposited Securities hereunder).

The Depository may retain for its own account any compensation received by it in connection with the foregoing.

## **ARTICLE 3. CERTAIN OBLIGATIONS OF OWNERS OF RECEIPTS.**

### **SECTION 3.01. *Filing Proofs, Certificates and Other Information.***

Any person presenting Shares for deposit or any Owner of a Receipt may be required from time to time to file such proof of citizenship or residence, exchange control approval, or such information relating to the registration on the books of the Issuer (or the appointed agent of the Issuer for transfer and registration of Shares) of the Shares presented for deposit or other information, to execute such certificates and to make such representations and warranties, as the Depositary may deem necessary or proper. The Depositary may withhold the delivery or registration of transfer of any Receipt or the distribution or sale of any dividend or other distribution or rights or of the proceeds thereof or the delivery of any Deposited Securities until such proof or other information is filed or such certificates are executed.

### **SECTION 3.02. *Liability of Owner for Taxes.***

If any tax or other governmental charge shall become payable with respect to any Receipt or any Deposited Securities represented by any Receipt, such tax or other governmental charge shall be payable by the Owner of such Receipt to the Depositary. The Depositary may refuse to effect any transfer of such Receipt or any withdrawal of Deposited Securities represented thereby until such payment is made, and may withhold any dividends or other distributions, or may sell for the account of the Owner thereof any part or all of the Deposited Securities represented by such Receipt, and may apply such dividends or other distributions or the proceeds of any such sale in payment of such tax or other governmental charge, the Owner of such Receipt remaining liable for any deficiency.

### **SECTION 3.03. *Warranties on Deposit of Shares.***

Every person depositing Shares under this Deposit Agreement shall be deemed thereby to represent and warrant that such Shares and each certificate therefor are validly issued, fully paid, non-assessable and free of any pre-emption rights of the holders of outstanding Shares and that the person making such deposit is duly authorized so to do. Every such person shall also be deemed to represent that, to the best of such person's knowledge, the deposit of Shares and the sale of Receipts by that person are not restricted under the Securities Act of 1933. Such representations and warranties shall survive the deposit of Shares and issuance of Receipts.

## **ARTICLE 4. THE DEPOSITED SECURITIES.**

### **SECTION 4.01. *Cash Distributions.***

Whenever the Depositary shall receive any cash dividend or other cash distribution by the Issuer on any Deposited Securities, the Depositary shall, subject to the provisions of Section 4.05, convert such dividend or distribution into Dollars and shall distribute the amount thus received to the Owners entitled thereto, in proportion to the number of American Depositary Shares representing such Deposited Securities held by them respectively; provided, however, that in the event that the Issuer or the Depositary shall be required to withhold and does withhold from any cash dividend or other cash distribution in respect of any Deposited Securities an amount on account of taxes, the amount distributed to the Owner for American Depositary Shares representing such Deposited Securities shall be reduced accordingly. The Depositary shall distribute only such amount, however, as can be distributed without attributing to any Owner a fraction of one cent. Any such fractional amounts shall be rounded to the nearest whole cent and so distributed to Owners entitled thereto. The Issuer or its agent will remit to the appropriate governmental agency in Japan all amounts withheld and owing to such agency. The Depositary will forward to the Issuer or its agent such information from its records as the Issuer may reasonably request to enable the Issuer or its agent to file necessary reports with governmental agencies, and either the Depositary or the Issuer or its agent may file any such reports necessary to obtain benefits under the applicable tax treaties for the Owners of Receipts.

**SECTION 4.02. *Distributions Other Than Cash, Shares or Rights.***

Whenever the Depositary shall receive any distribution other than a distribution described in Sections 4.01, 4.03 or 4.04, the Depositary shall cause the securities or property received by it to be distributed to the Owners entitled thereto, in proportion to the number of American Depositary Shares representing such Deposited Securities held by them respectively, in any manner that the Depositary may deem equitable and practicable for accomplishing such distribution; provided, however, that if in the opinion of the Depositary such distribution cannot be made proportionately among the Owners entitled thereto, or if for any other reason (including any requirement that the Issuer or the Depositary withhold an amount on account of taxes) the Depositary deems such distribution not to be feasible, the Depositary may adopt such method as it may deem equitable and practicable for the purpose of effecting such distribution, including the sale (at public or private sale) of the securities or property thus received, or any part thereof, and the net proceeds of any such sale shall be distributed by the Depositary to the Owners entitled thereto as in the case of a distribution received in cash.

**SECTION 4.03. *Distributions in Shares.***

If any distribution upon any Deposited Securities consists of a dividend in, or free distribution of, Shares, the Depositary may, and shall if the Issuer shall so request, distribute to the Owners of outstanding Receipts entitled thereto, in proportion to the number of American Depositary Shares representing such Deposited Securities held by them respectively, additional Receipts for an aggregate number of American Depositary Shares representing the amount of Shares received as such dividend or free distribution. In lieu of delivering Receipts for fractional American Depositary Shares in any such case, the Depositary shall sell the amount of Shares represented by the aggregate of such fractions and distribute the net proceeds, all in the manner and subject to the conditions described in Section 4.02. If additional Receipts are not so distributed, each American Depositary Share shall thenceforth also represent the additional Shares distributed upon the Deposited Securities represented thereby.

**SECTION 4.04. *Rights.***

In the event that the Issuer shall offer or cause to be offered to the holders of any Deposited Securities any rights to subscribe for additional Shares or any rights of any other nature, the Depositary, after consultation with the Issuer, shall have discretion as to the procedure to be followed in making such rights available to the Owners of Receipts or in disposing of such rights on behalf of such Owners and making the net proceeds available in Dollars to such Owners; provided, however, that the Depositary will, if requested by the Issuer, take action as follows:

- (i) if at the time of the offering of any rights the Depositary determines that it is lawful and feasible to make such rights available to Owners of Receipts by means of warrants or otherwise, the Depositary shall distribute warrants or other instruments therefor in such form as it may determine to the Owners entitled thereto, in proportion to the number of American Depositary Shares representing such Deposited Securities, or employ such other method as it may deem feasible in order to facilitate the exercise, sale or transfer of rights by such Owners; or
- (ii) if at the time of the offering of any rights the Depositary determines that it is not lawful or not feasible to make such rights available to Owners of Receipts by means of warrants or otherwise, or if the rights represented by such warrants or such other instruments are not exercised and appear to be about to lapse, the Depositary in its discretion may sell such rights or such warrants or other instruments at public or private sale, at such place or places and upon such terms as it may deem proper, and may allocate the net proceeds of such sales for the account of the Owners of Receipts otherwise entitled to such rights, warrants or other instruments, upon an averaged or other practicable basis without regard to any distinctions among such Owners because of exchange restrictions, or the date of delivery of any Receipt or Receipts, or otherwise.

If registration under the Securities Act of 1933 of the securities to which any rights relate is required in order for the Issuer to offer such rights to Owners of Receipts and sell the securities represented by such rights,

the Depositary will not offer such rights to the Owners of Receipts unless and until such a registration statement is in effect, or unless the offering and sale of such securities to the Owners of such Receipts are exempt from registration under the provisions of such Act.

**SECTION 4.05. *Conversion of Foreign Currency.***

Whenever the Depositary shall receive foreign currency, by way of dividends or other distributions or the net proceeds from the sale of securities, property or rights, and if at the time of the receipt thereof the foreign currency so received can in the judgment of the Depositary be converted on a reasonable basis into Dollars and the resulting Dollars transferred to the United States, the Depositary shall convert or cause to be converted, by sale or in any other manner that it may determine, such foreign currency into Dollars, and such Dollars (net of any conversion expenses of the Depositary) shall be distributed to the Owners entitled thereto or, if the Depositary shall have distributed any warrants or other instruments which entitle the holders thereof to such Dollars, then to the holders of such warrants and/or instruments upon surrender thereof for cancellation. Such distribution may be made upon an averaged or other practicable basis without regard to any distinctions among Owners on account of exchange restrictions or otherwise.

If such conversion or distribution can be effected only with the approval or license of any government or agency thereof, the Depositary shall file such application for approval or license, if any, as it may deem desirable.

If at any time the Depositary shall determine that in its judgment any foreign currency received by the Depositary is not convertible on a reasonable basis into Dollars transferable to the United States, or if any approval or license of any government or agency thereof which is required for such conversion is denied or in the opinion of the Depositary is not obtainable, or if any such approval or license is not obtained within a reasonable period as determined by the Depositary, the Depositary may distribute the foreign currency (or an appropriate document evidencing the right to receive such foreign currency) received by the Depositary to, or in its discretion may hold such foreign currency for the respective accounts of, the Owners entitled to receive the same.

If any such conversion of foreign currency, in whole or in part, cannot be effected for distribution to some Owners entitled thereto, the Depositary may in its discretion make such conversion and distribution in Dollars to the extent permissible to the Owners entitled thereto and may distribute the balance of the foreign currency received by the Depositary to, or hold such balance for the respective accounts of, the Owners entitled thereto.

**SECTION 4.06. *Fixing of Record Date.***

Whenever any cash dividend or other cash distribution shall become payable or any distribution other than cash shall be made, or whenever rights shall be issued with respect to the Deposited Securities, or whenever for any reason the Depositary causes a change in the number of Shares that are represented by each American Depositary Share, or whenever the Depositary shall receive notice of any meeting of holders of Shares or other Deposited Securities, the Depositary shall fix a record date for the determination of the Owners who shall be entitled to receive such dividend, distribution or rights, or the net proceeds of the sale thereof, or to give instructions for the exercise of voting rights at any such meeting, or for fixing the date on or after which each American Depositary Share will represent the changed number of Shares. Subject to the provisions of Sections 4.01 through 4.05 and to the other terms and conditions of this Deposit Agreement, the Owners on such record date shall be entitled to receive the amount distributable by the Depositary with respect to such dividend or other distribution or such rights or the net proceeds of sale thereof in proportion to the number of American Depositary Shares held by them respectively.

**SECTION 4.07. *Voting of Deposited Securities.***

Upon receipt of notice of any meeting of holders of Shares or other Deposited Securities, the Depositary shall, as soon as practicable thereafter, mail to the Owners a notice, which shall contain (a) such information as is

contained in such notice of meeting, (b) a statement that the Owners as of the close of business on a specified record date will be entitled, subject to any applicable provision of Japanese law and of the Articles of Incorporation of the Issuer, to instruct the Depositary as to the exercise of the voting rights, if any, pertaining to the amount of Shares or other Deposited Securities represented by their respective American Depositary Shares and (c) a brief statement as to the manner in which such instructions may be given, including an express indication that instructions may be given, or deemed given in accordance with the last sentence of this paragraph if no instruction is received, to the Depositary to give a discretionary proxy to a person designated by the Issuer. Upon the written request of an Owner on the specified record date, received on or before the date established by the Depositary for such purpose (the "Instruction Date), the Depositary shall endeavor in so far as practicable to vote or cause to be voted the amount of Shares or other Deposited Securities represented by such Receipt in accordance with the instructions set forth in such request. So long as Japanese law provides that votes may only be cast with respect to one or more whole Shares or other Deposited Securities, the Depositary shall aggregate voting instructions to the extent such instructions are the same and vote such whole Shares or other Deposited Securities in accordance with the Owners' instructions. If after aggregation of all instructions to vote received by the Depositary, any portion of which constitutes instructions with respect to less than a whole Share or other Deposited Security, the Depositary will not vote or cause to be voted the Shares or other Deposited Securities to which such portion of the instructions apply. The Depositary shall not vote or attempt to exercise the right to vote that attaches to the Shares or other Deposited Securities, other than in accordance with such instructions or deemed instructions. If no instructions are received by the Depositary from any Owner with respect to any of the Deposited Securities represented by the American Depositary Shares evidenced by such Owner's Receipts on or before the Instruction Date, the Depositary shall deem such Owner to have instructed the Depositary to give a discretionary proxy to a person designated by the Issuer with respect to such Deposited Securities and the Depositary shall give a discretionary proxy to a person designated by the Issuer to vote such Deposited Securities *provided*, that no such instruction shall be given with respect to any matter as to which the Issuer informs the Depositary (and the Issuer agrees to provide such information as promptly as practicable in writing) that (x) the Issuer does not wish such proxy given, (y) substantial opposition exists or (z) such matter materially and adversely affects the rights of holders of shares.

#### **SECTION 4.08. *Changes Affecting Deposited Securities.***

Upon any change in nominal value, par value, split-up, consolidation or any other reclassification of Deposited Securities, or upon any recapitalization, reorganization, merger or consolidation or sale of assets affecting the Issuer or to which it is a party, any securities which shall be received by the Depositary or a Custodian in exchange for or in conversion of or in respect of Deposited Securities shall be treated as new Deposited Securities under this Deposit Agreement, and American Depositary Shares shall thenceforth represent, in addition to existing Deposited Securities, the new Deposited Securities so received in exchange or conversion, unless additional Receipts are delivered pursuant to the following sentence. In any such case the Depositary may, and shall if the Issuer shall so request, execute and deliver additional Receipts as in the case of a dividend on the Shares, or call for the surrender of outstanding Receipts to be exchanged for new Receipts specifically describing such new Deposited Securities.

#### **SECTION 4.09. *Reports.***

The Depositary shall make available for inspection by Owners at its Corporate Trust Office any reports and communications, including any proxy soliciting material, received from the Issuer which are both (a) received by the Depositary as the holder of the Deposited Securities and (b) made generally available to the holders of such Deposited Securities by the Issuer. The Depositary shall also send to the Owners copies of such reports when furnished by the Issuer pursuant to Section 5.06.

**SECTION 4.10. *Lists of Receipt Owners.***

Promptly upon request by the Issuer, the Depositary shall furnish to it a list, as of a recent date, of the names, addresses and holdings of American Depositary Shares by all persons in whose names Receipts are registered on the books of the Depositary.

**SECTION 4.11. *Withholding.***

In the event that the Depositary determines that any distribution in property (including Shares and rights to subscribe therefor) is subject to any tax which the Depositary is obligated to withhold, the Depositary may dispose of all or a portion of such property (including Shares and rights to subscribe therefor) in such amounts and in such manner as the Depositary deems necessary and practicable to pay any such taxes, by public or private sale, and the Depositary shall distribute the net proceeds of any such sale after deduction of such taxes to the Owners entitled thereto in proportion to the number of American Depositary Shares held by them respectively.

**ARTICLE 5. THE DEPOSITARY, THE CUSTODIAN AND THE ISSUER.**

**SECTION 5.01. *Maintenance of Office and Transfer Books by the Depositary.***

Until termination of this Deposit Agreement in accordance with its terms, the Depositary shall maintain in the Borough of Manhattan, The City of New York, facilities for the execution and delivery, registration, registration of transfers and surrender of Receipts in accordance with the provisions of this Deposit Agreement.

The Depositary shall keep books for the registration of Receipts and transfers of Receipts which at all reasonable times shall be open for inspection by the Owners, provided that such inspection shall not be for the purpose of communicating with Owners in the interest of a business or object other than the business of the Issuer or a matter related to this Deposit Agreement or the Receipts.

The Depositary may close the transfer books, at any time or from time to time, when deemed expedient by it in connection with the performance of its duties hereunder.

If any Receipts or the American Depositary Shares represented thereby are listed on one or more stock exchanges in the United States, the Depositary shall act as Registrar or with the approval of the Issuer appoint a Registrar or one or more co-registrars for registry of such Receipts in accordance with any requirements of such exchange or exchanges. Such Registrar may be removed and a substitute Registrar appointed by the Depositary upon the request and with the approval of the Issuer.

**SECTION 5.02. *Prevention or Delay in Performance by the Depositary, the Custodian or the Issuer.***

None of the Depositary, the Custodian or the Issuer shall incur any liability to any Owner of any Receipt, if by reason of any provision of any present or future law of the United States or any other country, or of any other governmental authority, or by reason of any provision, present or future, of the Articles of Incorporation of the Issuer, or by reason of any act of God or war or other circumstances beyond its control, the Depositary, the Custodian or the Issuer shall be prevented or forbidden from doing or performing any act or thing which by the terms of this Deposit Agreement it is provided shall be done or performed; nor shall the Depositary, the Custodian or the Issuer incur any liability to any Owner of a Receipt by reason of any non-performance or delay, caused as aforesaid, in the performance of any act or thing which by the terms of this Deposit Agreement it is provided shall or may be done or performed, or by reason of any exercise of, or failure to exercise, any discretion provided for in this Deposit Agreement. Where, by the terms of a distribution pursuant to Sections 4.01, 4.02, or 4.03 of this Deposit Agreement, or an offering or distribution pursuant to Section 4.04 of this Deposit Agreement, or for any other reason, such distribution or offering is not and may not lawfully be made available to Owners, and the Depositary may not lawfully dispose of such distribution or offering on behalf of such Owners and make the net proceeds available to such Owners, then the Depositary shall not make such distribution or offering, and shall allow any rights, if applicable, to lapse.



**SECTION 5.03. *Obligations of the Depositary, the Custodian and the Issuer.***

The Issuer assumes no obligation nor shall it be subject to any liability under this Deposit Agreement to Owners or holders of Receipts, except that it agrees to perform its obligations specifically set forth in this Deposit Agreement without negligence or bad faith.

Neither the Depositary nor the Custodian assumes any obligation nor shall either of them be subject to any liability under this Deposit Agreement to any Owner or holder of any Receipts (including, without limitation, liability with respect to the validity or worth of the Deposited Securities), except that the Depositary agrees to perform its obligations specifically set forth in this Deposit Agreement without negligence or bad faith.

Neither the Depositary nor the Issuer shall be under any obligation to appear in, prosecute or defend any action, suit or other proceeding in respect of any Deposited Securities or in respect of the Receipts, which in its opinion may involve it in expense or liability, unless indemnity satisfactory to it against all expense and liability be furnished as often as may be required, and the Custodian shall not be under any obligation whatsoever with respect to such proceedings, the responsibility of the Custodian being solely to the Depositary.

None of the Depositary, the Custodian or the Issuer shall be liable for any action or nonaction by it in reliance upon the advice of or information from legal counsel, accountants, any person presenting Shares for deposit, any Owner, or any other person believed by it in good faith to be competent to give such advice or information or for any translation of any notice, report or other document made by a translator believed by it to be competent.

The Depositary shall not be responsible for any failure to carry out any instructions to vote any of the Deposited Securities, or for the manner in which any such vote is cast or effect of any such vote, provided that any such action or nonaction is in good faith.

The Depositary shall not be liable for any acts or omissions made by a successor depositary whether in connection with a previous act or omission of the Depositary or in connection with any matter arising wholly after the removal or resignation of the Depositary, provided that in connection with the issue out of which such potential liability arises the Depositary performed its obligations without negligence or bad faith while it acted as Depositary.

The Depositary may own and deal in any class of securities of the Issuer and its affiliates and in Receipts.

No disclaimer of liability under the Securities Act of 1933 is intended by any provision of this Deposit Agreement.

**SECTION 5.04. *Resignation and Removal of the Depositary, Appointment of Successor Depositary.***

The Depositary may at any time resign as Depositary hereunder by written notice of its election so to do delivered to the Issuer, such resignation to take effect upon the appointment of a successor depositary and its acceptance of such appointment as hereinafter provided.

The Depositary may at any time be removed by the Issuer by 120 days prior written notice of such removal, which shall become effective upon the later to occur of (i) the 120<sup>th</sup> day after delivery of the notice to the Depositary or (ii) appointment of a successor depositary and its acceptance of such appointment as hereinafter provided.

In case at any time the Depositary acting hereunder shall resign or be removed, the Issuer shall use its best efforts to appoint a successor depositary, which shall be a bank or trust company having an office in the Borough of Manhattan, The City of New York. Every successor depositary shall execute and deliver to its predecessor and

to the Issuer an instrument in writing accepting its appointment hereunder, and thereupon such successor depositary, without any further act or deed, shall become fully vested with all the rights, powers, duties and obligations of its predecessor; but such predecessor, nevertheless, upon payment of all sums due it and on the written request of the Issuer shall execute and deliver an instrument transferring to such successor all rights and powers of such predecessor hereunder, shall duly assign, transfer and deliver all right, title and interest in the Deposited Securities to such successor, and shall deliver to such successor a list of the Owners of all outstanding Receipts. Any such successor depositary shall promptly mail notice of its appointment to the Owners as provided in Section 7.05.

Any corporation into or with which the Depositary may be merged or consolidated shall be the successor of the Depositary without the execution or filing of any document or any further act and the successor depositary shall notify the Issuer of such event.

#### **SECTION 5.05. *The Custodian.***

The Depositary has appointed the principal Tokyo, Japan office of The Bank of Tokyo-Mitsubishi, Ltd. as custodian and agent of the Depositary for the purposes of this Deposit Agreement. The Custodian or its successors in acting hereunder shall be subject at all times and in all respects to the directions of the Depositary and shall be responsible solely to it. Any Custodian may resign and be discharged from its duties hereunder by notice of such resignation delivered to the Depositary at least 30 days prior to the date on which such resignation is to become effective. If upon such resignation there shall be no Custodian acting hereunder, the Depositary shall, promptly after receiving such notice, with the approval of the Issuer, appoint a substitute custodian or custodians, each of which shall thereafter be a Custodian hereunder. Whenever the Depositary in its discretion determines that it is in the best interest of the Owners to do so, it may, with the approval of the Issuer, appoint a substitute or additional custodian or custodians, which shall thereafter be one of the Custodians hereunder. Upon demand of the Depositary any Custodian shall deliver such of the Deposited Securities held by it as are requested of it to any other Custodian or such substitute or additional custodian or custodians. Each such substitute or additional custodian shall deliver to the Depositary, forthwith upon its appointment, an acceptance of such appointment satisfactory in form and substance to the Depositary.

Upon the appointment of any successor depositary hereunder, each Custodian then acting hereunder shall forthwith become, without any further act or writing, the agent hereunder of such successor depositary and the appointment of such successor depositary shall in no way impair the authority of each Custodian hereunder; but the successor depositary so appointed shall, nevertheless, on the written request of any Custodian, execute and deliver to such Custodian all such instruments as may be proper to give to such Custodian full and complete power and authority as agent hereunder of such successor depositary.

#### **SECTION 5.06. *Notices and Reports.***

On or before the first date on which the Issuer gives notice, by publication or otherwise, of any meeting of holders of Shares or other Deposited Securities, or of any adjourned meeting of such holders, or of the taking of any action in respect of any cash or other distributions or the offering of any rights, the Issuer agrees to transmit to the Depositary and the Custodian a copy of the notice thereof in the form given or to be given to holders of Shares or other Deposited Securities.

The Issuer will arrange for the prompt transmittal by the Issuer to the Depositary and the Custodian of such notices and any other reports and communications which are made generally available by the Issuer to holders of its Shares. If requested in writing by the Issuer, the Depositary will arrange for the mailing of copies of such notices, reports and communications to all Owners. The Issuer will timely provide the Depositary with the quantity of such notices, reports, and communications as requested by the Depositary from time to time, in order for the Depositary to effect such mailings.

**SECTION 5.07. *Issuance of Additional Shares.***

The Issuer agrees that in the event of any issuance of (1) additional Shares, (2) rights to subscribe for Shares, (3) securities convertible into Shares, or (4) rights to subscribe for such securities, the Issuer will promptly furnish to the Depositary a written opinion from counsel for the Issuer in the United States, which counsel shall be satisfactory to the Depositary, stating whether or not the circumstances of such issue are such as to make it necessary for a Registration Statement under the Securities Act of 1933 to be in effect prior to the delivery of the Receipts to be issued in connection with such securities or the issuance of such rights. If in the opinion of such counsel a Registration Statement is required, such counsel shall furnish to the Depositary a written opinion as to whether or not there is a Registration Statement in effect which will cover such issuance of securities or rights.

The Issuer agrees with the Depositary that neither the Issuer nor any company controlled by controlling or under common control with the Issuer will at any time deposit any Shares, either upon original issuance or upon a sale of Shares previously issued and reacquired by the Issuer or any such affiliate, unless a Registration Statement is in effect as to such Shares under the Securities Act of 1933.

**SECTION 5.08. *Indemnification.***

The Issuer agrees to indemnify the Depositary and any Custodian against, and hold each of them harmless from, any liability or expense (including, but not limited to, the reasonable fees and expenses of counsel) which may arise out of acts performed or omitted, in accordance with the provisions of this Deposit Agreement and of the Receipts, as the same may be amended, modified or supplemented from time to time, (i) by either the Depositary or a Custodian, except for any liability or expense arising out of the negligence or bad faith of either of them, or (ii) by the Issuer or any of its agents.

The indemnities contained in the preceding paragraph shall not extend to any liability or expense which arises solely and exclusively out of a Pre-Release (as defined in Section 2.09) of a Receipt or Receipts in accordance with Section 2.09 and which would not otherwise have arisen had such Receipt or Receipts not been the subject of a Pre-Release pursuant to Section 2.09; *provided, however*, that the indemnities provided in the preceding paragraph shall apply to any such liability or expense (i) to the extent that such liability or expense would have arisen had a Receipt or Receipts not been the subject of a Pre-Release, or (ii) which may arise out of any misstatement or alleged misstatement or omission or alleged omission in any registration statement, proxy statement, prospectus (or placement memorandum), or preliminary prospectus (or preliminary placement memorandum) relating to the offer or sale of American Depositary Shares, except to the extent any such liability or expense arises out of (a) information relating to the Depositary or any Custodian (other than the Issuer), as applicable, furnished in writing and not materially changed or altered by the Issuer expressly for use in any of the foregoing documents, or, (b) if such information is provided, the failure to state a material fact necessary to make the information provided not misleading.

Any person entitled to indemnification under the first sentence of this section who seeks indemnification hereunder shall notify the Issuer of the commencement of any indemnifiable action or claim promptly after such person becomes aware of such commencement and shall consult in good faith with the Issuer as to the conduct of the defense of such action or claim (including the compromise or settlement thereof), which shall be reasonable in the circumstances.

The Depositary agrees to indemnify the Issuer and hold it harmless from any liability or expense (including, but not limited to, the reasonable fees and expenses of counsel) which may arise out of acts performed or omitted by the Depositary or its Custodian due to their negligence or bad faith.

**SECTION 5.09. *Charges of Depositary.***

The Issuer agrees to pay the fees, reasonable expenses and out-of-pocket charges of the Depositary and those of any Registrar only in accordance with agreements in writing entered into between the Depositary and the

Issuer from time to time. The Depositary shall present its statement for such charges and expenses to the Issuer once every three months. The charges and expenses of the Custodian are for the sole account of the Depositary.

The following charges shall be incurred by any party depositing or withdrawing Shares or by any party surrendering Receipts or to whom Receipts are issued (including, without limitation, issuance pursuant to a stock dividend or stock split declared by the Issuer or an exchange of stock regarding the Receipts or Deposited Securities or a distribution of Receipts pursuant to Section 4.03), whichever applicable: (1) taxes and other governmental charges, (2) such registration fees as may from time to time be in effect for the registration of transfers of Shares generally on the Share register of the Issuer or foreign registrar and applicable to transfers of Shares to the name of the Depositary or its nominee or the Custodian or its nominee on the making of deposits or withdrawals hereunder, (3) such cable, telex and facsimile transmission expenses as are expressly provided in this Deposit Agreement, (4) such expenses as are incurred by the Depositary in the conversion of foreign currency pursuant to Section 4.05, (5) a fee of \$5.00 or less per 100 American Depositary Shares (or portion thereof) for the execution and delivery of Receipts pursuant to Section 2.03, 4.03 or 4.04 and the surrender of Receipts pursuant to Section 2.05 or 6.02, (6) to the extent permitted by any securities exchange on which the American Depositary Shares may be listed for trading, a fee of \$.02 or less per American Depositary Share (or portion thereof) for any cash distribution made pursuant to the Deposit Agreement, including, but not limited to Sections 4.01 through 4.04 hereof, and (7) a fee for the distribution of securities pursuant to Section 4.02, such fee being in an amount equal to the fee for the execution and delivery of American Depositary Shares referred to above which would have been charged as a result of the deposit of such securities (for purposes of this clause 7 treating all such securities as if they were Shares) but which securities are instead distributed by the Depositary to Owners.

**SECTION 5.10. *Retention of Depositary Documents.***

The Depositary is authorized to destroy those documents, records, bills and other data compiled during the term of this Deposit Agreement at the times permitted by the governing statutes unless the Issuer requests that such papers be retained for a longer period or turned over to the Issuer or to a successor depositary.

**SECTION 5.11. *Exclusivity.***

The Issuer agrees not to appoint any other depositary for issuance of American Depositary Receipts so long as The Bank of New York is acting as Depositary hereunder.

**SECTION 5.12. *List of Restricted Securities Owners.***

From time to time, the Issuer shall provide the Depositary a list setting forth, to the actual knowledge of the Issuer, those persons or entities who beneficially own Restricted Securities and the Issuer shall update that list on a regular basis. The Issuer agrees to advise in writing each of the persons or entities so listed that such Restricted Securities are ineligible for deposit hereunder. The Depositary may rely on such a list or update but shall not be liable for any action or omission made in reliance thereon.

**SECTION 5.13. *Withholding of Japanese Tax.***

In the event that the Issuer shall at any time be required by Japanese laws and regulations to withhold any tax on any dividend or distribution made by it in respect of any Deposited Securities, it shall advise the Depositary through the Custodian of the applicable withholding rate or rates and the total amount of yen so withheld for each country and shall remit to the appropriate governmental agency all sums withheld and will make all necessary reports and filings. The Depositary shall forward to the Custodian for delivery to the Issuer such information from the Depositary's records as the Issuer may reasonably request in connection with any such withholding by the Issuer within such period as will enable the Issuer to file the necessary reports with the appropriate governmental agencies to obtain benefits under applicable tax treaties.

## **ARTICLE 6. AMENDMENT AND TERMINATION.**

### **SECTION 6.01. *Amendment.***

The form of the Receipts and any provisions of this Deposit Agreement may at any time and from time to time be amended by agreement between the Issuer and the Depositary in any respect which they may deem necessary or desirable. Any amendment which shall impose or increase any fees or charges (other than taxes and other governmental charges, registration fees, cable, telex or facsimile transmission costs, delivery costs or other such expenses), or which shall otherwise prejudice any substantial existing right of Owners, shall, however, not become effective as to outstanding Receipts until the expiration of three months after notice of such amendment shall have been given to the Owners of outstanding Receipts. Every Owner at the time any amendment so becomes effective shall be deemed, by continuing to hold such Receipt, to consent and agree to such amendment and to be bound by the Deposit Agreement as amended thereby. In no event shall any amendment impair the right of the Owner of any Receipt to surrender such Receipt and receive therefor the Deposited Securities represented thereby.

### **SECTION 6.02. *Termination.***

The Depositary shall at any time at the direction of the Issuer terminate this Deposit Agreement by mailing notice of such termination to the Owners of all Receipts then outstanding at least 30 days prior to the date fixed in such notice for such termination. The Depositary may likewise terminate this Deposit Agreement if at any time 60 days shall have expired after the Depositary shall have delivered to the Issuer a written notice of its election to resign and a successor depositary shall not have been appointed and accepted its appointment as provided in Section 5.04. If any Receipts shall remain outstanding after the date of termination, the Depositary thereafter shall discontinue the registration of transfers of Receipts, shall suspend the distribution of dividends to the Owners thereof, and shall not give any further notices or perform any further acts under this Deposit Agreement, except that the Depositary shall continue to collect dividends and other distributions pertaining to Deposited Securities, shall sell rights as provided in this Deposit Agreement, and shall continue to deliver Deposited Securities, together with any dividends or other distributions received with respect thereto and the net proceeds of the sale of any rights or other property, in exchange for Receipts surrendered to the Depositary. At any time after the expiration of one year from the date of termination, the Depositary may sell the Deposited Securities then held hereunder and may thereafter hold uninvested the net proceeds of any such sale, together with any other cash then held by it hereunder, without liability for interest, for the pro rata benefit of the Owners of Receipts which have not theretofore been surrendered, such Owners thereupon becoming general creditors of the Depositary with respect to such net proceeds. After making such sale, the Depositary shall be discharged from all obligations under this Deposit Agreement, except to account for such net proceeds and other cash. Upon the termination of this Deposit Agreement, the Issuer shall be discharged from all obligations under this Deposit Agreement except for its obligations to the Depositary under Sections 5.08 and 5.09 hereof.

## **ARTICLE 7. MISCELLANEOUS.**

### **SECTION 7.01. *Counterparts.***

This Deposit Agreement may be executed in any number of counterparts, each of which shall be deemed an original and all of such counterparts shall constitute one and the same instrument. Copies of this Deposit Agreement shall be filed with the Depositary and the Custodians and shall be open to inspection by any holder or Owner of a Receipt during business hours.

### **SECTION 7.02. *No Third Party Beneficiaries.***

This Deposit Agreement is for the exclusive benefit of the parties hereto and shall not be deemed to give any legal or equitable right, remedy or claim whatsoever to any other person.

**SECTION 7.03. Severability.**

In case any one or more of the provisions contained in this Deposit Agreement or in the Receipts should be or become invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein or therein shall in no way be affected, prejudiced or disturbed thereby.

**SECTION 7.04. Holders and Owners as Parties; Binding Effect.**

The holders and Owners of Receipts from time to time shall be parties to this Deposit Agreement and shall be bound by all of the terms and conditions hereof and of the Receipts by acceptance thereof.

**SECTION 7.05. Notices.**

Any and all notices to be given to the Issuer shall be deemed to have been duly given if personally delivered or sent by mail or cable, telex or facsimile transmission confirmed by letter, addressed to Mitsubishi Tokyo Financial Group, Inc., Yurakucho Building, 10-1, Yurakucho 1-chome, Chiyoda-ku, Tokyo, 100-0006, Japan, Attention: Corporate Administration Division, or any other place to which the Issuer may have transferred its principal office.

Any and all notices to be given to the Depository shall be deemed to have been duly given if personally delivered or sent by mail or cable, telex or facsimile transmission confirmed by letter, addressed to The Bank of New York, 101 Barclay Street, New York, New York 10286, Attention: American Depository Receipt Administration, or any other place to which the Depository may have transferred its Corporate Trust Office.

Any and all notices to be given to any Owner shall be deemed to have been duly given if personally delivered or sent by mail or cable, telex or facsimile transmission confirmed by letter, addressed to such Owner at the address of such Owner as it appears on the transfer books for Receipts of the Depository, or, if such Owner shall have filed with the Depository a written request that notices intended for such Owner be mailed to some other address, at the address designated in such request.

Delivery of a notice sent by mail or cable, telex or facsimile transmission shall be deemed to be effected at the time when a duly addressed letter containing the same (or a confirmation thereof in the case of a cable, telex or facsimile transmission) is deposited, postage prepaid, in a post-office letter box. The Depository or the Issuer may, however, act upon any cable, telex or facsimile transmission received by it from the other or from any Owner of a Receipt, notwithstanding that such cable, teletype or facsimile transmission shall not subsequently be confirmed by letter as aforesaid.

**SECTION 7.06. Governing Law.**

This Deposit Agreement and the Receipts and all rights hereunder and provisions hereof shall be governed by and construed in accordance with the laws of the State of New York, United States of America. It is understood that notwithstanding any present or future provision of the laws of the State of New York, the rights of holders of Shares, and the duties and obligations of the Issuer in respect of such holders, as such, shall be governed by the laws of Japan.

**SECTION 7.07. Compliance with U.S. Securities Laws.**

Notwithstanding anything in this Deposit Agreement to the contrary, the Issuer and the Depository each agrees that it will not exercise any rights it has under this Deposit Agreement to permit the withdrawal or delivery of Deposited Securities in a manner which would violate the U.S. securities laws, including, but not limited to, Section I.A.(1) of the General Instructions to the Form F-6 Registration Statement, as amended from time to time, under the Securities Act of 1933.

IN WITNESS WHEREOF, MITSUBISHI TOKYO FINANCIAL GROUP, INC. and THE BANK OF NEW YORK have duly executed this agreement as of the day and year first set forth above and all owners shall become parties hereto upon acceptance by them of Receipts issued in accordance with the terms hereof.

MITSUBISHI TOKYO FINANCIAL GROUP, INC.



By: \_\_\_\_\_  
Name: Tatsunori Imagawa  
Title: Deputy President and Chief Planning Officer

THE BANK OF NEW YORK  
as Depositary

By: \_\_\_\_\_  
Name:  
Title:

IN WITNESS WHEREOF, MITSUBISHI TOKYO FINANCIAL GROUP, INC. and THE BANK OF NEW YORK have duly executed this agreement as of the day and year first set forth above and all owners shall become parties hereto upon acceptance by them of Receipts issued in accordance with the terms hereof.

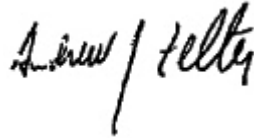
MITSUBISHI TOKYO FINANCIAL GROUP, INC.

By: \_\_\_\_\_

Name:

Title:

THE BANK OF NEW YORK  
as Depositary



By: \_\_\_\_\_

Name:

Title:



Exhibit A to Deposit Agreement

No.

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**AMERICAN DEPOSITARY SHARES**  
(Each American Depositary Share represents  
one-thousandth of one Deposited Share)

**THE BANK OF NEW YORK  
AMERICAN DEPOSITARY RECEIPT  
FOR ORDINARY SHARES OF THE  
PAR VALUE OF 50,000 YEN EACH OF  
MITSUBISHI TOKYO FINANCIAL GROUP, INC.  
(INCORPORATED UNDER THE LAWS OF JAPAN)**

The Bank of New York as depositary (hereinafter called the "Depositary"), hereby certifies that \_\_\_\_\_  
\_\_\_\_\_, or registered assigns IS THE OWNER OF \_\_\_\_\_.

**AMERICAN DEPOSITARY SHARES**

representing deposited ordinary Shares (herein called "Shares") of Mitsubishi Tokyo Financial Group, Inc., incorporated under the laws of Japan (herein called the "Company"). At the date hereof, each American Depositary Share represents one-thousandth of one Share deposited under the deposit agreement at the Tokyo, Japan office of The Bank of Tokyo-Mitsubishi, Ltd. (herein called the "Custodian"). The Depositary's Corporate Trust Office is located at a different address than its principal executive office. Its Corporate Trust Office is located at 101 Barclay Street, New York, N.Y. 10286, and its principal executive office is located at One Wall Street, New York, N.Y. 10286.

**THE DEPOSITARY'S CORPORATE TRUST OFFICE ADDRESS IS  
101 BARCLAY STREET, NEW YORK, N.Y. 10286**

## **1. THE DEPOSIT AGREEMENT.**

This American Depositary Receipt is one of an issue (herein called "Receipts"), all issued and to be issued upon the terms and conditions set forth in the deposit agreement, dated as of September 19, 1989, as amended and restated April 2, 2001, as further amended and restated December 22, 2004 (herein called the "Deposit Agreement"), by and among the Company, the Depositary, and all Owners (as defined below) and holders from time to time of Receipts issued thereunder, each of whom by accepting a Receipt agrees to become a party thereto and become bound by all the terms and conditions thereof. The Deposit Agreement sets forth the rights of Owners and holders of the receipts and the rights and duties of the Depositary in respect of the Shares deposited thereunder and any and all other securities, property and cash from time to time received in respect of such Shares and held thereunder (such Shares, securities, property, and cash are herein called "Deposited Securities"). Copies of the Deposit Agreement are on file at the Depositary's Corporate Trust Office in New York City and at the office of the Custodian.

The statements made on the face and reverse of this Receipt are summaries of certain provisions of the Deposit Agreement and are qualified by and subject to the detailed provisions of the Deposit Agreement, to which reference is hereby made. For the purposes of this Receipt, the term "Owner" shall mean the person in whose name a Receipt is registered on the books of the Depositary maintained for such purpose.

## **2. SURRENDER OF RECEIPTS AND WITHDRAWAL OF SHARES.**

Upon surrender at the Corporate Trust office of the Depositary of this Receipt, and upon payment of the fee of the Depositary provided in this Receipt, and subject to the terms and conditions of the following two paragraphs and of the Deposit Agreement, the Owner hereof is entitled to delivery, to him or upon his order, of the Deposited Securities at the time represented by the American Depositary Shares for which this Receipt is issued. Delivery of such Deposited Securities may be made by the delivery of certificates in the name of the Owner hereof or as ordered by him. Such delivery will be made at the option of the Owner hereof, either at the office of the Custodian or at the corporate Trust Office of the Depositary, provided that the forwarding of certificates for Shares or other Deposited Securities for such delivery at the Corporate Trust Office of the Depositary shall be at the risk and expense of the Owner hereof.

The delivery of Receipts against deposits of Shares generally or against deposits of particular Shares may be suspended, or the transfer of Receipts in particular instances may be refused, or the registration of transfer of outstanding Receipts generally may be suspended, during any period when the register of shareholders of the Company or the transfer books of the Depositary are closed, or if any such action is deemed necessary or advisable by the Depositary or the Company at any time or from time to time because of any requirement of law or of any government or governmental body or commission, or under any provision of the Deposit Agreement, or for any other reason. The surrender of outstanding Receipts and withdrawal of Deposited Securities may not be suspended subject only to (i) temporary delays caused by closing the transfer books of the Depositary or the Company or the Deposit of Shares in connection with voting at a shareholders' meeting, or the payment of dividends, (ii) the payment of fees, taxes and similar charges, and (iii) compliance with any U.S. or foreign laws or governmental regulations relating to the Receipts or to the withdrawal of the Deposited Securities. Without limitation of the foregoing, the Depositary shall not knowingly accept for deposit under the Deposit Agreement any Shares required to be registered under the provisions of the Securities Act of 1933, unless a registration statement is in effect as to such Shares.

In all instances, the American Depositary Shares evidenced by this Receipt may only be presented for cancellation and release of the underlying Shares or other Deposited Securities in multiples of 1,000 American Depositary Shares. Holders of Receipts representing less than 1,000 American Depositary Shares will not be entitled to delivery of any underlying Shares or other Deposited Securities unless such Receipts, together with other Receipts presented by the same holder or Owner at the same time, represent in the aggregate at least 1,000 American Depositary Shares. If any American Depositary Shares are surrendered but not cancelled pursuant to

the preceding sentence, the Depository shall execute and deliver a Receipt or Receipts evidencing the balance of American Depositary Shares not so cancelled to the person or persons surrendering the same.

### **3. TRANSFERS, SPLIT-UPS, AND COMBINATIONS OF RECEIPTS.**

The transfer of this Receipt is registrable on the books of the Depository at its Corporate Trust Office by the Owner hereof in person or by duly authorized attorney, upon surrender of this Receipt properly endorsed for transfer or accompanied by proper instruments of transfer and funds sufficient to pay any applicable transfer taxes and the fees and expenses of the Depository and upon compliance with such regulations, if any, as the Depository may establish for such purpose. This Receipt may be split into other such Receipts, or may be combined with other such Receipts into one Receipt, evidencing the same aggregate number of American Depositary Shares as the Receipt or Receipts surrendered. As a condition precedent to the execution and delivery, registration of transfer, split-up, combination, or surrender of any Receipt, the delivery of any distribution thereon, or withdrawal of any Deposited Securities, the Depository or the Custodian (i) may require payment from the depositor of Shares or the presenter of the Receipt of a sum sufficient to reimburse it for any tax or other governmental charge and any stock transfer or registration fee with respect thereto (including any such tax or charge and fee with respect to Shares being deposited or withdrawn) and payment of any applicable fees as provided in this Receipt, (ii) may require the production of proof satisfactory to it as to the identity and genuineness of any signature and (iii) may also require compliance with such regulations, if any, as the Depository may establish consistent with the provisions of the Deposit Agreement.

### **4. LIABILITY OF OWNER FOR TAXES.**

If any tax or other governmental charge shall become payable with respect to any Receipt or any Deposited Securities represented hereby, such tax or other governmental charge shall be payable by the Owner hereof to the Depository. The Depository may refuse to effect any transfer of this Receipt or any withdrawal of Deposited Securities represented hereby until such payment is made, and may withhold any dividends or other distributions, or may sell for the account of the Owner hereof any part or all of the Deposited Securities represented by this Receipt, and may apply such dividends or other distributions or the proceeds of any such sale in payment of such tax or other governmental charge, the Owner hereof remaining liable for any deficiency.

### **5. WARRANTIES OF DEPOSITORS.**

Every person depositing Shares under the Deposit Agreement shall be deemed thereby to represent and warrant that such Shares and each certificate therefor are validly issued, fully paid, non-assessable, and free of any pre-emption rights of the holders of outstanding Shares and that the person making such deposit is duly authorized so to do. Every such person shall also be deemed to represent that, to the best of such person's knowledge, the deposit of Shares and the sale of Receipts by that person are not restricted under the Securities Act of 1933. Such representations and warranties shall survive the deposit of Shares and issuance of Receipts.

### **6. FILING PROOFS, CERTIFICATES, AND OTHER INFORMATION.**

Any person presenting Shares for deposit or any Owner of a Receipt may be required from time to time to file such proof of citizenship or residence, exchange control approval, or such information relating to the registration on the books of the Company (or the appointed agent of the Company for transfer and registration of Shares) of the Shares presented for deposit or other information, to execute such certificates and to make such representations and warranties, as the Depository may deem necessary or proper. The Depository may withhold the delivery or registration of transfer of any Receipt or the distribution or sale of any dividend or other distribution or rights or of the proceeds thereof or the delivery of any Deposited Securities until such proof or other information is filed or such certificates are executed.

## **7. CHARGES OF DEPOSITARY.**

The following charges shall be incurred by any party depositing or withdrawing Shares or by any party surrendering Receipts or to whom Receipts are issued (including, without limitation, issuance pursuant to a stock dividend or stock split declared by the Company or an exchange of stock regarding the Receipts or Deposited Securities or a distribution of Receipts pursuant to Section 4.03 of the Deposit Agreement), whichever applicable: (1) taxes and other governmental charges, (2) such registration fees as may from time to time be in effect for the registration of transfers of Shares generally on the Share register of the Company or foreign registrar and applicable to transfers of Shares to the name of the Depositary or its nominee or the Custodian or its nominee on the making of deposits or withdrawals hereunder, (3) such cable, telex and facsimile transmission expenses as are expressly provided in the Deposit Agreement, (4) such expenses as are incurred by the Depositary in the conversion of foreign currency pursuant to Section 4.05 of the Deposit Agreement, (5) a fee of \$5.00 or less per 100 American Depositary Shares (or portion thereof) for the execution and delivery of Receipts pursuant to Section 2.03, 4.03 or 4.04 of the Deposit Agreement and the surrender of Receipts pursuant to Section 2.05 or 6.02 of the Deposit Agreement, (6) to the extent permitted by any securities exchange on which the American Depositary Shares may be listed for trading, a fee of \$.02 or less per American Depositary Share (or portion thereof) for any cash distribution made pursuant to the Deposit Agreement, including, but not limited to Sections 4.01 through 4.04 of the Deposit Agreement, and (7) a fee for the distribution of securities pursuant to Section 4.02 of the Deposit Agreement, such fee being in an amount equal to the fee for the execution and delivery of American Depositary Shares referred to above which would have been charged as a result of the deposit of such securities (for purposes of this clause 7 treating all such securities as if they were Shares) but which securities are instead distributed by the Depositary to Owners.

## **8. PRE-RELEASE OF RECEIPTS.**

The Depositary may issue Receipts against the delivery by the Company (or any agent of the Company recording Share ownership) of rights to receive Shares from the Company (or any such agent). No such issue of Receipts will be deemed a "Pre-Release" that is subject to the restrictions of the following paragraph.

Unless requested in writing by the Company to cease doing so, the Depositary may, notwithstanding Section 2.03 of the Deposit Agreement, execute and deliver Receipts prior to the receipt of Shares pursuant to Section 2.02 of the Deposit Agreement ("Pre-Release"). The Depositary may, pursuant to Section 2.05 of the Deposit Agreement, deliver Shares upon the receipt and cancellation of Receipts which have been Pre-Released, whether or not such cancellation is prior to the termination of such Pre-Release or the Depositary knows that such Receipt has been Pre-Released. The Depositary may receive Receipts in lieu of Shares in satisfaction of a Pre-Release. Each Pre-Release will be (a) preceded or accompanied by a written representation and agreement from the person to whom Receipts are to be delivered (the "Pre-Releasee") that the Pre-Releasee, or its customer, (i) owns the Shares or Receipts to be remitted, as the case may be, (ii) assigns all beneficial rights, title and interest in such Shares or Receipts, as the case may be, to the Depositary in its capacity as such and for the benefit of the Owners, and (iii) will not take any action with respect to such Shares or Receipts, as the case may be, that is inconsistent with the transfer of beneficial ownership (including, without the consent of the Depositary, disposing of such Shares or Receipts, as the case may be), other than in satisfaction of such Pre-Release, (b) at all times fully collateralized with cash, U.S. government securities or such other collateral as the Depositary determines, in good faith, will provide substantially similar liquidity and security, (c) terminable by the Depositary on not more than five (5) business days notice, and (d) subject to such further indemnities and credit regulations as the Depositary deems appropriate. The number of Shares not deposited but represented by American Depositary Shares outstanding at any time as a result of Pre-Releases will not normally exceed thirty percent (30%) of the Shares deposited under the Deposit Agreement; provided, however, that the Depositary reserves the right to disregard such limit from time to time as it deems reasonably appropriate, and may, with the prior written consent of the Company, change such limit for purposes of general application. The Depositary will also set Dollar limits with respect to Pre-Release transactions to be entered into under the Deposit Agreement with any particular Pre-Releasee on a case-by-case basis as the Depositary deems appropriate. For purposes of

enabling the Depositary to fulfill its obligations to the Owners under the Deposit Agreement, the collateral referred to in clause (b) above shall be held by the Depositary as security for the performance of the Pre-Releasee's obligations to the Depositary in connection with a Pre-Release transaction, including the Pre-Releasee's obligation to deliver Shares or Receipts upon termination of a Pre-Release transaction (and shall not, for the avoidance of doubt, constitute Deposited Securities thereunder).

The Depositary may retain for its own account any compensation received by it in connection with the foregoing

#### **9. TITLE TO RECEIPTS.**

It is a condition of this Receipt and every successive holder and Owner of this Receipt (and to the American Depositary Shares evidenced hereby) by accepting or holding the same consents and agrees, that title to this Receipt when properly endorsed or accompanied by proper instruments of transfer, is transferable by delivery with the same effect as in the case of a negotiable instrument, provided, however, that the Depositary, notwithstanding any notice to the contrary, may treat the Owner hereof as the absolute owner hereof for the purpose of determining the person entitled to distribution of dividends or other distributions or to any notice provided for in the Deposit Agreement or for all other purposes.

#### **10. VALIDITY OF RECEIPT.**

This Receipt shall not be entitled to any benefits under the Deposit Agreement or be valid or obligatory for any purpose, unless this Receipt shall have been executed by the Depositary by the manual or facsimile signature of a duly authorized signatory of the Depositary and, if a registrar shall have been appointed, countersigned by the manual or facsimile signature of a duly authorized officer of the Registrar.

#### **11. REPORTS; INSPECTION OF TRANSFER BOOKS.**

The Company currently furnishes the Securities and Exchange Commission (hereinafter called the "Commission") with certain public reports and documents required by foreign law or otherwise under the Securities Exchange Act of 1934. Such reports and Communications will be available for inspection and copying by holders and Owners at the public reference facilities maintained by the Commission located at 450 Fifth Street, N.W., Washington, D.C. 20549.

The Depositary will make available for inspection by Owners of Receipts at its Corporate Trust Office any reports and communications, including any proxy soliciting material, received from the Company which are both (a) received by the Depositary as the holder of the Deposited Securities and (b) made generally available to the holders of such Deposited Securities by the Company. The Depositary will also send to Owners of Receipts copies of such reports when furnished by the Company pursuant to the Deposit Agreement.

The Depositary will keep books for the registration of Receipts and transfers of Receipts which at all reasonable times shall be open for inspection by the Owners of Receipts, provided that such inspection shall not be for the purpose of communicating with Owners of Receipts in the interest of a business or object other than the business of the Company or a matter related to the Deposit Agreement or the Receipts.

#### **12. DIVIDENDS AND DISTRIBUTIONS.**

Whenever the Depositary receives any cash dividend or other cash distribution on any Deposited Securities, the Depositary will, if at the time of receipt thereof any amount received in a foreign currency can in the judgment of the Depositary be converted on a reasonable basis into United States dollars ("Dollars") transferable to the United States, and subject to the Deposit Agreement, convert such dividend or distribution into Dollars and will distribute the amount thus received to the Owners of Receipts entitled thereto, in proportion to the number of

American Depositary Shares representing such Deposited Securities held by them, respectively, provided, however, that in the event that the Company or the Depositary is required to withhold and does withhold from any cash dividend or other cash distribution in respect of any Deposited Securities an amount on account of taxes, the amount distributed to the Owners of Receipts for American Depositary Shares representing such Deposited Securities shall be reduced accordingly.

Whenever the Depositary receives any distribution other than cash, Shares, or rights upon any Deposited Securities, the Depositary will cause the securities or property received by it to be distributed to the Owners of Receipts entitled thereto, in proportion to the number of American Depositary Shares representing such Deposited Securities held by them, respectively, in any manner that the Depositary may deem equitable and practicable for accomplishing such distribution; provided, however, that if in the opinion of the Depositary such distribution cannot be made proportionately among the Owners of Receipts entitled thereto, or if for any other reason (including any requirement that the Company or the Depositary withhold an amount on account of taxes) the Depositary deems such distribution not to be feasible, the Depositary may adopt such method as it may deem equitable and practicable for the purpose of effecting such distribution, including the sale, at public or private sale, of the securities or property thus received, or any part thereof, and the net proceeds of any such sale shall be distributed by the Depositary to the Owners of Receipts entitled thereto as in the case of a distribution received in cash.

If any distribution consists of a dividend in, or free distribution of, Shares, the Depositary may, and shall if the Company shall so request, distribute to the Owners of outstanding Receipts entitled thereto, in proportion to the number of American Depositary Shares representing such Deposited Securities held by them respectively, additional Receipts for an aggregate number of American Depositary Shares representing the amount of Shares received as such dividend or free distribution. In lieu of delivering Receipts for fractional American Depositary Shares in any such case, the Depositary will sell the amount of Shares represented by the aggregate of such fractions and distribute the net proceeds, all in the manner and subject to the conditions set forth in the Deposit Agreement. If additional Receipts are not so distributed, each American Depositary Share shall thenceforth also represent the additional Shares distributed upon the Deposited Securities represented thereby.

In the event that the Depositary determines that any distribution in property (including Shares and rights to subscribe therefor) is subject to any tax which the Depositary is obligated to withhold, the Depositary may dispose of all or a portion of such property (including Shares and rights to subscribe therefor) in such amounts and in such manner as the Depositary deems necessary and practicable to pay any such taxes, at public or private sale, and the Depositary shall distribute the net proceeds of any such sale after deduction of such taxes to the Owners of Receipts entitled thereto.

### **13. RIGHTS.**

In the event that the Company offers or causes to be offered to the holders of any Deposited Securities any rights to subscribe for additional Shares or any rights of any other nature, the Depositary, after consultation with the Company, will have discretion as to the procedure to be followed in making such rights available to the Owners of Receipts or in disposing of such rights on behalf of such Owners and making the net proceeds available in Dollars to such Owners; provided, however, that the Depositary will, if requested by the Company, take action as follows:

- (i) if at the time of the offering of any rights the Depositary determines that it is lawful and feasible to make such rights available to Owners of Receipts by means of warrants or otherwise, the Depositary will distribute warrants or other instruments therefor in such form as it may determine to the Owners entitled thereto, in proportion to the number of American Depositary Shares representing such Deposited Securities, or employ such other method as it may deem feasible in order to facilitate the exercise, sale or transfer of rights by such Owners; or
- (ii) if at the time of the offering of any rights the Depositary determines that it is not lawful or not feasible to make such rights available to Owners of Receipts by means of warrants or otherwise, or if the rights

represented by such warrants or such other instruments, are not exercised and appear to be about to lapse, the Depositary in its discretion may sell such rights or such warrants, or other instruments at public or private sale, at such place or places and upon such terms as it may deem proper, and may allocate the net proceeds of such sales for the account of the Owners of Receipts otherwise entitled to such rights, warrants, or other instruments, upon an averaged or other practicable basis without regard to any distinctions among such Owners because of exchange restrictions, or the date of delivery of any Receipt or Receipts, or otherwise.

If registration under the Securities Act of 1933 of the securities to which any rights relate is required in order for the Company to offer such rights to Owners of Receipts and sell the securities represented by such rights, the Depositary will not offer such rights to the Owners of Receipts unless and until such a registration statement is in effect, or unless the offering and sale of such securities to the Owners of such Receipts are exempt from registration under the provisions of such Act.

#### **14. RECORD DATES.**

Whenever any cash dividend or other cash distribution shall become payable or any distribution other than cash shall be made, or whenever rights shall be issued with respect to the Deposited Securities, or whenever for any reason the Depositary causes a change in the number of Shares that are represented by each American Depositary Share or whenever the Depositary shall receive notice of any meeting of holders of Shares or other Deposited Securities, the Depositary will fix a record date for the determination of the Owners of Receipts who will be entitled to receive such dividend, distribution or rights, or the net proceeds of the sale thereof, or to give instructions for the exercise of voting rights at any such meeting, or for fixing the date on or after which each American Depositary Share will represent the changed number of Shares, subject to the provisions of the Deposit Agreement.

#### **15. VOTING OF DEPOSITED SECURITIES.**

Upon receipt of notice of any meeting of holders of Shares or other Deposited Securities, the Depositary shall, as soon as practicable thereafter, mail to the Owners a notice, which shall contain (a) such information as is contained in such notice of meeting, (b) a statement that the Owners as of the close of business on a specified record date will be entitled, subject to any applicable provision of Japanese law and of the Articles of Incorporation of the Company, to instruct the Depositary as to the exercise of the voting rights, if any, pertaining to the amount of Shares or other Deposited Securities represented by their respective American Depositary Shares and (c) a brief statement as to the manner in which such instructions may be given, including an express indication that instructions may be given, or deemed given in accordance with the last sentence of this Article 15, to the Depositary to give a discretionary proxy to a person designated by the Company. Upon the written request of an Owner on the specified record date, received on or before the date established by the Depositary for such purpose (the "Instruction Date), the Depositary shall endeavor in so far as practicable to vote or cause to be voted the amount of Shares or other Deposited Securities represented by such Receipt in accordance with the instructions set forth in such request. So long as Japanese law provides that votes may only be cast with respect to one or more whole Shares or other Deposited Securities, the Depositary shall aggregate voting instructions to the extent such instructions are the same and vote such whole Shares or other Deposited Securities in accordance with the Owners' instructions. If after aggregation of all instructions to vote received by the Depositary, any portion of which constitutes instructions with respect to less than a whole Share or other Deposited Security, the Depositary will not vote or cause to be voted the Shares or other Deposited Securities to which such portion of the instructions apply. The Depositary shall not vote or attempt to exercise the right to vote that attaches to the Shares or other Deposited Securities, other than in accordance with such instructions or deemed instructions. If no instructions are received by the Depositary from any Owner with respect to any of the Deposited Securities represented by the American Depositary Shares evidenced by such Owner's Receipts on or before the Instruction Date, the Depositary shall deem such Owner to have instructed the Depositary to give a discretionary proxy to a person designated by the Issuer with respect to such Deposited Securities and the Depositary shall give a

discretionary proxy to a person designated by the Issuer to vote such Deposited Securities *provided*, that no such instruction shall be given with respect to any matter as to which the Issuer informs the Depository (and the Issuer agrees to provide such information as promptly as practicable in writing) that (x) the Issuer does not wish such proxy given, (y) substantial opposition exists or (z) such matter materially and adversely affects the rights of holders of shares.

## **16. CHANGES AFFECTING DEPOSITED SECURITIES.**

Upon any change in nominal value, change in par value, split-up, consolidation, or any other reclassification of Deposited Securities, or upon any recapitalization, reorganization, merger or consolidation, or sale of assets affecting the Company or to which it is a party, any securities which shall be received by the Depository or a Custodian in exchange for or in conversion of or in respect of Deposited Securities shall be treated as new Deposited Securities under the Deposit Agreement, and American Depositary Shares shall thenceforth represent the new Deposited Securities so received in exchange or conversion, unless additional Receipts are delivered pursuant to the following sentence. In any such case the Depository may, and shall if the Company shall so request, execute and deliver additional Receipts as in the case of a dividend on the Shares, or call for the surrender of outstanding Receipts to be exchanged for new Receipts specifically describing such new Deposited Securities.

## **17. LIABILITY OF THE DEPOSITARY, THE CUSTODIAN AND THE COMPANY.**

None of the Depository, the Custodian, or the Company shall incur any liability to any Owner or holder of any Receipt, if by reason of any provision of any present or future law of the United States or any other country, or of any other governmental authority, or by reason of any provision, present or future, of the Articles of Incorporation of the Company, or by reason of any act of God or war or other circumstances beyond its control, the Depository, the Custodian or the Company shall be prevented or forbidden from doing or performing any act or thing which by the terms of the Deposit Agreement it is provided shall be done or performed; nor shall the Depository, the Custodian, or the Company incur any liability to any Owner or holder of a Receipt by reason of any non-performance or delay, caused as aforesaid, in the performance of any act or thing which by the terms of the Deposit Agreement it is provided shall or may be done or performed, or by reason of any exercise of, or failure to exercise, any discretion provided for in the Deposit Agreement. Where, by the terms of a distribution pursuant to Sections 4.01, 4.02, or 4.03 of the Deposit Agreement, or an offering or distribution pursuant to Section 4.04 of the Deposit Agreement, or for any other reason, such distribution or offering is not and may not lawfully be made available to Owners of Receipts, and the Depository may not lawfully dispose of such distribution or offering on behalf of such Owners and make the net proceeds available to such Owners, then the Depository shall not make such distribution or offering, and shall allow any rights, if applicable, to lapse. The Company assumes no obligation nor shall it be subject to any liability under the Deposit Agreement to Owners or holders of Receipts, except that it agrees to perform its obligations specifically set forth in the Deposit Agreement without negligence or bad faith. Neither the Depository nor the Custodian assumes any obligation nor shall either of them be subject to any liability under the Deposit Agreement to any Owner or holder (including, without limitation, liability with respect to the validity or worth of the Deposited Securities), except that the Depository agrees to perform its obligations specifically set forth in the Deposit Agreement without negligence or bad faith. Neither the Depository nor the Company shall be under any obligation to appear in, prosecute or defend any action, suit, or other proceeding in respect of any Deposited Securities or in respect of the Receipts, which in its opinion may involve it in expense or liability, unless indemnity satisfactory to it against all expense and liability be furnished as often as may be required, and the Custodian shall not be under any obligation whatsoever with respect to such proceedings, the responsibility of the Custodian being solely to the Depository. None of the Depository, the Custodian, or the Company shall be liable for any action or nonaction by it in reliance upon the advice of or information from legal counsel, accountants, any person presenting Shares for deposit, any Owner or holder of a Receipt, or any other person believed by it in good faith to be competent to give such advice or information or for any translation of any notice, report or other document made by a translator believed by it to be competent. The Depository shall not be responsible for any failure to carry out any



instructions to vote any of the Deposited Securities, or for the manner in which any such vote is cast or the effect of any such vote, provided that any such action or nonaction is in good faith. The Depositary shall not be liable for any acts or omissions made by a successor depositary whether in connection with a previous act or omission of the Depositary or in connection with a matter arising wholly after the removal or resignation of the Depositary, provided that in connection with the issue out of which such potential liability arises the Depositary performed its obligations without negligence or bad faith while it acted as Depositary. The Depositary may own and deal in any class of securities of the Company and its affiliates and in Receipts. The Company has agreed in the Deposit Agreement to indemnify the Depositary and any Custodian against, and hold each of them harmless from, any liability or expense (including, but not limited to, the reasonable fees and expenses of counsel) which may arise out of acts performed or omitted, in accordance with the provisions of the Deposit Agreement and of the Receipts, as the same may be amended, modified or supplemented from time to time, (i) by either the Depositary or a Custodian, except for any liability or expense arising out of the negligence or bad faith of either of them, or (ii) by the Company or any of its agents. The indemnities contained in the preceding sentence shall not extend to any liability or expense which arises solely and exclusively out of a Pre-Release (as defined in Section 2.09 of the Deposit Agreement) of a Receipt or Receipts in accordance with Section 2.09 of the Deposit Agreement and which would not otherwise have arisen had such Receipt or Receipts not been the subject of a Pre-Release pursuant to Section 2.09 of the Deposit Agreement; *provided, however*, that the indemnities provided in the preceding sentence shall apply to any such liability or expense (i) to the extent that such liability or expense would have arisen had a Receipt or Receipts not been the subject of a Pre-Release, or (ii) which may arise out of any misstatement or alleged misstatement or omission or alleged omission in any registration statement, proxy statement, prospectus (or placement memorandum), or preliminary prospectus (or preliminary placement memorandum) relating to the offer or sale of American Depositary Shares, except to the extent any such liability or expense arises out of (a) information relating to the Depositary or any Custodian (other than the Company), as applicable, furnished in writing and not materially changed or altered by the Company expressly for use in any of the foregoing documents, or, (b) if such information is provided, the failure to state a material fact necessary to make the information provided not misleading. Any person entitled to indemnification pursuant to the preceding sentence who seeks indemnification under the Deposit Agreement shall notify the Company of the commencement of any indemnifiable action or claim promptly after such person becomes aware of such commencement and shall consult in good faith with the Company as to the conduct of the defense of such action or claim (including the compromise or settlement thereof), which shall be reasonable in the circumstances. No disclaimer of liability under the Securities Act of 1933 is intended by any provision of the Deposit Agreement.

#### **18. RESIGNATION AND REMOVAL OF THE DEPOSITARY; APPOINTMENT OF SUCCESSOR CUSTODIAN.**

The Depositary may at any time resign as Depositary under the Deposit Agreement by written notice of its election so to do delivered to the Company, such resignation to take effect upon the appointment of a successor depositary and its acceptance of such appointment as provided in the Deposit Agreement. The Depositary may at any time be removed by the Company by 120 days prior written notice of such removal, which shall become effective upon the later to occur of (i) the 120<sup>th</sup> day after delivery of the notice to the Depositary or (ii) appointment of a successor depositary and its acceptance of such appointment as provided in the Deposit Agreement. Whenever the Depositary in its discretion determines that it is in the best interest of the Owners of Receipts to do so, it may appoint a substitute or additional custodian or custodians.

#### **19. AMENDMENT.**

The form of the Receipts and any provisions of the Deposit Agreement may at any time and from time to time be amended by agreement between the Company and the Depositary in any respect which they may deem necessary or desirable. Any amendment which shall impose or increase any fees or charges (other than taxes and other governmental charges, registration fees, cable, telex or facsimile transmission costs, delivery costs or other such expenses), or which shall otherwise prejudice any substantial existing right of Owners of Receipts, shall, however, not become effective as to outstanding Receipts until the expiration of three months after notice of such

amendment shall have been given to the Owners of outstanding Receipts. Every Owner of a Receipt at the time any amendment so becomes effective shall be deemed, by continuing to hold such Receipt, to consent and agree to such amendment and to be bound by the Deposit Agreement as amended thereby. In no event shall any amendment impair the right of the Owner of any Receipt to surrender such Receipt and receive therefor the Deposited Securities represented thereby.

## **20. TERMINATION OF DEPOSIT AGREEMENT.**

The Depositary will at any time at the direction of the Company terminate the Deposit Agreement by mailing notice of such termination to the Owners of all Receipts then outstanding at least 30 days prior to the date fixed in such notice for such termination. The Depositary may likewise terminate the Deposit Agreement if at any time 60 days shall have expired after the Depositary shall have delivered to the Company a written notice of its election to resign and a successor depositary shall not have been appointed and accepted its appointment as provided in the Deposit Agreement. If any Receipts shall remain outstanding after the date of termination, the Depositary thereafter shall discontinue the registration of transfers of Receipts, shall suspend the distribution of dividends to the Owners thereof, and shall not give any further notices or perform any further acts under the Deposit Agreement, except that the Depositary shall continue to collect dividends and other distributions pertaining to Deposited Securities, shall sell rights as provided in the Deposit Agreement, and shall continue to deliver Deposited Securities, together with any dividends or other distributions received with respect thereto and the net proceeds of the sale of any rights or other property, in exchange for Receipts surrendered to the Depositary. At any time after the expiration of one year from the date of termination, the Depositary may sell the Deposited Securities then held under the Deposit Agreement and may thereafter hold uninvested the net proceeds of any such sale, together with any other cash then held by it thereunder, without liability for interest, for the pro rata benefit of the Owners of Receipts which have not theretofore been surrendered, such Owners thereupon becoming general creditors of the Depositary with respect to such net proceeds. After making such sale, the Depositary shall be discharged from all obligations under the Deposit Agreement, except to account for such net proceeds and other cash. Upon the termination of the Deposit Agreement, the Company shall be discharged from all obligations under the Deposit Agreement except for its obligations to the Depositary with respect to indemnification, charges, and expenses.

## **21. COMPLIANCE WITH U.S. SECURITIES LAWS.**

Notwithstanding anything in the Deposit Agreement or this Receipt to the contrary, the Company and the Depositary each agrees that it will not exercise any rights it has under the Deposit Agreement to permit the withdrawal or delivery of Deposited Securities in a manner which would violate the U.S. securities laws, including, but not limited to, Section I.A.(l) of the General Instructions to the Form F-6 Registration Statement, as amended from time to time, under the Securities Act of 1933.

## **22. GOVERNING LAW.**

This Receipt and all rights under the Deposit Agreement and provisions hereof shall be governed by and construed in accordance with the laws of the State of New York, United States of America. It is understood that notwithstanding any present or future provision of the laws of the State of New York, the rights of holders of Shares, and the duties and obligations of the Company in respect of such holders, as such, shall be governed by the laws of Japan.

### CONSOLIDATED RATIO OF EARNINGS TO FIXED CHARGES

	Fiscal years ended March 31,				
	2014	2015	2016	2017	2018
	(In millions of yen, except for ratios)				
<b>Excluding interest on deposits</b>					
Earnings:					
Income before income tax expense . . . . .	¥1,420,443	¥2,262,656	¥1,162,670	¥272,543	¥1,661,819
Add: Fixed charges . . . . .	344,548	375,926	409,479	436,564	529,339
Less: Equity in earnings of equity method investees—net . . . . .	110,520	172,946	176,857	197,821	227,984
Total earnings . . . . .	<u>¥1,654,471</u>	<u>¥2,465,636</u>	<u>¥1,395,292</u>	<u>¥511,286</u>	<u>¥1,963,174</u>
Fixed charges:					
Interest expense, excluding interest on deposits . . . . .	334,317	362,492	394,029	422,209	513,887
Estimated interest component of net rental expense <sup>(1)</sup> . . . . .	10,231	13,434	15,450	14,355	15,452
Total fixed charges . . . . .	<u>¥ 344,548</u>	<u>¥ 375,926</u>	<u>¥ 409,479</u>	<u>¥436,564</u>	<u>¥ 529,339</u>
Ratio of earnings to fixed charges . . . . .	4.8	6.6	3.4	1.2	3.7
	Fiscal years ended March 31,				
	2014	2015	2016	2017	2018
	(In millions of yen, except for ratios)				
<b>Including interest on deposits</b>					
Earnings:					
Total earnings . . . . .	¥1,654,471	¥2,465,636	¥1,395,292	¥511,286	¥1,963,174
Add: Interest on deposits . . . . .	226,655	300,692	350,335	347,430	514,868
Total earnings including interest on deposits . . . . .	<u>¥1,881,126</u>	<u>¥2,766,328</u>	<u>¥1,745,627</u>	<u>¥858,716</u>	<u>¥2,478,042</u>
Fixed charges:					
Total fixed charges . . . . .	344,548	375,926	409,479	436,564	529,339
Add: Interest on deposits . . . . .	226,655	300,692	350,335	347,430	514,868
Total fixed charges including interest on deposits . . . . .	<u>¥ 571,203</u>	<u>¥ 676,618</u>	<u>¥ 759,814</u>	<u>¥783,994</u>	<u>¥1,044,207</u>
Ratio of earnings to fixed charges . . . . .	3.3	4.1	2.3	1.1	2.4

Note:

(1) The portion deemed representative of the interest factor

The ratios of earnings to fixed charges are computed by dividing earnings by fixed charges. Earnings consist primarily of income (loss) before taxes, as adjusted for some equity method investments and for fixed charges. Fixed charges consist primarily of interest expense on deposits, debentures and short-term and long-term debt, amortization of debt expense and discount and the portion deemed representative of the interest factor of net rental expense under long-term leases.

## Principles of Ethics and Conduct

(English Translation)

### Introduction

These principles of Ethics and Conduct establish clear and consistent standards for all MUFG employees to guide decisions and actions. They reflect and support the MUFG Corporate Vision.

The principles are organized in three sections. Chapter 1 presents the attitude that we adopt with our customers, to act with honesty and integrity and pursue their best interests, which is a core component of our business practices.

Chapter 2 presents a set of standards to help us fulfill our responsibilities as a good corporate citizen. MUFG's reputation depends upon the trust and confidence of our customers and other stakeholders, including local communities, and we are responsible to society on a global level.

Chapter 3 describes the actions and mindset that will create a stimulating and supportive working environment as MUFG continues to grow. Our success depends on building and maintaining a dynamic workplace where all employees can reach their full potential in ways that support our customers and contribute to society as a whole.

### Outline/Overview

#### Chapter 1 Customer Focus

We place our diverse customers at the center of all our activities and always act in their best interests. MUFG is able to thrive today because of the trust and confidence that customers have placed in us—the result of years of fair, transparent, and honorable dealings. Our business culture is not driven by the prospect of short-term, immediate gains. Instead, we place a premium on supporting long-term, sustainable relationships with our customers to help them meet their goals.

##### 1-1. Acting with Honesty and Integrity

We always place our diverse customers at the center of all activities and act with honesty and integrity in all of our dealings with them. We protect customer assets, including their personal information, and strive at all times not to damage their interests.

##### 1-2. Controlling Quality

In order to earn the lasting trust and confidence of our customers, we maintain thorough quality control of our products and services in all aspects from product design and development to delivery, and continually improve our processes to provide accurate and secure transactions.

##### 1-3. Exceeding Customer Expectations

We strive to satisfy the diverse needs of our customers worldwide and to exceed their expectations through the highest standards of professionalism and by effectively leveraging our global network and consolidated strength.

#### Chapter 2 Responsibility as a Corporate Citizen

As a member of MUFG with global operations, we act honorably, with honesty and integrity, and comply at all times with laws, regulations, rules, and internal policies globally. We strive to maintain stability and confidence in the global financial system and to contribute to the sound growth and development of society. We behave in a manner that supports and strengthens the trust and confidence that MUFG has built up over the years.

## **2-1. Adherence to Laws and Regulations**

We always judge and act with honesty and integrity, do what is right, and comply with both the letter and the spirit of the laws, regulations, and rules that apply to us. We avoid insider trading, do not engage in anti-competitive conduct or any form of corrupt activity, and publicly disclose corporate information in an appropriate manner.

## **2-2. Combating Criminal Activity**

We do not conduct business with criminal elements. We do not allow our financial products and services to be used for illegal or improper activities such as money laundering, fraud, or financing terrorist activities.

## **2-3. Commitment to Social Sustainability**

We respect the history, culture, and customs of local communities and strive to contribute to their development and the protection of the environment through our corporate activities and employee volunteer efforts.

## **Chapter 3 Ethical and Dynamic Workplace**

We are committed to creating a working environment that fosters mutual respect among MUFG employees, supports the full expression of our individuality as professionals, promotes the power of teamwork, honors diversity, transcends differences, and embraces new challenges.

### **3-1. Stimulating Workplace**

We strive to enhance our knowledge and expertise, focus on maximizing the value of teamwork, and view changes in the business environment as opportunities to launch new initiatives.

### **3-2. Ethical Workplace**

We respect the diversity and human rights of all MUFG employees. We do not engage in or tolerate discrimination, harassment, intimidation, or any other behavior or activity that is inconsistent with these core beliefs. We report any violations of laws and rules, and we manage corporate assets appropriately.

## **Chapter with details**

### **Chapter 1 Customer Focus**

#### **1-1. Acting with Honesty and Integrity**

##### **① Acting with Honesty and Integrity**

The work of each employee of MUFG is directly or indirectly related to MUFG customers. We always place our diverse customers at the center of all activities, act with honesty and integrity, and support customers from a long-term perspective.

##### **② Safeguarding Customer Assets**

Customers rely upon us to be stewards of their financial assets and investments. The privacy of the information that customers also entrust to us is as valuable to them as their financial assets, and for that reason, maintaining customer confidentiality at all times is critical. The loss, misuse, leakage, or improper transfer of customer information not only can damage customer interests but also can seriously undermine the trust and confidence that MUFG has earned over many years.

### ③ **Protecting Customer Interests**

We act with honesty and integrity, and strive at all times not to damage the interests of our customers. MUFG is an integrated financial group comprising a wide variety of businesses. When conducting business with customers, we must be sensitive to the possibility of conflicts of interest that may exist between customers of different MUFG companies and between a customer and an MUFG company. In all cases, we act appropriately and with integrity, good judgment, and discretion in accordance with our policies on conflicts of interest.

## **1-2. Controlling Quality**

### ① **Products and Services that Match Customer Needs**

Our customers place great faith in us when they entrust us with their business. To earn their trust and to build strong and lasting business relationships, it is important to maintain strong quality control practices at all stages, from planning, development, and proposal, to the delivery of our products and services. Quality control means that we improve our processes to help provide products and services that match customer needs, and carry out accurate and secure transactions. To this end, we always keep in mind the following principles:

- a. When developing products and services, we clearly define our customers and their needs as known to us.
- b. The structure and profile of products and services must be developed and described in a clear and understandable manner.
- c. Products and services proposed and provided to customers match their purposes, needs, knowledge, experience, financial capabilities, and other conditions as known to us.
- d. We equip ourselves with the knowledge and skills needed to propose, provide, and manage our products and services.
- e. We provide our customers with clear and accurate explanations of products and services so that they understand the risks associated with them, accept the risks, and are fully informed when they agree to retain our products and services.
- f. In our interactions with customers, we are fair-minded, courteous, professional, and responsive.
- g. We take customer comments, complaints, and concerns seriously and handle them fairly and promptly, sharing them with relevant divisions within MUFG appropriately.

### ② **Ongoing Efforts for Quality Improvement**

We continually review and improve our products and services so that they serve the best interests of our customers.

## **1-3. Exceeding Customer Expectations**

### ① **Quality Products and Services**

Customer needs are becoming more sophisticated and more diverse, and their requirements are becoming increasingly demanding. To provide high-quality products and services, each of us strives to improve our own professional knowledge and skills.

### ② **Cooperation within MUFG**

While MUFG consists of many diverse business entities, customers view us as a single, integrated company and have high expectations for our comprehensive capabilities. Our strength does not come from individual star performers, but from the collective contributions of the team. We continually strive to provide customers with a broad set of high-quality products and services by bringing our capabilities together and acting as a seamless and unified group.

### ③ Using Our Global Network

As customers become increasingly global in their business activities, they make decisions about financial products and services based on careful comparison with those available worldwide. We continue to be competitive by providing world-class products and services and making full use of MUFG's global network.

## Chapter 2 Responsibility as a Corporate Citizen

### 2-1. Adherence to Laws and Regulations

We comply at all times with both the letter and the spirit of the laws, regulations, and rules that apply to us, with particular attention to those that, if violated, would damage the financial system, hinder the economic development of society, or have a severe negative impact on our reputation. These areas include:

#### ① Insider Trading

The use of inside, non-public information for personal gain is illegal in many countries and is prohibited within MUFG, regardless of the amount of money involved. We do not engage in any activities that would lead to illegal profits, and we comply with strict information-barrier controls that we have put in place.

#### ② Anti-Competitive Conduct

We do not engage in any unlawful, anti-competitive conduct such as sharing pricing or marketing strategies with competitors. We do not abuse our market position by unlawfully applying conditions that are considered anti-competitive to the offer of our products and services. We comply with all fair-dealing and business laws and regulations, including the arm's-length principle requiring that all parties to a transaction be independent and on an equal footing.

#### ③ Corrupt Activities

MUFG has zero tolerance for corrupt activities. Corruption is a significant global problem, and many countries have adopted strict laws that prohibit giving or taking bribes. We do not offer, promise, or grant anything of value to a government official, other person in a position of power, or private individual in any country for the purpose of obtaining or retaining business or for any other advantage.

#### ④ Public Disclosure

To maintain MUFG's reputation and credibility, disclosure of our corporate information, including financial reports, must be timely, clear, and accurate so that it can be properly understood and evaluated. If we become aware of an inaccurate or misleading statement or nondisclosure of material information, we immediately consult with our supervisors to undertake appropriate measures and correct inaccuracies.

### 2-2. Combating Criminal Activity

#### ① No Relationships with Criminal Elements

It is a basic tenet of corporate responsibility that companies have no relationships with criminal elements, including organized crime groups. We work closely with police authorities, legal counsel, and other external organizations to terminate any connections with criminal elements that we discover and protect the safety of our employees. We do not hesitate to take necessary legal action, both civil and criminal, to protect our company and stakeholders.

#### ② Prevention of Money Laundering and Other Financial Crimes

The trust of our customers is based on their confidence that the financial products and services we provide contribute to sound social and economic development. We remain alert to the fact that our products and services

can be misused to commit or facilitate crimes such as money laundering, fraud, counterfeiting credit cards, and financing terrorist activities. We strive to prevent, detect, and report illicit or suspicious activity in accordance with all applicable laws and regulations.

### **2-3. Commitment to Social Sustainability**

#### **① Giving Back to Communities**

As a good corporate citizen, MUFG promotes programs and initiatives that improve society for current and future generations. We actively encourage employee participation in various volunteer activities to enhance community development both locally and globally, and as a company, we make meaningful financial contributions to worthwhile causes and organizations.

#### **② Commitment to the Environment**

We evaluate the environmental risk in our business activities, seek to minimize any negative impact on the environment, and endeavor to support customers' businesses that contribute to environmental conservation and protection.

## **Chapter 3 Ethical and Dynamic Workplace**

### **3-1. Stimulating Workplace**

#### **① Personal Growth**

As the needs and activities of our customers continue to evolve, we continue to grow professionally to provide the best possible service. We constantly improve our skills and individual abilities by taking advantage of training and educational opportunities, both inside and outside of MUFG.

#### **② Teamwork**

MUFG employees share information, skills, and expertise with each other. Working in teams, we achieve goals that could not be accomplished by individuals working alone. We are committed to maximizing the power of teamwork.

#### **③ Can-Do Attitude**

MUFG has succeeded in part by developing an astute understanding of changes affecting our customers and society and by embracing new challenges. As the world changes more rapidly than ever, we make even stronger efforts to stay ahead of global trends and changes affecting our business environment and to embrace new challenges in the firm belief that change equals opportunity.

### **3-2. Ethical Workplace**

#### **① Respect for Diversity and Human Rights**

As a global corporation, MUFG gains strength from the diversity of its employees. We value and respect differences, and do not tolerate any form of discrimination based on race, nationality, creed, religion, gender, sexual orientation, age, physical condition, or any other differentiating characteristic.

#### **② Open Communication**

MUFG employees communicate in good faith, help each other succeed, and strive to create a workplace where everyone can exchange ideas freely and constructively.



③ **Prohibition of Harassment**

Harassment undermines respect for individuals. Because MUFU employees are entitled to feel safe and secure in the workplace, we neither engage in nor tolerate harassment or any threatening, hostile, or abusive behavior.

④ **Protection of Corporate Assets**

The tangible and intangible assets (such as money and our reputation) that MUFU has accumulated through its corporate activities play a valuable role in our business operations. We continue to contribute to the accumulation of corporate assets, properly protect and manage them, and do not engage in or condone their waste, abuse or unauthorized use.

⑤ **Reporting Violations of Laws and Rules**

Violations of laws and company rules can result in financial losses to MUFU, and can seriously damage the trust and confidence that our customers and society place in us. Whenever we discover a violation, we will not hesitate to take immediate and decisive action to address the issue. As employees, if we become aware of improprieties or breaches of laws or MUFU policy, we are expected to report the matter and consult the appropriate contacts, either through our supervisors or by using MUFU's anonymous internal hotline/reporting system. MUFU treats any information received as confidential and protects reporting employees from retaliation.

**Excerpts from MUFU's Compliance Rules**

(English Translation)

*(Objective)*

**Article 1.**

These rules prescribe basic matters relating to compliance with laws and regulations.

*(Revision and abolition)*

**Article 2.**

These rules may be revised or abolished by decision of the Executive Committee; provided, however, that any material revision or abolishment of rules relating to the duties and responsibilities of the Board of Directors or Member of the Board of Directors shall be made pursuant to a resolution of the Board of Directors.

*(Definitions)*

**Article 4.**

- (1) In these rules, "laws and regulations" mean laws and government ordinances to be strictly observed by MUFU personnel when carrying out business operations, as well as MUFU's Articles of Incorporation, Code of Ethics, and other rules and regulations established according to the laws and government ordinances above.
- (2) In these rules, "compliance" means understanding the purpose and contents of laws and regulations properly, and behaving in an appropriate manner so as not to violate applicable laws and regulations.
- (3) In these rules, "affiliates" is a general term for MUFU's consolidated subsidiaries and affiliated companies accounted for by the equity-method.
- (4) In these rules, "MUFU Group" means MUFU and its affiliates.

*(Fundamental Policy)*

**Article 5.**

The MUFG Ethical Framework and Code of Conduct are the foundations of compliance at MUFG.

*(Responsibilities of Members of the Board of Directors, Corporate Executives (Shikko Yaku), Executive officers (Shikko Yakuin) and Board of Directors)*

**Article 6.**

- (1) In accordance with the “Ethical Framework and Code of Conduct”, MUFG Members of the Board of Directors, corporate executives (*shikko yaku*) and executive officers (*shikko yakuin*) must carry out their responsibilities with the recognition that compliance is one of the most important objectives of management.
- (2) The board of directors must establish systems necessary for compliance and seek to achieve and maintain compliance.

*(Responsibility of MUFG Managing Directors)*

**Article 7.**

Managing Directors must implement compliance within their division.

*(Responsibility of MUFG Employees)*

**Article 8.**

- (1) MUFG employees must ensure compliance while performing their duties, and act in accordance with the “Ethical Framework and Code of Conduct”.
- (2) MUFG employees must strive to acquire adequate knowledge of the laws and regulations which are necessary to their business operations.

*(Director in charge of the Compliance Division)*

**Article 10.**

- (1) The Director in charge of the Compliance Division must report matters concerning compliance to the Board of Directors or Executive Committee as necessary.
- (2) When there is a risk of an unavoidable conflict of interest with a different division that the director in charge of the Compliance Division is also in charge of, to insure the independence of the Compliance Division, the managing director of the Compliance Division shall report to the President and CEO. The President and CEO will report to the Board of Directors or Executive Committee as necessary. Appropriate action shall also be taken to avoid conflicts of interest in cases other than those mentioned above.

*(Office in Charge of Compliance)*

**Article 11.**

- (1) The Compliance Division is in charge of overseeing the overall compliance framework.

\* \* \*

- (4) When the Compliance Division receives reports of problems or possible problems relating to compliance, or when it discovers such problems itself, it must take necessary actions.

**Article 11. ii**

Americas Compliance Division is in charge of BSA/AML measures concerning transactions affecting the Group's U.S. offices as well as management systems concerning OFAC regulations.

*(Compliance Officers Responsible)*

**Article 12.**

The head of each business group is the compliance officer responsible for that business group. The compliance officer responsible oversees their business group and is responsible for any compliance related planning and supervision within their jurisdiction.

*(Group Chief Compliance Officer)*

**Article 13.**

- (1) A Group Chief Compliance Officer (CCO) (primarily the responsibility of the Compliance Division) will be appointed based on Article 19 Paragraph 2 of the Organizational Regulations. When there is no appointed Group CCO, the director overseeing the compliance division will act as CCO.
- (2) The Group CCO (or in cases where there is no Group CCO, the CCO) shall oversee the coordination of division compliance officers (defined in Article 13), the chief compliance officer of each company in the MUFG Group, and any persons filling both those roles, as well as provide necessary guidance, advice and instruction based on the management agreement.
- (3) The Group CCO (or in cases where there is no Group CCO, the CCO) can request reports on compliance matters from the specified compliance officers responsible (defined in Article 11).

\* \* \*

*(Division Compliance Officers)*

**Article 14.**

- (1) A chief manager in each division will serve as division compliance officer. Each managing director may appoint a person equivalent to a chief manager as division compliance officer. In such cases, the managing director should report to the Compliance Division in the Corporate Center, the compliance officer responsible for each business group (defined in Article 11), or the Compliance Division.
- (2) The division compliance officer is responsible for the strengthening of compliance in each division and for planning and supervising compliance related issues regarding business matters under their jurisdiction. Furthermore, the compliance officer will carry out duties including the management and compliance checking of documents, gathering information concerning the establishment and revision of laws relating to the duties of each division, working to improve general compliance conditions, and will play a central role in implementing compliance measures in each division.

*(Responsibilities of Managing Directors)*

**Article 15.**

When the managing director receives reports of problems or possible problems relating to compliance from the division compliance officer, or when they discover such problems themselves, they must consult with the managing director of the Compliance Division as well as provide orders and instructions to the division compliance officer. Furthermore, in each business group, they must report to the compliance officer responsible.

*(Compliance Reporting System)*

**Article 16.**

- (1) When a MUFG employee discovers problems or possible problems relating to compliance, they must report directly to their senior managers and the division compliance officer as stipulated in Article 14.

- (2) A person receiving such report must treat the report with appropriate care in working towards a resolution. Furthermore, the information relating to any reporting person must be treated with appropriate caution.
- (3) When the compliance officers receive reports of or otherwise detect violations of laws and regulations, or possible violations, they must report directly to the Compliance Division and the managing director of their division. In cases where the managing director is involved in inappropriate conduct or behavior (including cases where such involvement is suspected or where a determination as to such involvement is difficult to make), such reports must be made to the Compliance Division.
- (4) When a MUFG employee does not wish to report to their senior managers and the division compliance officer due to said officer being complicit in a violation of laws and regulations or the possibility thereof, or when no response or remediation is made despite an employee having made a report, the employee can report directly to the Compliance Division. In each business group, reports can be made to necessary parties other than those mentioned above, based on the instructions of the compliance officer responsible (defined in Article 12).
- (5) When a report of a problem or possible problem relating to compliance are made, it shall be prohibited to take any action to seek or identify the person who made the report or take any adverse employment action against such person for making the report.

### **Excerpts from MUFG's Compliance Manual**

(English Translation)

#### **I. Legal issues regarding Management**

##### **(3) Board Director and Corporate Executive**

##### **(4) Transactions involving a conflict of interest**

When a Board Member or a Corporate Executive engages in a transaction involving a conflict of interest, the Board Member or the Corporate Executive must receive the approval of the Board of Directors.

#### **III. Specific issues**

##### **5. Conflicts of interest**

When a conflict of interest arises in connection with an operation involving any of the MUFG Group companies, Directors or employees, on one hand, and a customer or other third-party, the Director or employee, the MUFG Group company to which such Director or employee belongs, or any other MUFG Group company, on the other, the MUFG Group company, Director or employee must perform the operation in a proper manner.

### **Excerpts from MUFG's Rules of Employment**

(English Translation)

*(Disciplinary Action)*

#### **Article 40.**

The company will take disciplinary action when employees take the following prohibited actions:

- (17) If an employee violated the rules of employment or any other applicable internal rules.

**CERTIFICATION**

I, Nobuyuki Hirano, certify that:

1. I have reviewed this annual report on Form 20-F of Mitsubishi UFJ Financial Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

July 12, 2018

/s/ Nobuyuki Hirano

Name: Nobuyuki Hirano

Title: President & Group Chief Executive Officer

## CERTIFICATION

I, Muneaki Tokunari, certify that:

1. I have reviewed this annual report on Form 20-F of Mitsubishi UFJ Financial Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

July 12, 2018

/s/ Muneaki Tokunari

\_\_\_\_\_  
Name: Muneaki Tokunari

Title: Group Chief Financial Officer

**mitsubishi ufj financial group, inc.**

CERTIFICATION REQUIRED BY  
RULE 13a-14(b) OR RULE 15d-14(b)  
AND 18 U.S.C. Section 1350

In connection with the Annual Report of Mitsubishi UFJ Financial Group, Inc. (the “Company”) on Form 20-F for the fiscal year ended March 31, 2018 as filed with the US Securities and Exchange Commission on the date hereof (the “Report”), I, Nobuyuki Hirano, President & Group Chief Executive Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350 that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: July 12, 2018

/s/ Nobuyuki Hirano

\_\_\_\_\_  
Name: Nobuyuki Hirano

Title: President & Group Chief Executive Officer

**MITSUBISHI UFJ FINANCIAL GROUP, INC.**

**CERTIFICATION REQUIRED BY  
RULE 13a-14(b) OR RULE 15d-14(b)  
AND 18 U.S.C. Section 1350**

In connection with the Annual Report of Mitsubishi UFJ Financial Group, Inc. (the “Company”) on Form 20-F for the fiscal year ended March 31, 2018 as filed with the US Securities and Exchange Commission on the date hereof (the “Report”), I, Muneaki Tokunari, Director and Group Chief Financial Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350 that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: July 12, 2018

/s/ Muneaki Tokunari

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Name: Muneaki Tokunari

Title: Group Chief Financial Officer



**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in the Registration Statement No. 333-204845 on Form S-8 and the Registration Statement No. 333-209455 on Form F-3 of our reports dated July 12, 2018, relating to the consolidated financial statements of Mitsubishi UFJ Financial Group, Inc. (“MUFG”) and subsidiaries (together, the “MUFG Group”) and the effectiveness of the MUFG Group’s internal control over financial reporting, appearing in the Annual Report on Form 20-F of the MUFG Group for the year ended March 31, 2018.

/s/ Deloitte Touche Tohmatsu LLC

Tokyo, Japan  
July 12, 2018

## CAPITALIZATION AND INDEBTEDNESS

The following table presents our capitalization and indebtedness at March 31, 2018:

	<b>At March 31, 2018</b>
	<b>(in millions)</b>
Total short-term borrowings <sup>(1)</sup> .....	<u>¥39,024,637</u>
Long-term debt:	
Obligations under capital leases .....	18,714
Obligation under sale-and-leaseback transactions .....	41,892
Unsubordinated debt .....	21,497,003
Subordinated debt .....	4,853,024
Obligations under loan securitization transactions .....	672,612
Debt issuance costs .....	(13,689)
Total long-term debt .....	<u>27,069,556</u>
Shareholders' equity:	
Capital stock, with no stated value (common stock authorized: 33,000,000,000 shares; common stock issued: 13,900,028,020 shares) .....	2,090,270
Capital surplus .....	5,740,165
Retained earnings:	
Appropriated for legal reserve .....	239,571
Unappropriated retained earnings .....	4,945,733
Accumulated other comprehensive income, net of taxes .....	2,477,315
Treasury stock, at cost: 737,772,882 common shares .....	(522,872)
Total shareholders' equity .....	<u>14,970,182</u>
Noncontrolling interests .....	<u>675,633</u>
Total equity .....	<u>15,645,815</u>
Total capitalization and indebtedness .....	<u>¥42,715,371</u>

## Note:

- (1) Total 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.

**UNAUDITED REVERSE RECONCILIATION OF  
SELECTED FINANCIAL INFORMATION**

Our consolidated financial statements are prepared in accordance with U.S. GAAP as described in the notes thereto. The basis of our consolidated financial statements prepared under U.S. GAAP is significantly different from Japanese GAAP in certain respects. Under Japanese banking regulations and Tokyo Stock Exchange rules, we are required to report our annual and quarterly results prepared in accordance with Japanese GAAP. We present below a reverse reconciliation of total equity under U.S. GAAP to net assets under Japanese GAAP as of March 31, 2018 and net income before attribution of noncontrolling interests for the fiscal year ended March 31, 2018.

	<b>As of March 31, 2018</b>
	<b>(in millions)</b>
Total equity in accordance with U.S. GAAP .....	¥15,645,815
Differences arising from different accounting for:	
1. Investment securities .....	123,240
2. Loans .....	(9,963)
3. Allowance for credit losses .....	65,433
4. Fixed assets .....	424,376
5. Pension liability .....	(9,717)
6. Derivative financial instruments and hedging activities .....	243,861
7. Compensated absences .....	44,949
8. Long-term debt .....	(9,621)
9. Consolidation .....	672,397
10. Goodwill .....	185,940
11. Intangible assets .....	(38,893)
12. Investments in equity method investees .....	557,711
Other .....	(421,208)
Deferred income tax effects, when applicable .....	(179,283)
Net assets in accordance with Japanese GAAP .....	<u>¥17,295,037</u>
	<b>For the fiscal year ended March 31, 2018</b>
	<b>(in millions)</b>
Net income before attribution of noncontrolling interests in accordance with U.S. GAAP .....	¥ 1,253,996
Differences arising from different accounting for:	
1. Investment securities .....	57,273
2. Loans .....	(28,284)
3. Allowance for credit losses .....	(360,500)
4. Fixed assets .....	(14,986)
5. Pension liability .....	(49,752)
6. Derivative financial instruments and hedging activities .....	94,893
7. Compensated absences .....	3,211
8. Long-term debt .....	(482)
9. Consolidation .....	40,055
10. Goodwill .....	(17,604)
11. Intangible assets .....	5,778
12. Investments in equity method investees .....	(18,451)
Other .....	36,407
Deferred income tax effects, when applicable .....	94,386
Net income before attribution of noncontrolling interests in accordance with Japanese GAAP .....	<u>¥ 1,095,940</u>

## **Explanation of Differences between U.S. GAAP and Japanese GAAP**

Major factors which explain the differences shown in the above table are as follows:

### **1. Investment securities**

The cost basis of certain securities is different under U.S. GAAP and Japanese GAAP due primarily to the following:

- On October 1, 2005, Mitsubishi Tokyo Financial Group, Inc. (“MTFG”) merged with UFJ Holdings, Inc. (“UFJ Holdings”), with MTFG being the surviving entity, and was renamed “Mitsubishi UFJ Financial Group, Inc.” Under U.S. GAAP, in accordance with the guidance on accounting for business combinations, the assets and liabilities of companies acquired in purchase transactions are recorded at fair value at the date of acquisition. Therefore, the new cost basis of investment securities, including available-for-sale and other investment securities, of UFJ Holdings was established and they were recognized at fair value as of October 1, 2005. Under Japanese GAAP, which was effective as of October 1, 2005, the new cost basis was not established for such investment securities and they were carried over at their historical cost basis.
- Under U.S. GAAP, other-than-temporary impairment is recognized in earnings for a debt security if an entity has intent to sell such a debt security or if it is more likely than not that the entity will be required to sell such a debt security before recovery of its amortized cost basis. If not, the credit component of other-than-temporary impairment on the debt security is recognized in earnings, but the noncredit component is recognized in other comprehensive income. For marketable equity securities, other-than-temporary impairment is recognized in earnings when a decline in fair value below cost is deemed other than temporary. In determining whether a decline in fair value below cost is other-than-temporary, in addition to the ability and positive intent to hold the investments for a period sufficient to allow for any anticipated recovery in fair value, factors such as the extent of decline in fair value below cost and the length of time that the decline has continued are considered. If a decline in fair value below cost exceeds 20% or a decline in fair value below cost has continued for six months or more, such decline is generally deemed as other-than-temporary. The financial condition and near-term prospects of issuers are also considered, primarily based on the credit standing of the issuers as determined by the credit rating system. Under Japanese GAAP, significant declines in the fair value of securities below cost are recorded in earnings for both debt security and marketable equity security. In determining a significant decline, the extent of the decline in fair value below cost and credit standing of the issuers are considered and a decline in the fair value of a security of 50% or more of its cost is considered a strong indicator of significant decline. Thus, generally, the criteria for recognition of impairment losses on investment securities in earnings under U.S. GAAP are stricter than those of Japanese GAAP.
- U.S. GAAP requires accounting for the transactions at fair value when investments in acquired companies are exchanged for investments in the surviving companies in accordance with the guidance on accounting for nonmonetary exchange of cost-method investments, while these transactions have been accounted for at cost under Japanese GAAP.
- Under U.S. GAAP, changes in the fair value of foreign securities held by MUFG Bank and Mitsubishi UFJ Trust and Banking are recognized in earnings since the fair value option was elected for these foreign securities in accordance with the guidance on accounting for fair value options for financial assets and financial liabilities. Under Japanese GAAP, only the changes attributable to movements in foreign currency exchange rates are recognized in earnings and the other changes in the fair value are recognized in other comprehensive income.

### **2. Loans**

Under U.S. GAAP, loan origination fees, net of certain direct origination costs, are deferred and recognized as income over the contractual life of the loans, while under Japanese GAAP, they are primarily recognized in earnings at the time of origination.

### **3. Allowance for credit losses**

Under U.S. GAAP, the credit loss allowance for impaired loans is calculated primarily based on the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's observable market price, or the fair value of the collateral if the loan is collateral dependent, in accordance with the guidance on accounting by creditors for the impairment of a loan. Under Japanese GAAP, an allowance is provided for certain types of impaired loans based on historical loss experience. This difference between U.S. GAAP and Japanese GAAP generally results in a larger amount of allowance for credit losses under U.S. GAAP.

### **4. Fixed assets**

The differences between Japanese GAAP and U.S. GAAP principally consist of (1) Premises and equipment, and (2) Land revaluation.

#### ***(1) Premises and equipment***

Under U.S. GAAP, a nonmonetary asset acquired in exchange for another nonmonetary asset is generally recorded at the fair value of the asset surrendered or that of the asset received, and a gain or loss is recognized on the exchange. Under Japanese GAAP, the asset received is recorded at the cost of the asset surrendered in relevant types of exchange transactions, resulting in no gain or loss.

#### ***(2) Land revaluation***

U.S. GAAP does not allow revaluation of operating assets and requires land to be recorded at cost. Under Japanese GAAP, land used for business operations of domestic subsidiaries was revalued as of March 31, 1998 for Bank of Tokyo-Mitsubishi, as of March 31, 2002 for The Mitsubishi Trust and Banking Corporation and as of December 31, 2001 for other domestic subsidiaries of MTFG with the corresponding impact recorded directly in equity as well as related deferred tax assets/liabilities, pursuant to the Law concerning Revaluation of Land. Accordingly, land held on the revaluation dates are recorded at different values.

### **5. Pension liability**

Under both U.S. GAAP and Japanese GAAP, the funded status of defined benefit plans is recognized as assets or liabilities in a consolidated balance sheet, and actuarial gains or losses and prior service costs or benefits that have not yet been recognized through earnings as net periodic benefit cost are recognized in other comprehensive income, net of tax, until they are amortized as a component of net periodic benefit cost. Actuarial gains or losses are amortized based on corridor approach under U.S. GAAP, while they are amortized over a specified number of years under Japanese GAAP.

### **6. Derivative financial instruments and hedging activities**

MUFG utilizes derivatives to manage its exposures to fluctuations in market factors such as interest rates and foreign exchange rates arising from mismatches in the risk profiles of assets and liabilities. Under U.S. GAAP, most derivatives used by MUFG are accounted for as trading assets or liabilities because they do not qualify for hedge accounting under the criteria prescribed in the guidance on accounting for derivative instruments and hedging activities. Japanese GAAP permits hedge accounting for certain derivative hedging activities, including portfolio hedges, using less restrictive hedging criteria.

In addition, bifurcation requirements are different between U.S. GAAP and Japanese GAAP. Under U.S. GAAP, if the economic characteristics and risks of the embedded derivatives are deemed "clearly and closely related" to the economic characteristics and risks of the host contracts, the embedded derivatives are not bifurcated from their host contracts. Under Japanese GAAP, the embedded derivatives may be bifurcated from their host contracts if the risk of the embedded derivatives and host contracts are managed separately.

## 7. Compensated absences

Under U.S. GAAP, in accordance with the guidance on accounting for compensated absences, an employer is required to accrue a liability for employees' rights to receive compensation for future absences such as unused vacations and holidays when certain conditions are met (for example, unexpired vacation benefits that employees have earned but have not yet taken). Under Japanese GAAP, employers are not required to recognize liabilities and accordingly, no liabilities are recognized for such short-term employee benefits.

## 8. Long-term debt

Under U.S. GAAP, in accordance with the guidance on accounting for business combinations, the new cost basis of long-term debt of UFJ Holdings was established and it was recognized at fair value as of October 1, 2005. Under Japanese GAAP, which was effective as of October 1, 2005, the new cost basis was not established and the long-term debt was recorded at its historical cost basis.

## 9. Consolidation

The scope of consolidation is different under U.S. GAAP and Japanese GAAP primarily because, under U.S. GAAP, the primary beneficiary must consolidate variable interest entities based on variable interests, which resulted in additional consolidation of certain variable interest entities. Japanese GAAP does not have a concept of variable interest entities.

On the other hand, certain variable interest entities including funding vehicles, which are consolidated under Japanese GAAP due to the majority ownership of the voting rights, are not consolidated under U.S. GAAP because MUFG and its consolidated subsidiaries are not their primary beneficiaries.

The breakdown of the impact of the difference on total equity is as follows.

	<b>Consolidation under U.S. GAAP</b>	<b>Deconsolidation under U.S. GAAP (in millions)</b>	<b>Total</b>
Investment securities .....	¥ 479,625	¥(143,204)	¥ 336,421
Loans .....	(2,437,288)	883,591	(1,553,697)
Trading account assets .....	(1,079,761)	(15,976)	(1,095,737)
Short-term borrowings .....	2,480,193	(20,862)	2,459,331
Long-term debt .....	456,940	361,618	818,558
Others .....	(118,582)	(173,897)	(292,479)
Total .....	<u>¥ (218,873)</u>	<u>¥ 891,270</u>	<u>¥ 672,397</u>

The breakdown of the impact of the difference on net income before attribution of noncontrolling interests is as follows.

	<b>Consolidation under U.S. GAAP</b>	<b>Deconsolidation under U.S. GAAP (in millions)</b>	<b>Total</b>
Investment securities .....	¥ (50,480)	¥ (8,305)	¥ (58,785)
Loans .....	(44,129)	166,405	122,276
Trading account assets .....	(3,228)	213	(3,015)
Short-term borrowings .....	27,317	(131)	27,186
Long-term debt .....	7,760	31,828	39,588
Others .....	26,453	(113,648)	(87,195)
Total .....	<u>¥ (36,307)</u>	<u>¥ 76,362</u>	<u>¥ 40,055</u>

## **10. Goodwill**

Under U.S. GAAP, in accordance with the guidance on accounting for business combinations, identifiable assets acquired, liabilities assumed, and any noncontrolling interest in an acquired company are recorded at fair value at the date of acquisition. Goodwill is the excess of the fair value of noncontrolling interest and consideration transferred, over the fair value of identifiable assets acquired and liabilities assumed. Goodwill is not amortized, but is subject to an annual impairment test at the reporting unit level, and also reviewed more frequently if events or changes in circumstance indicate that the goodwill might be impaired. Under Japanese GAAP, goodwill is the difference between the purchase price consideration and the acquirer's share of fair value of the net assets acquired. Goodwill is amortized by straight-line method over the estimated period not exceeding 20 years, and an impairment test is required only if indication of impairment is identified.

In addition, the acquisition of UFJ Holdings has been accounted for by a method similar to pooling-of-interests, and consequently goodwill has not been recognized in accordance with Japanese GAAP, which was effective as of October 1, 2005.

## **11. Intangible assets**

Under U.S. GAAP, in accordance with the guidance on accounting for business combinations, all identifiable intangible assets acquired in purchase transactions are recorded at fair value at the date of acquisition. Intangible assets with definite useful lives are amortized over their estimated useful life and reviewed for impairment whenever events or changes in circumstance indicate that their carrying amount may not be recoverable. Intangible assets with indefinite useful lives are tested for impairment at least annually, and also reviewed more frequently if events or changes in circumstance indicate that the assets might be impaired. Under Japanese GAAP, which was effective as of October 1, 2005, intangible assets have not been recognized in connection with the acquisition of UFJ Holdings.

## **12. Investments in equity method investees**

Under U.S. GAAP, a portion of a difference between the cost of an investment and the amount of underlying equity in net assets of an investee is not amortized. A loss in value of an investment that is other than a temporary decline is recognized as an impairment loss. Under Japanese GAAP, goodwill which is included in investments in equity method investees is amortized by straight-line method. If a decline in the market value below the cost is substantial, based on the extent of decline in market value and the credit standing of the issuers, an impairment loss is recognized within the limit of the amount of unamortized goodwill.