

MITSUBISHI UFJ FINANCIAL GROUP INC

Form 20-F

July 14, 2017

Table of Contents

As filed with the Securities and Exchange Commission on July 14, 2017

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, 2017

OR

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

THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

OR

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

THE SECURITIES EXCHANGE ACT OF 1934

Date of event requiring this shell company report

Commission file number 000-54189

KABUSHIKI KAISHA MITSUBISHI UFJ FINANCIAL GROUP

(Exact name of Registrant as specified in its charter)

MITSUBISHI UFJ FINANCIAL GROUP, INC.

(Translation of Registrant's name into English)

Japan

(Jurisdiction of incorporation or organization)

7-1, Marunouchi 2-chome

Chiyoda-ku, Tokyo 100-8330

Japan

(Address of principal executive offices)

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

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

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

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

(1) The listing of the registrant's common stock on the New York Stock Exchange is for technical purposes only and without trading privileges.
Securities registered or to be registered pursuant to Section 12(g) of the Act: None

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

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

As of March 31, 2017, 14,168,853,820 shares of common stock (including 739,564,216 shares of common stock held by the registrant and its consolidated subsidiaries as treasury stock)

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

Yes No

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

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Yes No

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

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

Yes No

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

Yes No

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

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

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

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

U.S. GAAP International Financial Reporting Standards as issued Other

by the International Accounting Standards Board

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

Table of Contents**TABLE OF CONTENTS**

	Page
<u>Forward-Looking Statements</u>	3
Item 1. <u>Identity of Directors, Senior Management and Advisers</u>	4
Item 2. <u>Offer Statistics and Expected Timetable</u>	4
Item 3. <u>Key Information</u>	4
Item 4. <u>Information on the Company</u>	27
Item 4A. <u>Unresolved Staff Comments</u>	67
Item 5. <u>Operating and Financial Review and Prospects</u>	68
Item 6. <u>Directors, Senior Management and Employees</u>	145
Item 7. <u>Major Shareholders and Related Party Transactions</u>	167
Item 8. <u>Financial Information</u>	168
Item 9. <u>The Offer and Listing</u>	169
Item 10. <u>Additional Information</u>	170
Item 11. <u>Quantitative and Qualitative Disclosures about Credit, Market and Other Risk</u>	192
Item 12. <u>Description of Securities Other than Equity Securities</u>	218
Item 13. <u>Defaults, Dividend Arrearages and Delinquencies</u>	220
Item 14. <u>Material Modifications to the Rights of Security Holders and Use of Proceeds</u>	220
Item 15. <u>Controls and Procedures</u>	220
Item 16A. <u>Audit Committee Financial Expert</u>	223
Item 16B. <u>Code of Ethics</u>	223
Item 16C. <u>Principal Accountant Fees and Services</u>	223
Item 16D. <u>Exemptions from the Listing Standards for Audit Committees</u>	226
Item 16E. <u>Purchases of Equity Securities by the Issuer and Affiliated Purchasers</u>	226
Item 16F. <u>Change in Registrant's Certifying Accountant</u>	227
Item 16G. <u>Corporate Governance</u>	227
Item 16H. <u>Mine Safety Disclosure</u>	229
Item 17. <u>Financial Statements</u>	230
Item 18. <u>Financial Statements</u>	230
Item 19. <u>Exhibits</u>	230
<u>Selected Statistical Data</u>	A-1
<u>Consolidated Financial Statements</u>	F-1

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 The Bank of Tokyo-Mitsubishi UFJ, Ltd., or BTMU, 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 MUTB, and, as the context requires, its consolidated subsidiaries engaged in the trust banking business. Our banking subsidiaries refers to BTMU and MUTB and, as the context requires, their respective consolidated subsidiaries engaged in the banking

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business. Our securities subsidiaries refers to Mitsubishi UFJ Securities Holdings Co., Ltd., or MUSHD, and as the context requires, its consolidated subsidiaries engaged in the securities business.

Table of Contents

References to MUAH and MUB are to MUFG Americas Holdings Corporation and MUFG Union Bank, N.A., as single entities, respectively, as well as to MUAH and MUB 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, and references to euro or € are to the currency of the member states of the European Monetary Union.

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.

Table of Contents

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 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.

Table of Contents

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.

Table of Contents

	Fiscal years ended March 31,				
	2013	2014	2015	2016	2017
	(in millions, except per share data and number of shares)				
Statement of income data:					
Interest income	¥ 2,427,521	¥ 2,522,283	¥ 2,894,645	¥ 3,005,738	¥ 2,990,767
Interest expense	556,418	560,972	663,184	744,364	769,639
Net interest income	1,871,103	1,961,311	2,231,461	2,261,374	2,221,128
Provision (credit) for credit losses	144,542	(106,371)	86,998	231,862	253,688
Net interest income after provision (credit) for credit losses	1,726,561	2,067,682	2,144,463	2,029,512	1,967,440
Non-interest income	2,067,909	1,821,081	2,845,078	2,407,690	1,196,706
Non-interest expense	2,378,599	2,468,320	2,726,885	3,274,532	2,891,603
Income before income tax expense	1,415,871	1,420,443	2,262,656	1,162,670	272,543
Income tax expense	296,020	337,917	666,020	369,432	94,453
Net income before attribution of noncontrolling interests	1,119,851	1,082,526	1,596,636	793,238	178,090
Net income (loss) attributable to noncontrolling interests	50,727	67,133	65,509	(9,094)	(24,590)
Net income attributable to Mitsubishi UFJ Financial Group	¥ 1,069,124	¥ 1,015,393	¥ 1,531,127	¥ 802,332	¥ 202,680
Earnings applicable to common shareholders of Mitsubishi UFJ Financial Group	¥ 1,051,184	¥ 994,152	¥ 1,522,157	¥ 802,332	¥ 202,680
Amounts per share:					
Basic earnings per common share Earnings applicable to common shareholders of Mitsubishi UFJ Financial Group	¥ 74.30	¥ 70.21	¥ 107.81	¥ 57.78	¥ 14.93
Diluted earnings per common share Earnings applicable to common shareholders of Mitsubishi UFJ Financial Group	74.16	69.98	107.50	57.51	14.68
Number of shares used to calculate basic earnings per common share (in thousands)	14,148,060	14,158,698	14,118,469	13,885,842	13,574,314
Number of shares used to calculate diluted earnings per common share (in thousands) ⁽¹⁾	14,169,080	14,180,080	14,137,645	13,903,316	13,584,885
Cash dividends per share paid during the fiscal year:					
Common stock	¥ 12.00	¥ 14.00	¥ 18.00	¥ 18.00	¥ 18.00
	\$ 0.15	\$ 0.14	\$ 0.16	\$ 0.15	\$ 0.17
Preferred stock (Class 5 ³)	¥ 115.00	¥ 115.00	¥ 57.50		
	\$ 1.42	\$ 1.14	\$ 0.57		
Preferred stock (Class 11 ³)	¥ 5.30	¥ 5.30	¥ 2.65		
	\$ 0.07	\$ 0.05	\$ 0.03		

	2013	2014	As of March 31, 2015	2016	2017
	(in millions)				
Balance sheet data:					
Total assets	¥ 230,551,539	¥ 253,651,989	¥ 280,875,706	¥ 292,557,355	¥ 297,185,019
Loans, net of allowance for credit losses	97,254,242	109,181,991	117,209,723	121,679,828	117,032,784
Total liabilities	219,609,559	240,900,545	265,594,365	277,709,088	282,420,311
Deposits	148,209,739	162,517,786	171,991,267	181,438,087	190,401,623
Long-term debt	12,174,621	14,489,590	19,958,115	21,959,136	27,743,443
Total equity	10,941,980	12,751,444	15,281,341	14,848,267	14,764,708
Capital stock	2,088,135	2,089,245	2,090,270	2,090,270	2,090,270

Table of Contents

	Fiscal years ended March 31,				
	2013	2014	2015	2016	2017
	(in millions, except percentages)				
Other financial data:					
Average balances:					
Interest-earning assets	¥ 193,824,256	¥ 212,176,348	¥ 237,247,664	¥ 252,715,743	¥ 239,192,449
Interest-bearing liabilities	173,391,619	189,404,896	210,091,493	221,135,208	223,522,296
Total assets	225,674,963	247,721,331	277,547,638	299,270,873	307,938,699
Total equity	9,244,530	10,683,098	13,002,955	15,285,766	15,010,829
Return on equity and assets:					
Earnings applicable to common shareholders as a percentage of average total assets	0.47%	0.40%	0.55%	0.27%	0.07%
Earnings applicable to common shareholders as a percentage of average total equity	11.37%	9.31%	11.71%	5.25%	1.35%
Dividends per common share as a percentage of basic earnings per common share	16.15%	19.94%	16.70%	31.15%	120.56%
Average total equity as a percentage of average total assets	4.10%	4.31%	4.68%	5.11%	4.87%
Net interest income as a percentage of average total interest-earning assets	0.97%	0.92%	0.94%	0.89%	0.93%
Credit quality data:					
Allowance for credit losses	¥ 1,335,987	¥ 1,094,420	¥ 1,055,479	¥ 1,111,130	¥ 1,182,188
Allowance for credit losses as a percentage of loans	1.36%	0.99%	0.89%	0.90%	1.00%
Impaired loans	¥ 2,200,766	¥ 1,861,027	¥ 1,686,806	¥ 1,725,150	¥ 1,715,850
Impaired loans as a percentage of loans	2.23%	1.69%	1.43%	1.40%	1.45%
Allowance for credit losses related to impaired loans as a percentage of impaired loans	43.39%	40.32%	36.00%	42.60%	51.42%
Net loan charge-offs	¥ 112,862	¥ 153,748	¥ 150,666	¥ 156,959	¥ 169,809
Net loan charge-offs as a percentage of average loans	0.12%	0.15%	0.13%	0.13%	0.14%
Average interest rate spread	0.93%	0.89%	0.90%	0.85%	0.91%
Risk-adjusted capital ratio calculated under Japanese GAAP ⁽⁴⁾	16.53%	15.43%	15.62%	16.01%	15.85%

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) 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.

Table of Contents**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 30, 2017, the closing exchange rate was ¥112.39 to U.S.\$1.00 and the inverse rate was U.S.\$0.89 to ¥100.00.

	Year 2017				
	February	March	April	May	June
High	114.26	114.95	111.49	114.28	112.39
Low	111.74	110.66	108.43	110.78	109.41

	Fiscal years ended March 31,				
	2013	2014	2015	2016	2017
Average (of month-end rates)	¥ 83.32	¥ 100.38	¥ 110.82	¥ 120.10	¥ 108.33

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, 2017, 64.4% of our total assets were related to Japanese domestic assets, including Japanese national government and Japanese government agency bonds, which accounted for 62.3% of our total investment securities portfolio and 9.1% of our total assets, respectively. Interest and non-interest income in Japan represented 45.5% of our total interest and non-interest income for the fiscal year ended March 31, 2017. Furthermore, as of March 31, 2017, our loans in Japan accounted for 56.7% of our total loans outstanding.

Table of Contents

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 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 the decline in oil and other commodity prices, and the political turmoil in various regions around world. As of March 31, 2017, based principally on the domicile of the obligors, assets related to the United States accounted for approximately 15.5% of our total assets, assets related to Asia and Oceania excluding Japan accounted for approximately 8.5% of our

Table of Contents

total assets, and assets related to Europe accounted for approximately 8.0% 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, 2017 were ¥2.08 trillion and ¥0.75 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 ¥5.9 billion, ¥37.2 billion and ¥33.8 billion for the fiscal years ended March 31, 2015, 2016 and 2017, respectively. As of March 31, 2017, approximately 27.2% 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 1.40% to 2.23% as of the five most recent fiscal year-ends. As of March 31, 2017, impaired loans were ¥1,715.9 billion, representing 1.45% of our total outstanding loans. If the economic conditions in Japan or other parts of the world, 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.

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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

Table of Contents

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, 2017, the total notional amount of the protection we sold through single name credit default swaps and index and basket credit default swaps was ¥2.83 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. For the fiscal year ended March 31, 2017, we recorded ¥253.7 billion of provision for credit losses. Negative changes in economic conditions, government policies or our borrowers' repayment abilities could require us to provide for additional allowance. 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 part 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 there is an improvement in asset quality, credit for credit losses is recorded in our consolidated statements of income to reverse the allowance for credit losses to a level management deems appropriate. For example, for the fiscal years ended March 31, 2016 and 2017, while we recorded provisions for credit losses for our entire loan portfolio, we recorded ¥9.5 billion of credit for credit losses for the Residential segment of our loan portfolio for the fiscal year ended March 31, 2016, and ¥0.1 billion of credit for credit losses for the MUAH segment for the fiscal year ended March 31, 2017. However, we have historically provided for credit losses rather than recording credit for 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, 2017 was 10.1% of our total assets. In particular, the Japanese national government and Japanese government agency bonds

accounted for 9.1% of our total assets as of March 31, 2017. For a detailed discussion of our bond portfolio, see Selected Statistical Data Investment Portfolio.

Table of Contents

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, 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 policy interest rate, additional issuances of government bonds, or an actual or expected reduction in the balance sheet of the Federal Reserve Board, or 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, 2017, the average balance of our foreign interest-earning assets was ¥94.01 trillion and the average balance of our foreign interest-bearing liabilities was ¥57.22 trillion, representing 39.3% of our average total interest-earning assets and 25.6% 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, 2017 was ¥108.38 per U.S.\$1.00, compared to ¥120.14 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 decreasing total revenue by ¥305.1 billion, decreasing 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. In addition, the exchange rate between the Japanese yen and the U.S. dollar was ¥112.19 as of March 31, 2017, compared to ¥112.68 to the U.S. dollar as of March 31, 2016. As a result, we recorded ¥407.4 billion of net foreign exchange losses related to the fair value option for the fiscal year ended March 31, 2017. The Japanese yen was ¥112.39 to the U.S. dollar on June 30, 2017. 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 14.1% of our total investment securities portfolio, and 2.1% of our

Table of Contents

total assets, as of March 31, 2017. 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, 2017, declining to an intra-day low of ¥14,952.02 on June 24, 2016 and rising to an intra-day high of ¥19,633.75 on March 13, 2017. On June 2, 2017, the closing price of the Nikkei Stock Average exceeded ¥20,000 for the first time since December 2015. As of June 30, 2017, the closing price of the Nikkei Stock Average was ¥20,033.43. The Nikkei Stock Average has fluctuated in recent periods, and may fluctuate to a greater extent 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, BTMU 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 BTMU's 2007 and 2008 voluntary investigation of BTMU's U.S. dollar clearing activity toward countries under U.S. economic sanctions. BTMU had hired PwC to conduct a historical transaction review report in connection with that investigation, and voluntarily submitted the report to DFS's predecessor entity in 2008. Under the terms of the agreement with DFS, BTMU 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 BTMU's internal controls regarding compliance with applicable laws and regulations related to U.S. economic sanctions. In June 2013, BTMU 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, BTMU 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 BTMU's current operations. In December 2012, BTMU 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. BTMU is having continuing discussions on these and related issues with relevant regulators, including concerning extending the term of the independent consultant, and is undertaking necessary actions relating to these matters.

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

Table of Contents

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 systematically important banks, or G-SIBs, became applicable to Japanese banking institutions with international operations, including us, and these additional capital adequacy requirements are expected to become stricter in phases over the next few years. For more information, see [Risks Related to Our Business](#). We may not be able to maintain our capital ratios above minimum required levels, which could result in the suspension of some or all of our operations. and [Item 4.B. Information on the Company Business Overview Supervision and Regulation Japan](#).

Furthermore, regulatory reforms recently implemented, proposed and currently being debated in the United States may also significantly affect our business operations. For example, in July 2016, we established

Table of Contents

MUAH as a U.S. intermediate holding company, or IHC, and reorganized our U.S. bank and non-bank subsidiaries under MUAH pursuant to rules adopted by the Federal Reserve Board, or FRB, in February 2014. Under the FRB rules, MUAH 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 MUAH 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.

Global financial regulatory reform measures may also have a significant impact on our business operations. For example, various international organizations, including the Financial Stability Board and the Basel Committee on Banking Supervision, are currently considering ways to address, among other things, credit valuation adjustment, or CVA, and leverage ratio requirements as well as revisions to methods of calculating the amount of risk-weighted assets. We intend to continue to monitor developments relating to global regulatory reforms.

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.

MUAH, 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. MUAH reported net income of \$782 million, \$644 million and \$990 million for the fiscal years ended December 31, 2014, 2015 and 2016, respectively. Any adverse developments which could arise at MUAH 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 Business Group MUFG Union Bank, N.A. (MUB).

Factors that have negatively affected, and could continue to negatively affect, MUAH's 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 MUAH. 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 MUAH's results of operations.

Significant costs may arise from enterprise-wide compliance and risk management requirements, 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 MUAH. 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 BTMU'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.

Table of Contents

MUB, which is the principal subsidiary of MUAH, 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, MUB'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 MUB, 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 MUB.

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 major subsidiary in Thailand in which we hold a 76.88% ownership interest as of March 31, 2017, 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, 2017, 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 ¥56.9 billion. 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

Table of Contents

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, BTMU purchased 72.01% of the outstanding shares of Krungsri in December 2013 and acquired additional shares in January 2015, increasing BTMU's ownership interest to 76.88%. BTMU also holds 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. 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, or if the profitability of opportunities is undermined by competitive pressures or regulatory limitations. 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 ¥23.82 trillion, ¥25.26 trillion and ¥10.75 trillion, representing 8.0%, 8.5% and 3.6% of our total assets as of March 31, 2017, 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

Table of Contents

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 23.3% of the voting rights in Morgan Stanley as of March 31, 2017 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.

Table of Contents

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, 2017, with the percentage increasing from 15.3% to 16.1% between March 31, 2016 and March 31, 2017. 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 23.3% voting interest in Morgan Stanley as of March 31, 2017. 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 systematically 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 ¥2.91 trillion as of March 31, 2017.

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 ¥593.2 billion as of March 31, 2017, compared to ¥593.9 billion as of March 31, 2016.

Mitsubishi UFJ NICOS's consumer loan portfolio has been adversely affected by a series of regulatory reforms recently implemented in Japan, which has affected the consumer lending industry in recent years. 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

Table of Contents

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, 2017, 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, 2015, 2016 and 2017, we had ¥36.3 billion, ¥47.2 billion and ¥39.4 billion of allowance for repayment of excess interest, respectively. For the same periods, one of our equity method investees engaged in consumer lending, ACOM CO., LTD., had a negative impact of ¥19.7 billion, ¥22.4 billion and ¥56.9 billion, respectively, on net equity in losses of equity method investees in our consolidated statements of income. 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. Recent advances in information and communication technology have 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 plan to transfer MUTB's corporate and other loan-related business to BTMU in or around April 2018. Our competitive position in the corporate loan-related market may weaken if MUTB's corporate customers move their accounts to a competitor or otherwise reduce their loan balances with MUTB or BTMU to keep their funding sources diversified in anticipation, or as a result, of the planned transaction between MUTB and BTMU. Our competitive position in the corporate loan-related market may also weaken if we are unable to complete the transaction as planned or to realize the expected benefits of the transaction.

Table of Contents

In the overseas markets, advances in information and communications technology have 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. The ongoing global financial regulatory reforms may also lead to changes in the competitive environment for financial institutions. 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 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 approximately \$0.5 million, representing less than 0.0001% of our total assets, as of March 31, 2017. We do

Table of Contents

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-governmental 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. 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 of the FSA which have been revised as of March 31, 2013, as described below. As of March 31, 2017, our total risk-adjusted capital ratio was 15.85% compared to the minimum risk-adjusted capital ratio required of 10.00%, our Tier 1 capital ratio was 13.36% compared to the minimum Tier 1 capital ratio required of 8.00%, and our Common Equity Tier 1 capital ratio was 11.76% compared to the minimum Common Equity Tier 1 capital ratio required of 6.50%, each including a capital conservation buffer of 1.25% and a G-SIB surcharge of 0.75%. 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;

Table of Contents

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 Group of Central Bank Governors and Heads of Supervision has made a series of announcements regarding the new global regulatory framework, which has been referred to as Basel III, to strengthen the regulation, supervision and risk management of the banking sector. Various Basel III measures are being phased in from the calendar year 2013, including those designed to raise the level of minimum capital requirements and to establish an internationally harmonized leverage ratio and a global minimum liquidity standard. In addition, the Basel Committee on Banking Supervision has proposed 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 2016, 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. 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.

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.

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.

Table of Contents

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. However, this upper limit is expected to be reduced in phases. 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 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. For a discussion of our capital ratios and the related regulatory guidelines, 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, 2017, the total balance of goodwill was ¥450.1 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 MUAH 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.

Table of Contents

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, or our subsidiaries', ratings.

In December 2014, Moody's downgraded the long-term credit ratings of BTMU and MUTB by one-notch from Aa3 to A1, the long-term credit rating of MUSHD by one-notch from A2 to A3, and the short-term credit rating of MUSHD by one-notch from P-1 to P-2. These downgrades followed the downgrade of the rating assigned to the Government of Japan from Aa3 to A1. In November 2015, Standard and Poor's changed the credit rating outlook for MUFG, BTMU and MUTB from stable to negative, following S&P's revision of its view on the economic risk trend in Japan's banking sector from stable to negative. In addition, in June 2016, Fitch changed the credit rating outlook of MUFG, BTMU and MUTB 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, BTMU, MUTB and MUSHD by one-notch on March 31, 2017, 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 ¥5.6 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, BTMU, MUTB and MUSHD under their derivative contracts as of the same date would have been approximately ¥10.0 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

Table of Contents

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 required to treat personal and other confidential information as required by the Act on the Protection of Personal Information and the Act on the Use of Personal Identification Numbers in the Administration of Government Affairs, as well as the Banking Law and the Financial Instruments and Exchange Act of Japan. 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 and other forms of unauthorized access and computer viruses are becoming increasingly more sophisticated and more difficult to predict, detect and prevent. For instance, bank internal financial transaction

Table of Contents

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.

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.

Table of Contents

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 The Bank of Tokyo-Mitsubishi UFJ, Ltd., or BTMU, Mitsubishi UFJ Trust and Banking Corporation, or MUTB, Mitsubishi UFJ Securities Holdings Co., Ltd., or MUSHD, 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.

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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.

Table of Contents

On September 30, 2007, MUSHD, 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, BTMU completed the acquisition of all of the shares of common stock of UnionBanCal Corporation, or UNBC, not previously owned by BTMU 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 MUSHD 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, 2017, we held approximately 23.3% 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 BTMU. As a result of the transaction, Krungsri has become a consolidated subsidiary of BTMU.

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

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

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In May 2017, we announced plans to transfer MUTB's corporate loan, project finance, real estate finance, and related foreign exchange and remittance operations to BTMU and to change BTMU's corporate name to MUFG Bank, Ltd. in or around April 2018, subject to regulatory approvals.

In May 2017, we agreed to make Mitsubishi UFJ NICOS a wholly owned subsidiary through a share purchase transaction in which we will acquire all of The Norinchukin Bank's 15.02% equity interest in Mitsubishi UFJ NICOS by way of a process pursuant to Article 767 of the Companies Act. The purchase transaction is expected to be completed on October 1, 2017.

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.

Table of Contents

The Bank of Tokyo-Mitsubishi UFJ, Ltd.

BTMU 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. BTMU'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. BTMU is a joint stock company (*kabushiki kaisha*) incorporated in Japan under the Companies Act.

BTMU 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

MUTB 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. MUTB'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. MUTB is a joint stock company (*kabushiki kaisha*) incorporated in Japan under the Companies Act.

Table of Contents

MUTB 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.

MUSHD is a wholly-owned subsidiary of MUFG. MUSHD functions as an intermediate holding company of MUFG's global securities and investment banking businesses. MUSHD'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. MUSHD is a joint stock company (*kabushiki kaisha*) incorporated in Japan under the Companies Act. MUSHD has major overseas subsidiaries in London, New York, Hong Kong, Singapore and Geneva.

In April 2010, MUSHD, 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 MUMSS. 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 MUMSS 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.

MUMSS is our core securities and investment banking subsidiary. MUMSS 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. MUMSS 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 MUSHD, holds 60% voting and economic interests in MUMSS. MUMSS's registered head office is

Table of Contents

located at 5-2 Marunouchi 2-chome, Chiyoda-ku, Tokyo, 100-0005 Japan, and its telephone number is 81-3-6213-8500. MUMSS 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, UFJ 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. Currently, Mitsubishi UFJ NICOS is a consolidated subsidiary of MUFG. 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.

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 ¥297.19 trillion as of March 31, 2017. The Group is comprised of BTMU, MUTB, MUMSS (through MUSHD), 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. The Group has the largest overseas network among the Japanese banks, comprised of offices and subsidiaries, including MUB and Krungsri, in about 50 countries.

Since April 2004, we have adopted an integrated business group system comprising our core business areas, which serve as the Group's core sources of net operating profit. As of March 31, 2017, we had five business segments: Retail Banking Business, Corporate Banking Business,

Trust Assets Business, Global Business and Global Markets Business.

MUFG's role as the holding company is to strategically manage and coordinate the activities of these business segments. Group-wide strategies are determined by the holding company and executed by the banking subsidiaries and other subsidiaries.

Table of Contents

MUFG Management Policy

MUFG Group has formulated the Group Corporate Vision to clarify the nature of the Group's overall mission and the type of group it should aspire to be, and as a shared principle to unify the hearts and minds of Group employees, while meeting the expectations of our customers and society. Throughout the Group, the people of MUFG are working under three shared values: Integrity and Responsibility, Professionalism and Teamwork, and Challenging Ourselves to Grow while aiming to be the world's most trusted financial group.

We have declared our message to the world as "Quality for You," with management's emphasis on quality. "Quality for You" means that by providing high-quality services, we aspire to help improve the quality of the lives of individual customers and the quality of each corporate customer. The "You" expresses the basic stance of MUFG that we seek to contribute not only to the development of our individual customers but also communities and society. We believe that delivering superior quality services, reliability, and global coverage will result in more profound and enduring contributions to society.

Medium- and long-term management strategy

The operating environment for financial institutions is transforming substantially amidst such trends as the changes in consumption patterns stemming from the aging of the Japanese population and its declining birthrate and the advance of information and communications technology. It is crucial to the further progress of the MUFG Group for us to maintain an accurate understanding of such changes, and undertake evolution and reformation of our business model as a preemptive response to these changes. Based on this recognition, the MUFG Group turned its eye toward expected operating environment changes over the next decade, and launched a new medium-term business plan. In this plan, we outline the strategies that we intend to implement over the first three-year period from the fiscal year ended March 31, 2016 to the fiscal year ending March 31, 2018. The basic policy of the medium-term business plan is defined as "Evolution and reformation to achieve sustainable growth for MUFG," and we have formulated Group business strategies and administrative practices and business foundation strategies of the plan based on three strategic focuses: Customer perspective, Group-driven approach, and Productivity improvements. Customer perspective calls on us to develop businesses based on changing customer needs. Group-driven approach inspires us to bolster inter-Group company unity and consider how to optimize our business on a Group-wide basis. Productivity improvements encapsulates our commitment to boosting competitiveness by pursuing higher levels of rationality and efficiency.

For the Group business strategies, we are seeking to enhance support for wealth accumulation and stimulation of consumption for individuals, contribute to the growth of small and medium-sized enterprises, and link contribution to the revitalization of the Japanese economy with the stable growth of MUFG in Japan. Globally, we aim to enhance and expand businesses by evolving and reforming our Corporate & Investment

Table of Contents

Banking, or CIB, model, sales and trading operation, and asset management and investor services operations. We are also working to further reinforce transaction banking operations and strengthen commercial banking platforms in Asia and the United States to construct a next-generation business base.

For the administrative practices and business foundation strategies, MUFG aims to streamline Group-wide operations and create administration practices that are appropriate for a global systemically important financial institution with maintaining a strong capital base as the first priority. This is expected to enable us continue to operate a business model that evolves and transforms on a Group-wide and global basis while taking steps to respond to the higher expectations of outside stakeholders.

Retail Banking Business Group

The Retail Banking Business Group covers all retail businesses, including commercial banking, trust banking and securities businesses, and offers a full range of banking products and services, including financial consulting services, to retail customers in Japan. This business group integrates the retail businesses of BTMU, MUTB, MUMSS, Mitsubishi UFJ NICOS and other affiliate companies of MUFG. We offer a full range of bank deposit products, including a non-interest-bearing deposit account that is redeemable on demand and intended primarily for payment and settlement functions. We also offer a variety of asset management and asset administration services, and trust products and other investment products, as well as other products and services described below.

Business Environment and Management Strategy

In Japan, the trends of decreasing birthrate and aging population continue to accelerate. We are also seeing increasing polarization of income and assets while the spread of information and communications technology is bringing further diversification of settlement methods. In this environment, we see MUFG contributing to sustained economic growth in Japan in two ways: (1) by promoting a shift to asset building from savings through our asset management business, and promoting the circulation of funds in the economy; and (2) by revitalizing personal consumption through our settlement and consumer finance businesses. We have strengthened our commitment to our customer-first undertakings by adopting in May 2017 the MUFG Basic Policy for Fiduciary Duties, our enhanced group-wide guidelines for providing customer-oriented products and services applicable to our asset management operations. Through these and other means, we aim to become the top financial group in the retail business segment, chosen by a wide variety of customers with our business spanning the generations.

Responding to Investment Needs

We aim to ensure that customers can adequately inform themselves of investment opportunities by providing various mediums such as appointments with representatives, seminars at branches with investment experts as lecturers, and investment consultation sessions on weekends and national holidays, and during evening hours. We have also been expanding our product lines, adding services such as investment trusts and foreign currency deposits, in order to be better able to respond to customers' various investment needs. In addition, we have been working proactively to promote the Japanese individual savings account system, generally referred to as the Nippon Individual Savings Account, or NISA, program, which offers tax exemptions on capital gains and dividend income for investments up to ¥1.2 million a year for a maximum of five years. Moreover, in January 2016, we launched a similar tax exemption program for customers who are under the age of 20 called the Junior NISA program. This program is intended to allow parents and grandparents to open and transfer their financial assets to savings accounts for the benefit of their children or grandchildren, through which investments may be made for up to ¥0.8 million a year for a maximum of five years. As of March 31, 2017, we had approximately 972,269 NISA and Junior NISA accounts.

We have focused on strengthening collaboration among our group companies. For example, foreign bonds made available by MUMSS and other group securities companies are also available at BTMU and MUTB. Also,

Table of Contents

BTMU provides Retail Money Desk services at 64 branches across Japan, where investment experts seconded from MUMSS respond to customers' sophisticated investment needs. We have implemented methods that are designed to better communicate information regarding product and service options to customers. The use of tablet computers enables BTMU's sales representatives to propose products and services that match individual customers' needs by showing them the latest market information, detailed information on major products and services, and asset management and life-plan simulations. All MUTB branches now offer Private Account, an asset management account service through which each customer can consult with his or her portfolio manager in person to manage investments according to a personalized plan.

Responding to Insurance Needs

BTMU 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. Insurance-sales specialists (insurance planners) and staff members who have taken insurance-sales and other relevant training take care of customers' various insurance needs. Individual annuity insurance, whole life insurance and medical insurance plans are available at all MUTB branches. Continued efforts will be made to further reinforce product lines and sales framework.

Responding to Needs Relating to Inheritance, Gift and Real Estate

MUTB offers a number of services including a testamentary trust service called *Ishindenshin* which helps customers prepare, maintain and execute wills, an inheritance planning service called *Shisan Shokei Planning* which helps customers manage and analyze financial assets and real estate properties comprehensively, and an inheritance procedure support service called *Wakachi Ai* which helps customers navigate the necessary procedures upon inheritance. BTMU and MUMSS also offer inheritance-related products and services, serving as sales agents of MUTB. MUTB's asset management service called *Zutto Anshin Shintaku*, which helps customers and their families protect their funds and allows them to receive funds according to their chosen plan, received the Nikkei Veritas Award in the Nikkei Excellent Products & Services Awards for 2012. In April 2013, an educational fund gift trust product called *Magoyorokobu* was launched. BTMU also sells this product as a sales agent of MUTB. In June 2014, MUTB launched a new trust product called *Okuru shiawase*, a life-time gift trust product with services to assist customers with the execution of the gift. In April 2015, MUTB also began offering a new wedding and child-rearing support trust, a gift trust product through which customers can provide their children, grandchildren and others with support in the form of funds for their financial needs in connection with marriage and child-rearing. MUTB and Mitsubishi UFJ Real Estate Services offer real estate brokerage services for both investment and business properties and residential properties, responding to customers' various real-estate-related needs.

Responding to Loan Needs

Under the Bank of Japan's negative interest rate policy, decreasing market interest rates has resulted in stronger demand for housing loans in Japan, which provides a business opportunity for us. With respect to housing loans, BTMU 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, a group credit life insurance plan which is mandatory for housing loans, with reduced qualification requirements (*Wide Danshin*) and a preferred interest rate plan (*Gunto Ureshii Housing Loan*). MUTB also offers housing loan plans incorporating *Wide Danshin* and other plans to respond to customers' needs. BTMU also offers Card Loans and Purpose-Specific Term Loans, depending on customers' needs. A card loan service called BANQUIC offers access to cash as quickly as in 40 minutes after the submission of an application through a video teller machine. Also, online applications are accepted 24 hours a day, 365 days a year, and the underwriting process can be completed as quickly as in 30 minutes. Applications are also accepted over the phone. Net DE Loan is a purpose-specific term loan, which BTMU-account-holder customers can, in most circumstances, apply for without visiting a bank branch. This loan can be used to pay for education, motor vehicle purchases and other purposes.

Table of Contents

Responding to Internet Banking Needs

BTMU and MUTB offer Internet banking services called Mitsubishi Tokyo UFJ Direct and Mitsubishi UFJ Trust Direct, respectively, which allow customers to, among other things, transfer money, check their balance, make time deposits, make investments, apply for housing loans, and consult specialists regarding investments. The number of users of Mitsubishi Tokyo UFJ Direct has grown to approximately 17 million as of March 31, 2017. As a countermeasure to increasing online fraud and other crimes, in March 2015, BTMU started to distribute key cards through which customers can obtain a one-time temporary pass code to access their online banking accounts.

Jibun Bank Corporation was founded by BTMU in collaboration with KDDI Corporation in June 2008. The convenience that Jibun Bank offers by allowing users to execute transactions at any time on their cellphones has attracted customers in a wide age group. In addition to enabling users to check their balance and transfer money, Jibun Bank offers other products and services such as yen-denominated time deposits, foreign currency deposits, and Jibun Bank FX (over-the-counter foreign exchange margin trading). As of March 31, 2017, Jibun Bank had approximately 2.4 million retail customer accounts with a total balance of deposits of ¥771 billion.

Payment Business

Mitsubishi UFJ NICOS offers a variety of credit cards, including MUFG Card (Gold Card), a credit card with an annual fee starting at as low as ¥1,905 before tax. With five international credit card brands (JCB, Visa, Master Card®, American Express® and China UnionPay) available, MUFG Card is designed to meet customers' various needs. BTMU's Mitsubishi Tokyo UFJ VISA offers various reward programs, such as cash-back in exchange for earned points. To accommodate the diverse needs of consumers, BTMU also offers a debit card called Mitsubishi Tokyo UFJ VISA Debit. The number of debit cards issued was approximately 1,158,397 as of March 31, 2017.

Branch and ATM Networks

We have an extensive network of branches in Japan, mostly in the greater Tokyo, Nagoya and Osaka areas, including 685 BTMU branches, 54 MUTB branches and 62 MUMSS branch offices as of March 31, 2017. BTMU and MUTB have a nationwide ATM network consisting of BTMU's and MUTB's own ATMs located at their branches and third-party ATMs located at convenience stores and other locations outside of the BTMU and MUTB branches through which BTMU and MUTB provide ATM services. BTMU and MUTB each have a nationwide ATM network providing ATM access to BTMU customers at 48,866 locations and to MUTB customers at 35,195 locations as of March 31, 2017, in addition to their respective branches.

Finance Facilitation

We believe that finance facilitation for customers is one of our most important social responsibilities and strive to exemplify that standard. Although the Act Concerning Temporary Measures to Facilitate Financing for Small and Medium-sized Firms and Others has expired in Japan, our basic policy has not changed. We seek to offer consultation and otherwise deal attentively with small and medium-sized enterprise customers who wish to modify terms and conditions for repayment.

Strengthening the Compliance Framework

We have been making efforts to strengthen our frameworks for customer protection and legal compliance. BTMU has 230 compliance specialists stationed at its branches across the country. As for MUTB, branches are given guidance by compliance officers based in the Head Office. We intend to continue to strictly monitor the legal compliance associated with selling financial products and services.

Table of Contents

Alliance in Japan

On May 15, 2017, we announced plans to make Mitsubishi UFJ NICOS a wholly owned subsidiary through a share purchase transaction with Norinchukin Bank, which is expected to be completed on October 1, 2017. In conjunction with these plans, MUFG and Mitsubishi UFJ NICOS have agreed with Norinchukin Bank on an initiative to strengthen and expand their strategic alliance in the retail banking business.

See Item 5. Operating and Financial Review and Prospects Recent Developments.

Corporate Banking Business Group

The Corporate Banking Business Group covers domestic corporate businesses of BTMU, MUTB and MUSHD, including commercial banking, investment banking, trust banking and securities businesses, as well as businesses outside of Japan assisting mainly Japanese companies in executing and expanding their operations. Through the integration of these business lines, diverse financial products and services are provided mainly to our Japanese corporate customers, from large corporations to small and medium-sized enterprises. The business group has clarified strategic domains, sales channels and methods to match the different growth stages and financial needs of our corporate customers.

Responding to Large Corporation s Needs

We offer large Japanese corporations advanced financial solutions such as derivatives, securitization, syndicated loans and structured finance. Faced with the diversified and globalized needs of our customers, we also provide sophisticated solutions and strategic proposals through collaboration between MUFG group companies and BTMU overseas offices.

Responding to Small and Medium-sized Enterprise s Needs

We provide various financial solutions, such as loans and fund management, remittance and foreign exchange services, to meet the requirements of small and medium-sized enterprise customers. We also help our customers develop business strategies, such as overseas expansions, inheritance-related business transfers and stock listings.

Transaction Banking

As our customers continue to expand their businesses and investments overseas, they face various challenges in connection with the complex nature of global transaction banking. Through our highly sophisticated services and commitment to quality, we strive to assist our customers by offering efficient solutions, while taking advantage of our global network. At the same time, we have devoted substantial resources to the enhancement of various products, including cash management and trade finance related services, to assist our customers with their global growth strategies.

Investment Banking

A large part of our investment banking business in Japan is provided by MUMSS which was formed in May 2010 through the integration of the domestic wholesale and retail securities business previously conducted by MUS and the investment banking business conducted by Morgan Stanley Japan. See Global Strategic Alliance with Morgan Stanley below.

Trust Banking

MUTB's experience and know-how in corporate real estate strategy consulting, real estate brokerage and appraisal services, shareholder registry management services, shareholder and investor relations consulting, and consulting services relating to executive stock compensation programs using trust schemes also enable us to offer services tailored to the financial strategies of each client, including securitization of real estate, receivables and other assets.

Table of Contents

Focusing on infrastructure development

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

In May 2016, MUFG, BTMU, Mitsubishi UFJ Lease & Finance Company Limited, or MUL, Hitachi, Ltd. and Hitachi Capital Corporation agreed to form a capital and business alliance with an aim to assist Japanese companies with their overseas business development.

In connection with this alliance, BTMU, MUL, Hitachi Capital have established a joint venture called Japan Infrastructure Initiative Company Limited, or JII, in January 2017. JII commenced operations on April 1, 2017. 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 MUL, Hitachi Capital and JII and collaborating effectively with professionals from these entities.

See Item 5. Operating and Financial Review and Prospects Recent Developments.

Trust Assets Business Group

The 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 MUTB and the international strengths of BTMU. The business group provides a full range of services to corporate and pension funds, including stable and secure pension fund management and administration, advice on pension schemes, and payments to beneficiaries.

Our Trust Assets Business Group combines MUTB's trust assets business, comprising trust assets management services, asset administration and custodial services, and the businesses of Mitsubishi UFJ Investor Services & Banking (Luxembourg) S.A., or MIBL, Mitsubishi UFJ Fund Services Holdings Limited, or MFS, MUFG Capital Analytics LLC, or MCA, and Mitsubishi UFJ Kokusai Asset Management Co., Ltd.

Under the brand of MUFG Investor Services, MUTB, MIBL, MFS and MCA provide a full suite of global asset administration services, including fund administration, custody, securities lending, financing and foreign exchange as a one-stop shop.

In October 2016, MUTB acquired Rydex Fund Services, LLC, or RFS, the fund administration, fund accounting, and transfer agency services platform for the intermediary product line of Guggenheim Investments. Guggenheim Investments is the global asset management and investment advisory division of Guggenheim Partners. Following the acquisition, RFS was renamed MUFG Investor Services (US), LLC. The acquisition is part of MUTB's strategic initiative of acquiring overseas fund management companies in an effort to develop the global fund administration business under the MUFG Investor Services brand.

See Item 5. Operating and Financial Review and Prospects Recent Developments.

Mitsubishi UFJ Kokusai Asset Management provides investment trust products mainly to individual customers and corporate clients in Japan.

With an aim to further enhance its business, MUTB maintains strategic alliances with overseas asset management companies, including AMP Capital Holdings Limited, an Australian asset manager, and Aberdeen Asset Management PLC, a U.K. asset manager. Aberdeen is expected to be merged with Standard Life plc in or around the third quarter of the calendar year 2017.

Global Business Group

The Global Business Group covers the businesses of BTMU and MUSHD outside Japan, including corporate and commercial banking services such as loans, deposits and cash management, retail banking, trust

Table of Contents

assets, and securities businesses (with the retail banking and trust assets businesses being conducted through MUB in the United States and Krungsri in Thailand). Through a global network of approximately 1,200 offices outside of Japan, we provide customers with financial products and services that meet their increasingly diverse and sophisticated financing needs. The Global Business Group is charged with the responsibility of effectively coordinating and enhancing our group-wide efforts to strengthen and expand our businesses outside Japan. The Global Business Group is designed to bring together the leadership in, and enhance the coordination for, our business strategies outside Japan on a group-wide basis.

Global business development has been an important pillar of our growth strategy. Aiming to further raise our presence in the global financial market, we have shifted our approach from one where each of our group companies individually promoted its global business to a more group-wide approach. 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.

CIB (Corporate and Investment Banking)

Our global CIB business primarily serves large corporations, financial institutions, and sovereign and multinational organizations with a comprehensive set of solutions for their financing needs. Through our global network of offices and branches, we provide a full range of services, such as project finance, export credit agency finance, and financing through asset-backed commercial papers. We also provide investment banking services such as debt and equity issuance and M&A advisory services to help our customers develop their financial strategies and realize their goals. In order to meet customers' various financing needs, we have established a customer-oriented coverage model through which we coordinate our product experts who offer innovative financing services globally. We have further integrated the management of the operations of our commercial banking subsidiaries and our securities subsidiaries to enhance collaboration. We are one of the world's top providers of project finance, one of the core businesses of CIB. We provide 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 have Transaction Banking offices in eight locations around the globe through which we provide commercial banking products and services primarily 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 the Transaction Banking Group within BTMU, which oversees its entire transaction banking operations globally, in order to enhance governance, management and quality of services in these operations. Under the Transaction Banking Group, a team of approximately 2,000 officers provides customers with support for their domestic, regional and global trade finance and cash management programs through our extensive global network.

MUFG Union Bank, N.A. (MUB)

MUB is the primary subsidiary of MUAH, which is our wholly owned subsidiary and which is a bank holding company in the United States. Effective July 1, 2014, BTMU's operations in the Americas region were integrated with MUAH's operations. MUAH oversees BTMU's operations in the Americas region and MUB is the primary operating entity of BTMU in the United States. MUB is a leading regional bank in California, ranked by the Federal Deposit Insurance Corporation, or FDIC, as the 22nd largest bank in the United States in terms of total deposits as of December 2016. MUB provides a wide range of financial services to consumers, small businesses, middle-market companies and major corporations, primarily in California, Oregon, Washington, and Texas as well as nationally and internationally.

In April 2015, Stephen E. Cummings, a former UBS executive, was appointed President & CEO of MUB and Managing Executive Officer of BTMU with authority over all of BTMU's U.S. businesses. Mr. Cummings is

Table of Contents

the first non-Japanese CEO of our operations in the United States, where we aim to expand our business and strengthen our governance. In May 2017, he was appointed CEO for the Americas of BTMU with additional authority to manage BTMU's operations in Latin America and Canada, while remaining President & CEO for MUAH and MUB.

In July 2016, MUAH 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, BTMU, MUTB and MUSHD transferred to MUAH 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.

Effective July 1, 2017, BTMU and MUTB transferred to MUAH 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 major subsidiary of BTMU in Thailand. Krungsri 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 mainly in Thailand. In addition, Krungsri's consolidated subsidiaries include a major credit card issuer in Thailand as well as a major automobile financing service provider, an asset management company, and a microfinance service provider in Thailand.

MUFG holds a 76.88% ownership interest in Krungsri through BTMU as of March 31, 2017. By combining Krungsri's local franchise with competitive presence in the retail and SME banking markets in Thailand with BTMU's global financial expertise, we seek to offer a wider range of high-value financial services to a more diverse and larger customer base.

In September 2016, Krungsri acquired Hattha Kaksekar Limited, a leading microfinance institution in Cambodia. Through this acquisition, we seek to enter the microfinance market in Cambodia by leveraging the know-how of Ngerm Tid Lor Co., Ltd., a subsidiary of Krungsri engaged in the microfinance business in Thailand.

See Item 5. Operating and Financial Review and Prospects Recent Developments and 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.

Activities in Asia

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We have been expanding our operations in Asia in an effort to further develop our businesses abroad. We have opened four overseas branches and one overseas representative office since January 2015, namely, Yangon branch in Myanmar, Colombo representative office in Sri Lanka, Kowloon branch in Hong Kong, BTMU (China) Fuzhou branch, and Kaohsiung branch in Taiwan.

In addition, in April 2016, BTMU acquired a 20.0% equity interest, on a fully diluted basis, in Security Bank Corporation, a leading commercial bank in the Philippines, as part of BTMU's capital and business alliance with Security Bank.

Table of Contents

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 businesses specialized in financial markets products such as sales and trading, asset and liability management, and strategic investments globally on a group-wide basis. This business group covers the asset and liability management and strategic investment operations of BTMU and MUTB and the financial product sales and trading operations of BTMU, MUTB and MUSHD.

The establishment of the Global Markets Business Group in July 2012 resulted in the expansion of the coordination between the Global Business Group and the Global Markets Business Group at BTMU and the collaboration between the two Groups and MUSHD's foreign subsidiaries on some of those subsidiaries' sales and trading businesses. Through this collaboration, we sought to strengthen the cooperation between BTMU and MUSHD of their markets businesses and to expand our client base while improving our trading capabilities to seize interest rate and foreign exchange market opportunities for loans and corporate bond transactions. In April 2014, MUTB began to participate in the Global Markets Business Group in an effort to more fully enhance our group-wide capabilities. In November 2016, we completed the implementation phase of the integration of the sales and trading businesses of BTMU and MUS and MUMSS, and currently provide high-quality services across various regions, entities and products.

Sales and Trading

We provide financing, hedging, and investing solutions to our retail, corporate, institutional, and governmental clients, through foreign exchange, bonds, equities, derivatives, and money market products. We are actively developing innovative financial products and services to offer and provide through our global network, which is designed to promptly meet diverse customer requirements.

Asset and Liability Management

We manage our interest and liquidity risks residing in our balance sheets through, among other things, transactions designed to manage profit and loss impact attributable to interest rate movements based on our balance sheet forecasts, while aiming to maximize our profit at the same time primarily by investing in highly liquid government bonds such as Japanese government bonds and U.S. treasury bonds and also by utilizing other financial products such as interest rate swaps and cross currency swaps.

Strategic Investments

We seek to enhance our profitability and diversify our portfolios by investing in financial products such as corporate bonds and funds.

Global Strategic Alliance with Morgan Stanley

As of March 31, 2017, we held approximately 432 million shares of Morgan Stanley's common stock representing approximately 23.3 % 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

Table of Contents

businesses conducted in Japan by MUS into MUMSS. Morgan Stanley contributed the investment banking operations conducted in Japan by its former wholly-owned subsidiary, Morgan Stanley Japan, to MUMSS, 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., or MSMS. We hold a 60% economic interest in MUMSS and MSMS, and Morgan Stanley holds a 40% economic interest in MUMSS and MSMS. We hold a 60% voting interest and Morgan Stanley holds a 40% voting interest in MUMSS, and we hold a 49% voting interest and Morgan Stanley holds a 51% voting interest in MSMS. 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 MUMSS and we account for our interest in MSMS under the equity method due to our significant influence over MSMS. The board of directors of MUMSS has fifteen members, nine of whom are designated by us and six of whom are designated by Morgan Stanley. The board of directors of MSMS has ten members, six of whom are designated by Morgan Stanley and four of whom are designated by us. The CEO of MUMSS is designated by us and the CEO of MSMS 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 BTMU 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 MUMSS holds 75%, and BTMU 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 MUMSS. 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, thus changing the nature of competition from other financial institutions as well as from other types of businesses.

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.

Heightened competition among the mega bank groups is currently expected 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, MUMSS and MSMS, by integrating the operations of MUS 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.

Table of Contents

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 April 2011, Sumitomo Trust and Banking and Chuo Mitsui Trust Holdings, Inc. established Sumitomo Mitsui Trust Holdings, Inc., a holding company, to integrate their operations. In April 2012, Sumitomo Trust and Banking, The Chuo Mitsui Trust and Banking Company, Limited and Chuo Mitsui Asset Trust and Banking Company, Limited, the three trust bank subsidiaries of Sumitomo Mitsui Trust Holdings, merged, and the surviving entity was renamed Sumitomo Mitsui Trust Bank. In July 2015, two of our asset management subsidiaries in Japan, Mitsubishi UFJ Asset Management Co., Ltd. and KOKUSAI Asset Management Co., Ltd. merged, and the surviving entity presently operates under the corporate name of Mitsubishi UFJ Kokusai Asset Management Co., Ltd. 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

Table of Contents

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 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 shares in each of the Japan Post companies were sold. 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. 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 MUB, 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 South East Asia through our acquisition of Krungsri in Thailand, and compete with leading local banks in such businesses.

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.

Table of Contents

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 April 24, 2017):

ordinary banks (124 ordinary banks and 53 foreign commercial banks with ordinary banking operations); and

trust banks (16 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 BTMU, and regional banks, of which there are 106 and other banks, of which there are 14. 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 MUTB, 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.

Table of Contents

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.

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

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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

Table of Contents

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 is expected to become effective by 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 based on Basel II's comprehensive regulatory framework which 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.

Table of Contents

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 (progressively phased into the capital ratio calculation over several years).

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. The amount of adjustments to be deducted will increase progressively over time.

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. Subject to transitional measures, adjustments are made to Additional Tier 1 capital for items 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 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.

Subject to transitional measures, certain items including 45% of unrealized profit on available-for-sale securities and revaluation of land are reflected in Tier 2 capital with the amounts progressively decreasing over time.

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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%.

Table of Contents

These minimum capital ratios are applicable to MUFG on a consolidated basis and to BTMU and MUTB 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, 2017, 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 0.8%.

The Financial Stability Board identified us as a global systemically important bank, or G-SIB, in its most recent annual report published in November 2016, 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. The requirements are currently being phased in and, as of March 31, 2017, we are required to maintain a capital conservation buffer of 1.25% and a G-SIB surcharge of 0.75% in addition to the 4.50% minimum Common Equity Tier 1 capital ratio. As of the same date, no countercyclical buffer is applicable to us. 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.

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

In determining capital ratios under the FSA guidelines reflecting 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, 2017. The Standardized Approach is used for some subsidiaries that are considered to be immaterial to the overall MUFG capital requirements, and MUAH has adopted a phased rollout of the internal ratings-based approach. Market risk is reflected in the 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 reflecting Basel III, we reflect operational risk in the risk-weighted assets by using the Standardized Approach and the Advanced Measurement Approach. The Basel Committee on Banking Supervision has issued proposals to revise the current market risk framework, including stricter measures relating to some of our investment securities portfolio. For more information, see Item 11. Quantitative and Qualitative Disclosures about Credit, Market and Other Risk Operational Risk Management.

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.

Table of Contents

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 BTMU, regional banks, trust banks, including MUTB, 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, 2017, the Deposit Insurance Corporation charged an insurance premium equal to 0.049% per year on the deposits in the settlement accounts, and a premium equal to 0.036% 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

Table of Contents

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

Table of Contents

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 2016, 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 2016.

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. 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.

Table of Contents

- (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.

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 80% is required in 2017, and the required minimum ratio is expected to be raised annually by 10 percentage points to 100% by 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. The standard is expected to become applicable by January 1, 2018. In Japan, details of the NSFR requirements are currently under discussion.

Table of Contents

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. The Basel Committee on Banking Supervision's currently proposed minimum leverage ratio is 3% with additional requirements for G-SIBs. In April 2016, the Basel Committee on Banking Supervision published a consultation paper proposing, among other things, revisions to the measurement of derivative exposures, credit conversion factors for off-balance sheet items, and additional requirements for G-SIBs. The Committee is expected to make any adjustments to the minimum leverage ratio by the end of the calendar year 2017 and implement the final minimum leverage ratio requirement that reflects any such adjustments in 2018.

Other major developments relating to international bank capital regulatory standards. In July 2015, the Basel Committee on Banking Supervision published a consultation paper entitled *Review of the Credit Valuation Adjustment Risk Framework*. Credit valuation adjustment, or CVA, is an adjustment to the fair value of derivative instruments to account for counterparty credit risk. The proposals are designed to ensure that all important factors of CVA risk and CVA hedges are covered in the Basel regulatory capital standard, align the capital standard with the fair value measurement of CVA employed under various accounting standards, and ensure consistency with the Basel Committee on Banking Supervision's proposed revisions to the market risk framework. The consultation paper proposed three approaches for CVA risk measurement: Internal Model Approach, Standardized Approach and Basic Approach. Depending on the final designs and calibrations, these revisions and reforms could change the regulatory capital calculation and the level of capital requirement for each of the banks subject to the relevant standards, including us.

In December 2015, the Basel Committee on Banking Supervision published a second consultation paper on revisions to the Standardized Approach for credit risk. The proposed revisions are designed to establish a capital framework that better balances simplicity and risk sensitivity, promote comparability by reducing variability in risk-weighted assets across banks and jurisdictions, and ensure that the Standardized Approach constitutes a suitable alternative to and complement the Internal Ratings-Based approach. The consultation paper includes, among other things, reintroduction of external ratings, a lower risk weight for small and medium-sized enterprises, and higher credit conversion factors, which are percentages used to convert off-balance sheet items to credit-equivalent risk assets, to be applied to unconditionally cancellable commitments for corporate customers.

In January 2016, the Basel Committee on Banking Supervision announced a revised capital standard for market risk. The revised market risk framework, which will become effective January 1, 2019, revises the boundary between the trading book and banking book, the Internal Models Approach for market risk and the Standardized Approach for market risk, shifts from value-at-risk to an expected shortfall measure of risk under stress, allows for supervisory approval and removal of internal models at the trading desk level, and incorporates the risk of market illiquidity. We are continuously working to enhance our market risk framework both to respond to the revised framework as well as changes in the markets where we operate.

In March 2016, the Basel Committee on Banking Supervision published a consultation paper entitled *Reducing variation in credit risk-weighted assets: constraints on the use of internal model approaches*. The proposed changes include a number of complementary measures that aim to: (i) reduce the complexity of the regulatory framework and improve comparability, and (ii) address excessive variability in the capital requirements for credit risk. The consultation paper discusses, among other things, removing the option to use the IRB approaches for certain exposures, adopting exposure-level, model-parameter floors for portfolios where the IRB approaches remain available, and clarifying and substantially expanding the definition of *commitment*.

In March 2016, the Basel Committee on Banking Supervision published a second consultation paper entitled *Standardized Measurement Approach for operational risk*. The Committee proposed to remove the Advanced

Table of Contents

Measurement Approach (AMA) from the regulatory framework. The revised operational risk capital framework will be based on a single non-model-based method for the estimation of operational risk capital, which is called the Standardized Measurement Approach. The Basel Committee on Banking Supervision aims to promote consistency and comparability in operational risk capital measurement by combining financial statement information and banks' internal loss experience.

In April 2016, the Basel Committee on Banking Supervision has issued standards for Interest Rate Risk in the Banking Book, or IRRBB. The standards revise the Committee's 2004 Principles for the management and supervision of interest rate risk, which set out supervisory expectations for a bank's identification, measurement, monitoring and control of IRRBB as well as their supervision. The key enhancements for a bank's IRRBB management processes are in areas such as the development of interest rate shock scenarios, as well as key behavioral and modelling assumptions to be considered by banks in their measurement of IRRBB; bank's total capital to 15% of a bank's Tier 1 capital. The revised standards are expected to be implemented by the calendar year 2018.

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 addition, the FSA's current policy for monitoring financial institutions places a greater emphasis on (i) ending Japan's deflation and building an economic growth cycle, and (ii) maintaining the soundness and integrity of the financial system and financial institutions so as to ensure the availability of efficient and stable financial services in Japan. Under this policy, the FSA is expected to increase monitoring of, and communication with, financial institutions, particularly large global financial institutions, including us, and enhance cooperation with financial regulatory bodies in other jurisdictions. The FSA, if necessary to secure the sound and appropriate operations of a bank's business, may request the submission of reports or materials from, or conduct an on-site inspection of, the bank or the bank holding company.

Furthermore, the Securities and Exchange Surveillance Commission of Japan 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 enacted and proposed legislation to amend 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. For a detailed discussion on the capital requirements for Japanese banks, see Item 5.B. Operating and Financial Review and Prospects - Liquidity and Capital Review - Capital Adequacy.

Table of Contents

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 Securities and Exchange Surveillance Commission, 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

Table of Contents

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.

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.

Table of Contents

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 (CRS) as developed by the Organization for Economic Co-operation and Development (OECD).

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, BTMU and MUTB are bank holding companies and foreign banking organizations, respectively, 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

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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

Table of Contents

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, BTMU, MUTB and MUAH initially attained financial holding company status, which 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, BTMU and MUTB, operate five branches, two agencies and seven representative offices in the United States. BTMU 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. MUTB 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. All of the branches and agencies of BTMU and MUTB in the United States are state-licensed. Under U.S. federal banking laws, state-licensed branches and agencies of foreign banks may engage only in activities that would be permissible for their federally-licensed counterparts, unless the FRB determines that the additional activity is consistent with safe and sound practices. U.S. federal banking laws also subject state-licensed branches and agencies to the single-borrower lending limits that apply to federal branches and agencies, which generally are the same as the lending limits applicable to national banks, but are based on the capital of the entire foreign bank.

As an example of state supervision, the branches of BTMU and MUTB in New York are licensed by the New York State Department of Financial Services, or DFS, pursuant to the New York Banking Law. Under the

Table of Contents

New York Banking Law and the Superintendent's Regulations, each of BTMU and MUTB must maintain with banks in the State of New York eligible assets as defined and in amounts determined by the Superintendent. These New York branches must also submit written reports concerning their assets and liabilities and other matters, to the extent required by the Superintendent, and are examined at periodic intervals by the DFS. In addition, the Superintendent is authorized to take possession of the business and property of BTMU and MUTB located in New York whenever events specified in the New York Banking Law occur.

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

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

The OCC is an independent bureau of the U.S. Department of the Treasury. In regulating national banks such as MUB, 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 MUB 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. MUB is subject to applicable risk-based and leverage capital guidelines issued by U.S. regulators for banks and bank holding companies. In addition, BTMU and MUTB, 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. MUB, BTMU, MUTB, and MUAH 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

Table of Contents

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 would 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

Table of Contents

with the tools needed to manage a financial crisis. Many aspects of the legislation require subsequent regulatory action by supervisory agencies for full implementation. 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 MUAH as our IHC.

Our existing U.S. bank holding company subsidiary, MUAH, is subject to various U.S. prudential requirements and has become subject to others with the designation of MUAH as our IHC as of July 1, 2016. MUAH 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. MUAH was also subject to capital planning and stress testing requirements. MUAH 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, MUAH 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 MUAH as part of the 2017 Comprehensive Capital Analysis and Review, or CCAR. The FRB announced early in 2017 that MUAH 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 will take effect beginning in January 2018. MUAH 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 BTMU s and MUTB 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

Table of Contents

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, BTMU 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 March 16, 2016, the FRB issued a Notice of Proposed Rulemaking regarding single counterparty credit limits (SCCL) for large banking organizations. The SCCL re-proposal is considered the last major piece of regulatory action needed to implement Section 165(e) of the Dodd-Frank Act. Specifically, 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 re-proposal specifically, seek to mitigate this risk by limiting the aggregate exposure among such financial institutions and their counterparties. If the re-proposal is adopted in its current form as final, it is likely to have an impact on us; however, as the re-proposal is not yet finalized, we cannot fully assess that impact. We filed comments on the re-proposal in June 2016 and will continue to monitor developments as they progress.

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 the final regulations of FATCA 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

Table of Contents

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. MUAH and MUB 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. MUAH became subject to the U.S. Basel III capital rules in January 2015, with certain provisions subject to a phase-in period, while MUB 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 MUAH and MUB are subject to the following regulatory minimum risk-based capital ratios: (1) 4.5% of Common Equity Tier 1 capital ratio, (2) 6.0% of Tier 1 capital ratio and (3) 8.0% of total capital ratio. 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 MUAH's consolidated financial statements.

In addition to these regulatory minimum ratio requirements, MUAH and MUB 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. MUAH and MUB are also subject to a Tier 1 leverage ratio regulatory minimum requirement of 4% and a well-capitalized prompt corrective action standard of 5%.

MUB has previously opted into the advanced approaches capital rules. However, MUB is currently in discussion with the OCC to opt out of the advanced approaches capital rules. An advanced approaches opt-in bank will become subject to the supplementary leverage ratio on January 1, 2018. The supplementary leverage ratio will impose an additional minimum leverage requirement of 3%, with the expectation that this ratio will increase. An opt-in bank may also be subject to an additional counter cyclical capital buffer requirement ranging from 0.0% to 2.5% of risk-weighted assets if fully implemented. This additional capital buffer will be imposed upon the determination of the appropriate U.S. banking agency that financial markets are experiencing a period of excessive ease in credit markets associated with a material increase in credit system-wide risk, with the maximum buffer reflecting an assessment of elevated financial-system vulnerabilities. The consequences for an opt-in bank of falling below these buffers will be the imposition of limitations on the percentage of earnings that may be paid in the subsequent financial year as capital distributions or as discretionary bonus payments to executive officers.

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 MUAH. In December 2016, the FRB finalized rules imposing such requirements. Under the final rules, a covered IHC such as MUAH would be 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 would also be 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 would be restricted from issuing short-term debt and certain other types of liabilities that are structurally senior to

Table of Contents

eligible long-term debt. MUAH 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 MUAH 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, 2017, 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, BTMU, 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, 2017, 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 BTMU outside the United States by Iranian financial institutions and other entities in, or affiliated with, Iran. In addition to such accounts, BTMU receives deposits in Japan from, and provides settlement services in Japan to, fewer than ten Iranian government-related entities and fewer than 100 Iranian government-related individuals such as Iranian diplomats, 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, 2017, 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. BTMU 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 ¥200 million, representing less than 0.001 percent of our total loans, as of March 31, 2017. For the fiscal year ended March 31, 2017, the aggregate gross interest and fee income relating to these loan transactions was less than ¥50 million, representing less than 0.005 percent of our total interest and fee income.

BTMU will continue to participate in these types of transactions. Following the international relaxation of sanctions against Iran in January 2016, the balance of non-U.S. dollar correspondent accounts described above at BTMU has increased, but BTMU recognizes that such transactions remain subject to compliance with applicable U.S. and Japanese regulations and remaining Japanese and international sanctions.

Table of Contents

C. Organizational Structure

The following chart presents our corporate structure summary as of March 31, 2017:

- Notes:
- (1) The Bank of Tokyo-Mitsubishi UFJ, Ltd. is expected to be renamed MUFG Bank, Ltd. on April 1, 2018, subject to regulatory approvals.
 - (2) The ownership of BTMU Leasing & Finance, Inc. was transferred to MUAH on July 1, 2017.
 - (3) Mitsubishi UFJ NICOS Co., Ltd. is expected to become a wholly owned subsidiary through a share purchase transaction, which is expected to be completed on October 1, 2017.

Table of Contents

Set forth below is a list of our principal consolidated subsidiaries as of March 31, 2017:

Name	Country of Incorporation	Proportion of Ownership Interest (%)	Proportion of Voting Interest (%)
The Bank of Tokyo-Mitsubishi UFJ, 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	59.17%	59.17%
Mitsubishi UFJ NICOS Co., Ltd. (2)	Japan	84.98%	84.98%
MUFG Americas Holdings Corporation	USA	100.00%	100.00%
BTMU Leasing & Finance, Inc. (3)	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%
Mitsubishi UFJ Fund 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%

Notes:

- (1) The Bank of Tokyo-Mitsubishi UFJ, Ltd. is expected to be renamed MUFG Bank, Ltd. on April 1, 2018, subject to regulatory approvals.
- (2) Mitsubishi UFJ NICOS Co., Ltd. is expected to become a wholly owned subsidiary through a share purchase transaction, which is expected to be completed on October 1, 2017.
- (3) The ownership of BTMU Leasing & Finance, Inc. was transferred to MUAH on July 1, 2017.

D. Property, Plant and Equipment

Premises and equipment as of March 31, 2016 and 2017 consisted of the following:

	As of March 31,	
	2016	2017
	(in millions)	
Land	¥ 394,782	¥ 385,961
Buildings	767,810	750,232
Equipment and furniture	654,099	650,120
Leasehold improvements	287,831	303,130
Construction in progress	38,491	46,375
Total	2,143,013	2,135,818

Less accumulated depreciation	1,137,108	1,141,547
Premises and equipment net	¥ 1,005,905	¥ 994,271

Table of Contents

Our registered address is 7-1, Marunouchi 2-chome, Chiyoda-ku, Tokyo 100-8330, Japan. As of March 31, 2017, 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, 2017:

	Book Value (in millions)
Owned land	¥ 385,961
Owned buildings	205,871

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, 2017, we invested approximately ¥116.8 billion, primarily for office renovations and relocation.

Item 4A. Unresolved Staff Comments.

None.

Table of Contents

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.

	Page
<u>Introduction</u>	69
<u>Business Environment</u>	72
<u>Recent Developments</u>	75
<u>Critical Accounting Estimates</u>	78
<u>Accounting Changes and Recently Issued Accounting Pronouncements</u>	83
A. <u>Operating Results</u>	83
<u>Results of Operations</u>	83
<u>Business Segment Analysis</u>	102
<u>Geographic Segment Analysis</u>	108
<u>Effect of Change in Exchange Rates on Foreign Currency Translation</u>	110
B. <u>Liquidity and Capital Resources</u>	111
<u>Financial Condition</u>	111
<u>Capital Adequacy</u>	136
<u>Non-exchange Traded Contracts Accounted for at Fair Value</u>	142
C. <u>Research and Development, Patents and Licenses, etc.</u>	142
D. <u>Trend Information</u>	142
E. <u>Off-Balance Sheet Arrangements</u>	143
F. <u>Tabular Disclosure of Contractual Obligations</u>	144
G. <u>Safe Harbor</u>	144

Table of Contents**Introduction**

We are the holding company for The Bank of Tokyo-Mitsubishi UFJ, Ltd., or BTMU, Mitsubishi UFJ Trust and Banking Corporation, or MUTB, Mitsubishi UFJ Morgan Stanley Securities Co., Ltd., or MUMSS (through Mitsubishi UFJ Securities Holdings Co., Ltd., or MUSHD, 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, 2017 Compared to the Fiscal Year Ended March 31, 2016

Net income attributable to Mitsubishi UFJ Financial Group decreased ¥599.6 billion to ¥202.7 billion for the fiscal year ended March 31, 2017 from ¥802.3 billion for the previous fiscal year. This decrease is primarily due to a decrease in non-interest income reflecting lower trading account profits and foreign exchange gains. Our business and results of operations, as well as our assets and liabilities, continued to be affected by fluctuations in interest rates and foreign currency exchange rates. Long-term interest rates in the United States were on generally rising trends after the U.S. presidential election in mid-November 2016 through March 2017, negatively affecting the fair values of U.S. Treasury bonds and our net profits on interest rate contracts. In Japan, the yields on 10-year Japanese government bonds rose from negative rates to around 0.05% from mid-November 2016 to March 2017, negatively affecting our net profits on interest rate contracts. While the Japanese yen appreciated against the U.S. dollar from April 2016 to mid-November 2016, the Japanese yen depreciated against the U.S. dollar from mid-November 2016 to March 2017, which adversely affected our foreign exchange gains.

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

	Fiscal years ended March 31,		
	2015	2016	2017
	(in billions, except per share data)		
Net interest income	¥ 2,231.5	¥ 2,261.4	¥2,221.1
Provision for credit losses	87.0	231.9	253.7
Non-interest income	2,845.1	2,407.7	1,196.7
Non-interest expense	2,726.9	3,274.5	2,891.6
Income before income tax expense	2,262.7	1,162.7	272.5
Net income before attribution of noncontrolling interests	1,596.6	793.2	178.1
Net income attributable to Mitsubishi UFJ Financial Group	1,531.1	802.3	202.7
Diluted earnings per common share Earnings applicable to common shareholders of Mitsubishi UFJ Financial Group	107.50	57.51	14.68

Our net income attributable to Mitsubishi UFJ Financial Group for the fiscal year ended March 31, 2017 mainly reflected the following:

Net interest income. 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 previous fiscal year. The decrease was primarily attributable to a decrease in domestic interest income due to lower balances of our domestic loan portfolio and Japanese government bond portfolio and lower average interest rates in Japan. The decrease in net interest income was also attributable to an increase in interest expense due to higher U.S. dollar funding rates in Japan and additional issuances of bonds in the domestic market. These negative factors were partially offset by the positive impact of higher interest rates on foreign loans and higher average balances of foreign trading assets, particularly U.S. Treasury bonds.

Provision for credit losses. Provision for credit losses increased ¥21.8 billion to ¥253.7 billion for the fiscal year ended March 31, 2017 from ¥231.9 billion for the previous fiscal year. The provision for credit losses

Table of Contents

recorded 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.

Non-interest income. Total 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 previous fiscal year. This decrease in non-interest income was mainly due to a decrease in net trading account profits, reflecting increases in interest rates in the United States and Japan. We also recorded net foreign exchange losses due to fluctuations in the exchange rates between the Japanese yen and other major currencies.

Non-interest expense. Total 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. Although we recorded a provision for off-balance sheet credit instruments in the fiscal year ended March 31, 2017, non-interest expense decreased in comparison to the prior year when we recognized an impairment on goodwill as well as an impairment of intangible assets.

Core Business Groups

The following table sets forth the relative contributions of our five core business groups and Other to operating profit for the fiscal years ended March 31, 2015, 2016 and 2017 based on our business segment information:

During the year 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, 2015, 2016, and 2017. 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 ⁽¹⁾	Global Business Group ⁽¹⁾	Trust Assets Business Group	Total ⁽¹⁾			
Fiscal year ended March 31, 2015:								
Net revenue	¥ 1,299.4	¥ 1,148.5	¥ 1,289.8	¥ 171.5	¥ 3,710.0	¥ 664.3	¥ (9.8)	¥ 4,364.5
Operating expenses	958.8	599.9	793.7	103.2	2,310.2	206.0	184.9	2,701.1
Operating profit (loss)	¥ 340.6	¥ 548.6	¥ 496.1	¥ 68.3	¥ 1,399.8	¥ 458.3	¥ (194.7)	¥ 1,663.4
Fiscal year ended March 31, 2016:								
Net revenue	¥ 1,259.2	¥ 1,090.1	¥ 1,273.1	¥ 172.2	¥ 3,615.7	¥ 636.1	¥ (5.6)	¥ 4,246.2
Operating expenses	972.6	603.8	815.1	102.0	2,340.6	208.6	146.0	2,695.2
Operating profit (loss)	¥ 286.6	¥ 486.3	¥ 458.0	¥ 70.2	¥ 1,275.1	¥ 427.5	¥ (151.6)	¥ 1,551.0
Fiscal year ended March 31, 2017:								
Net revenue	¥ 1,198.3	¥ 1,041.6	¥ 1,303.7	¥ 173.1	¥ 3,539.0	¥ 582.0	¥ (9.1)	¥ 4,111.9
Operating expenses	973.0	598.4	821.2	112.2	2,348.2	212.9	155.0	2,716.1
Operating profit (loss)	¥ 225.3	¥ 443.2	¥ 482.5	¥ 60.9	¥ 1,190.8	¥ 369.1	¥ (164.1)	¥ 1,395.8

Note:

- (1) Each of the Corporate Banking Business Group and the Global Business Group includes ¥199.2 billion of net revenue, ¥145.4 billion of operating expenses and ¥53.8 billion of operating profit relating to the overseas Japanese corporate business for the fiscal year ended March 31, 2015, ¥178.9 billion of net revenue, ¥152.9 billion of operating expenses and ¥26.0 billion of operating profit relating to the overseas Japanese corporate business for the fiscal year ended March 31, 2016, and ¥177.7 billion of net revenue, ¥156.6 billion of operating expenses and ¥21.1 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.

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

Table of Contents

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, 2017 Compared to March 31, 2016

The following table presents some key asset figures:

	As of March 31, 2016 2017 (in trillions)	
Total assets	¥ 292.56	¥ 297.19
Net loans	121.68	117.03
Loans, net of unearned income, unamortized premiums and deferred loan fees	122.79	118.21
Allowance for credit losses	(1.11)	(1.18)
Investment securities	45.65	43.23
Available-for-sale securities	41.23	39.09
Held-to-maturity securities	3.87	3.59
Trading account assets	50.83	41.32
Trading securities	29.33	22.49
Trading derivative assets	21.50	18.83
Interest-earning deposits in other banks	41.02	38.33
Cash and due from banks	8.66	25.68

The increase in total assets of ¥4.63 trillion is primarily due to higher volumes of domestic cash and due from banks, partially offset by a decrease in foreign trading account assets.

Total loans outstanding as of March 31, 2017 decreased ¥4.58 trillion to ¥118.21 trillion from ¥122.79 trillion as of March 31, 2016. The decrease was primarily due to a decrease in our loans outstanding to governmental institutions in Japan.

Total investment securities decreased ¥2.42 trillion to ¥43.23 trillion as of March 31, 2017 from ¥45.65 trillion as of March 31, 2016, primarily due to a decrease of ¥2.14 trillion in available-for-sale securities. The decrease in available-for-sale securities was mainly due to sales and redemptions of Japanese government bonds.

Trading account assets as of March 31, 2017 decreased ¥9.51 trillion to ¥41.32 trillion as of March 31, 2017 from ¥50.83 trillion as of March 31, 2016. This decrease was primarily due to a reduction in the volume of U.S. Treasury bonds held by our commercial banking subsidiaries, particularly towards the end of the fiscal year, to manage the risk of losses resulting from declines in the values of U.S. Treasury bonds in a rising interest rate environment in the United States.

Cash and due from banks increased ¥17.02 trillion to ¥25.68 trillion as of March 31, 2017 from ¥8.66 trillion as of March 31, 2016, 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,	
	2016	2017
	(in trillions)	
Total liabilities	¥ 277.71	¥282.42
Total deposits	181.44	190.40
Domestic	135.48	144.84
Overseas	45.96	45.56
Payables under repurchase agreements	22.11	16.08
Other short-term borrowings	9.36	7.97
Trading account liabilities	21.03	18.79
Long-term debt	21.96	27.74

Table of Contents

Total liabilities increased ¥4.71 trillion to ¥282.42 trillion as of March 31, 2017 from ¥277.71 trillion as of March 31, 2016. The increase was mainly due to increases in domestic deposits and long-term debt. The increase in domestic deposits was mainly due to an increase in deposits from our corporate clients. Long-term debt increased due to additional issuances of bonds by us to meet TLAC and other Basel III requirements and an increase in long-term borrowings by our banking subsidiaries to diversify their funding sources. These increases were partially offset by a decrease in payables under repurchase agreements as investor preference shifted from investments in money markets to deposits in the near-zero interest rate environment in Japan.

The following table presents some key shareholders' equity figures:

	As of March 31, 2016 2017 (in trillions)	
Total Mitsubishi UFJ Financial Group shareholders' equity	¥ 14.27	¥13.99
Retained earnings	4.22	4.17
Accumulated other comprehensive income, net of taxes	2.30	2.28
Treasury stock, at cost	(0.30)	(0.51)

As of March 31, 2017, treasury stock was ¥0.51 trillion compared to ¥0.30 trillion as of March 31, 2016, reflecting share repurchasing programs executed in 2016. 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 11.76%, 13.36% and 15.85% as of March 31, 2017, respectively, compared to 11.63%, 13.24% and 16.01% as of March 31, 2016, 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 1.25% and a G-SIB surcharge of 0.75% as of March 31, 2017, and plus a capital conservation buffer of 0.625% and a G-SIB surcharge of 0.375% as of March 31, 2016. 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, 2017, was 4.81%, compared to 4.79% as of March 31, 2016. The Basel Committee on Banking Supervision's currently proposed minimum leverage ratio is 3%. 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, 2017 was 137.9%, compared to 130.0% for the three months ended March 31, 2016. MUFG was required to maintain a minimum LCR of 70% during the period from January 1 to December 31, 2016 and a minimum LCR of 80% during the period from January 1 to December 31, 2017. 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

Table of Contents

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, 2017, the global economy stayed on a moderately improving trend. Uncertainties grew, however, concerning future global economic trends in light of recent changes in economic and monetary policies and geopolitical developments in various jurisdictions, which have contributed to higher volatility in the financial market.

Japan's economic growth remained weak with the quarter-on-quarter real GDP growth rate being 0.4% for the quarter ended June 30, 2016 and 0.3% for each of the quarters ended June 30, 2016, September 30, 2016 and March 31, 2017. The year-over-year real GDP growth rate was 0.9% for the quarter ended June 30, 2016, 1.1% for the quarter ended September 30, 2016, 1.6% for the quarter ended December 31, 2016 and 1.3% for the quarter ended March 31, 2017. Private residential investment and export contributed to the GDP growth, although private consumption and corporate capital investment lacked momentum. Japan's Consumer Price Index, or CPI, fluctuated between negative 0.2% and positive 0.5% on a month-on-month basis and between negative 0.5% and positive 0.5% on a year-over-year basis in the fiscal year ended March 31, 2017. During the same period, the unemployment rate in Japan remained low, declining to 2.8% for February 2017. 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, 2017 was 8,153, a decrease of 3% from the previous fiscal year. The total liabilities of companies that filed for legal bankruptcy in the twelve months ended March 31, 2017 were ¥1,946 billion, an increase of 2.1% from the previous fiscal year. The Japanese economy remains subject to the continuing deflationary pressure, increasing public debt and various other factors that could adversely affect its economic conditions.

The U.S. economy expanded with the quarter-on-quarter real GDP growth rate being 1.4% for the quarter ended June 30, 2016, 3.5% for the quarter ended September 30, 2016, 2.1% for the quarter ended December 31, 2016 and 1.4% for the quarter ended March 31, 2017. The year-over-year real GDP growth rate was 1.3% for the quarter ended June 30, 2016, 1.7% for the quarter ended September 30, 2016 and 2.0% for each of the quarters ended December 31, 2016 and March 31, 2017. Improvements in employment statistics contributed to stronger private consumption and private residential investment. The long-term prospects of the U.S. economy remain uncertain in light of the relative lack of strength in some recent economic indicators and the changes in the government's economic and trade policies since the Trump administration took office in January 2017.

The Eurozone's economic growth continued at a slow rate with the quarter-on-quarter real GDP growth rate being 0.3% for the quarter ended June 30, 2016, 0.4% for the quarter ended September 30, 2016, 0.5% for the quarter ended December 31, 2016 and 0.6% for the quarter ended March 31, 2017. The year-over-year real GDP growth rate was 1.6% for the quarter ended June 30, 2016, 1.8% for each of the quarters ended September 30 and December 31, 2016 and 1.9% for the quarter ended March 31, 2017. During the same period, the unemployment rate in the

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Eurozone declined to 9.4% for March 2017. 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 growth stagnated. China's quarter-on-quarter real GDP growth rate was 1.9% for the quarter ended June 30, 2016, 1.8% for the quarter ended September 30, 2016, 1.7% for the quarter ended December 31, 2016 and 1.3% for the quarter ended March 31, 2017. China's year-over-year real GDP

Table of Contents

growth rate was 6.7% for each of the quarters ended June 30 and September 30, 2016, 6.8% for the quarter ended December 31, 2016 and 6.9% for the quarter ended March 31, 2017. Thailand's quarter-on-quarter real GDP growth rate was 1.1% for the quarter ended June 30, 2016, 0.4% for the quarter ended September 30, 2016, 0.5% for the quarter ended December 31, 2016 and 1.3% for the quarter ended March 31, 2017. Thailand's year-over-year real GDP growth rate was 3.6% for the quarter ended June 30, 2016, 3.2% for the quarter ended September 30, 2016, 3.0% for the quarter ended December 31, 2016 and 3.3% for the quarter ended March 31, 2017. The Asian economy has depended to a large extent on economic conditions in China, where the economic growth has recently decelerated. Thailand's economic growth was also adversely affected by weaker private consumption after the passing of the King of Thailand.

Interest Rates

Interest rates in Japan decreased to historically low levels with the 10-year Japanese government bond yield declining to near negative 0.27% in July 2016. The Bank of Japan maintained a quantitative and qualitative monetary easing with negative interest rates policy during the fiscal year ended March 31, 2017. 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 rose to around zero percent immediately prior to the announcement of the Bank of Japan's new monetary policy and declined to negative 0.09% in September 2016. Following the presidential election in the United States in November 2016, the yield of 10-year Japanese government bonds rose above zero percent and reached 0.1% in February 2017. The yield currently fluctuates around 0.06%.

In the United States, the FRB raised the target range for the federal funds rate first to between 0.5% to 0.75% in December 2016 and then to between 0.75% to 1.00% in March 2017. The 10-year U.S. Treasury bond yield decreased from 1.76% at the end of March 2016 to 1.36% in July 2016. The yield increased to around 2.6% in November 2016 as market expectations grew in favor of the new administration's economic policy. In June 2017, the FRB increased the target range for the federal funds rate to between 1.00% and 1.25%. The yield currently fluctuates around 2.2%.

The yield on 10-year German Bunds was on a generally declining trend during the first half of the fiscal year ended March 31, 2017, with the yield decreasing from 0.15% at the end of March 2016 to negative 0.2% in July 2016. In November 2016, the yield rose and has since ranged between 0.2% and 0.5%, currently fluctuating around 0.4%. The yield on 10-year French Obligations Assimilables du Trésor, or OATs, was on a similar trend, with the yield decreasing from 0.485% at the end of March 2016 to 0.1% in July 2016. Since November 2016, the yield has been in the range from 0.5% to 1.15%, currently fluctuating around 0.7%.

Foreign Currency Exchange Rates

The Japanese yen was on a generally appreciating trend against the U.S. dollar for the first half of the fiscal year ended March 31, 2017, with the Japanese yen appreciating from ¥112.57 to the U.S. dollar as of March 31, 2016 to ¥100 to the U.S. dollar in August 2016. The trend reversed after the U.S. presidential election in November 2016. The Japanese yen depreciated to ¥118 to the U.S. dollar following the FRB's announcement of the rate increase in December 2016. The exchange rate currently fluctuates around ¥112 to the U.S. dollar. Similarly, the Japanese yen was on a generally appreciating trend against the euro for the first half of the fiscal year ended March 31, 2017, with the Japanese yen appreciating from ¥128.11 to the euro as of March 31, 2016 to ¥111.11 to the euro in July 2016. The trend reversed in November 2016, and the exchange rate currently fluctuates around ¥128 to the euro.

Table of Contents

The Japanese yen was on a generally appreciating trend against the Thai baht for the first half of the fiscal year ended March 31, 2017, with the Japanese yen appreciating from ¥3.20 to the Thai baht as of March 31, 2016 to ¥2.85 to the Thai baht in July 2016. Since November 2016, the Japanese yen has been on a depreciating trend against the Thai baht, currently fluctuating around ¥3.3 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 ¥16,758.67 on March 31, 2016 to ¥18,909.26 on March 31, 2017. During the fiscal year ended March 31, 2017, the Nikkei Stock Average declined to around ¥15,000 in June 2016 following the United Kingdom's European Union membership referendum, and increased after the U.S. presidential election in November 2016. On June 2, 2017, the closing price of the Nikkei Stock Average exceeded ¥20,000 for the first time since December 2015. The Nikkei Stock Average currently fluctuates around ¥20,000.

According to a land price survey conducted by the Japanese government, the average residential land price and the average commercial land price in Japan increased 0.022% and 1.4%, respectively, in the calendar year 2016. In the three major metropolitan areas of Tokyo, Osaka and Nagoya, the average residential land price increased 0.5% and the average commercial land price also increased 3.3% in the calendar year 2016. In the local regions of Japan, which consist of regions other than the three major metropolitan areas, the average residential land price declined 0.4% and the average commercial land price also declined 0.1% in the calendar year 2016.

Recent Developments

During and after the fiscal year ended March 31, 2017, we continued to pursue a strategy to improve our operational efficiency and financial performance and achieve sustainable growth. We plan to continue to strengthen our management structure, while selectively reviewing and considering growth opportunities that will enhance our global competitiveness. We will also monitor regulatory developments and pursue prudent transactions that will 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 order to respond to the increasingly complex market and legal risks, we continue to endeavor to enhance our compliance and internal control frameworks.

Implementation of Share Repurchase Programs and Cancellation of Purchased Shares

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 in May 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 and to cancel the repurchased shares. We plan to cancel all of the repurchased shares on July 20, 2017. Based on the Japanese GAAP information used to calculate our capital ratios as of March 31, 2017, we estimate that the repurchased shares would result in a decline in our capital ratios by approximately 0.1 percentage point.

During November and December 2016, we repurchased 142,238,800 shares of our common stock for ¥99,999,993,960 under a share repurchase program that was adopted in November 2016 and completed in December 2016. The repurchased shares were added to our treasury shares. Under the program, we were authorized by the Board of Directors to repurchase up to the lesser of an aggregate of 230,000,000 shares of our common stock and an aggregate of ¥100.0 billion between November 15, 2016 and December 31, 2016.

During May and June 2016, we repurchased 190,614,800 shares of our common stock for ¥99,999,963,346 under a share repurchase program that was adopted in May 2016 and completed in June 2016. The repurchased shares were added to our treasury shares. Under the program, we were authorized by the Board of Directors to repurchase up to the lesser of an aggregate of 230,000,000 shares of our common stock and an aggregate of ¥100.0 billion between May 17, 2016 and June 30, 2016. As of March 31, 2017, we held 739,564,216 shares of our common stock as treasury shares.

Table of Contents

The purposes of the above three 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.

Redemption of Preferred Securities Issued by Special Purpose Companies

In January, 2017, we redeemed in full 500 million, or ¥61 billion, of euro-denominated non-cumulative preferred securities issued by MUFG Capital Finance 4 Limited, an overseas special purpose company in the Cayman Islands, and £550 million, or ¥78 billion, of sterling-denominated non-cumulative preferred securities issued by MUFG Capital Finance 5 Limited, an overseas special purpose company in the Cayman Islands. Under the Basel III standard, these preferred securities would no longer have been considered Tier 1 capital after their first call date, which was January 25, 2017.

In July 2016, we redeemed in full \$2.3 billion, or ¥245 billion, of U.S. dollar-denominated non-cumulative preferred securities issued by MUFG Capital Finance 1 Limited, an overseas special purpose company in the Cayman Islands and 750 million, or ¥88 billion, of euro-denominated non-cumulative preferred securities issued by MUFG Capital Finance 2 Limited, an overseas special purpose company in the Cayman Islands. These preferred securities would no longer have been considered Tier 1 capital after their first call date, which was July 25, 2016.

Issuances of Senior Debt Securities for TLAC Purposes

In February 2017, we issued to global investors \$2.5 billion, or ¥284 billion, aggregate principal amount of senior notes that were intended to qualify as Total Loss Absorbing Capacity, or TLAC, debt. In September 2016, we issued to global investors \$4 billion, or ¥406 billion, aggregate principal amount of senior notes that were intended to qualify as Total Loss Absorbing Capacity, or TLAC, debt, including \$500 million, or ¥51 billion, aggregate principal amount of such notes, with the use of the net proceeds from their issuance being restricted to loans through BTMU to renewable energy projects. This was our first issuance of notes which were intended to have its net proceeds applied to finance renewable energy projects. These issuances followed the issuance of \$5 billion, or ¥562 billion, aggregate principal amount of TLAC-eligible senior notes in March 2016 and the issuance of an additional \$2 billion, or ¥222 billion, aggregate principal amount of such notes in April 2016.

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. 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.

Issuances of Basel III-Compliant Domestic Subordinated Bonds

In October 2016, we issued, in a public offering in Japan, ¥400.0 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 ¥950.0 billion aggregate principal amount of such notes through March 31, 2017, including the October 2016 issuance. See Item 4.B. Information on the Company Business Overview Supervision and Regulation Japan .

Planned Functional Realignment of Subsidiaries

In May 2017, we announced plans to transfer MUTB's corporate loan, project finance, real estate finance, and related foreign exchange and remittance operations to BTMU and to change BTMU's corporate name to

Table of Contents

MUFG Bank, Ltd. in or around April 2018, subject to regulatory approvals. We also announced plans for MUTB to acquire BTMU's 15% equity interest and MUSHD's 34% equity interest in Mitsubishi UFJ Kokusai Asset Management Co., Ltd. in or around April 2018 to make the asset management company a wholly owned subsidiary of MUTB. These plans followed the transfer to MUTB of the shares of Mitsubishi UFJ Investor Services & Banking (Luxembourg) S.A. held by BTMU in May 2017 to make the Luxembourg company a wholly owned subsidiary of MUTB, and are part of our efforts to increase effectiveness in accumulating and applying the expertise of each subsidiary and to enhance efficiency in offering and providing a diverse array of sophisticated financial products and services to customers through collaboration among subsidiaries.

Planned Share Purchase to Make Mitsubishi UFJ NICOS a Wholly Owned Subsidiary

In May 2017, we agreed to purchase all of The Norinchukin Bank's 15.02% equity interest in Mitsubishi UFJ NICOS for ¥50 billion in cash to make Mitsubishi UFJ NICOS a wholly owned subsidiary. The purchase is expected to be completed on October 1, 2017. Up to the closing date, Mitsubishi UFJ NICOS has been, and will continue to be, one of our consolidated subsidiaries and the equity interest held by Norinchukin Bank was accounted for as a noncontrolling interest. We also agreed with Norinchukin Bank to strengthen our strategic retail business alliance in a wide range of areas, including settlement solutions and marketing.

Acquisition of Rydex Fund Services, LLC

In October 2016, MUTB acquired 100% of the ownership interest in Rydex Fund Services, LLC, or RFS, for ¥17.4 billion in cash and recorded goodwill of ¥5.2 billion and intangible assets of ¥11.5 billion. RFS was the fund administration, fund accounting, and transfer agency services platform for the intermediary product line of Guggenheim Investments. RFS had \$53 billion, or ¥5.6 trillion, of assets under administration as of October 31, 2016. Guggenheim Investments is the global asset management and investment advisory division of Guggenheim Partners. Following the acquisition, RFS was renamed MUFG Investor Services (US), LLC.

The acquisition was a part of MUTB's strategic initiative of acquiring overseas fund management companies in an effort to develop the global fund administration business under the brand name of MUFG Investor Services. As a result of the acquisition, MUFG Investor Services' total assets under administration increased to \$422 billion, or ¥43.1 trillion. This acquisition is expected to enable MUTB to meet the diversifying global fund administration needs of its Japanese and overseas customers through the utilization of MUFG Investor Services (US), LLC's market-leading operational expertise and MUFG's extensive network.

Business and Capital Alliance with Hitachi

In October 2016, MUFG and Mitsubishi UFJ Lease & Finance Company Limited, or MUL, an equity method investee of MUFG, acquired 26,884,484 shares, or 23.0%, and 4,909,340 shares, or 4.2%, respectively, of the outstanding shares of Hitachi Capital Corporation from Hitachi, Ltd. for ¥3,400 per share. Subsequently, Hitachi Capital acquired 26,678,000 shares of MUL from the market. Furthermore, in June 2017, each of MUFG and MUL appointed a representative to Hitachi Capital's board of directors, and Hitachi Capital appointed a representative to MUL's board of directors.

These transactions and arrangements were made as part of the agreement made in May 2016 among MUFG, BTMU, MUL, Hitachi and Hitachi Capital to form a business alliance to strengthen the financial operations of MUL and Hitachi Capital, including building an open financial

platform. As a result of discussions for building an open financial platform, on January 4, 2017, MUL and Hitachi Capital established a joint venture called Japan Infrastructure Initiative Company Limited. MUL and Hitachi Capital are also expected to commence discussions at a later date, as appropriate, on ways to further strengthen their relationship, including, as an option, integrating their operations in the future.

Table of Contents

Capital and Business Alliance with Security Bank Corporation

In April 2016, BTMU acquired a 20.0% equity interest, on a fully diluted basis, in Security Bank Corporation, a leading commercial bank in the Philippines, through a private placement of newly issued common shares and preferred shares with voting rights, for 245 Philippine pesos per common share and 0.1 Philippine peso per preferred share, or 36.9 billion Philippine pesos, or ¥92.0 billion, in the aggregate. As part of the capital and business alliance between BTMU and Security Bank, BTMU has designated two directors of Security Bank's board of directors. Security Bank became an equity method investee of BTMU. Security Bank is listed on the Philippines Stock Exchange and is not part of any local conglomerate in the Philippines. BTMU and Security Bank will collaborate to offer enhanced services by leveraging their expertise and customer bases.

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

Effective July 1, 2016, MUAH was designated as our U.S. intermediate holding company to comply with the FRB's enhanced prudential standards. As of the same date, BTMU, MUTB and MUSHD transferred to MUAH 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. (formerly Mitsubishi UFJ Securities (USA), Inc.). As a result of the ownership transfer transactions, MUFG and BTMU hold 3.8% and 96.2%, respectively, of the ownership interest in MUAH. Prior to the transactions, BTMU held all of the ownership interest in MUAH. 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.

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, MUAH 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

Table of Contents

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.

Table of Contents

Certain securities held by BTMU, MUTB 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 MUAH, 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 MUAH 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.

Table of Contents

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

Table of Contents

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.

Table of Contents**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, 2015, 2016 and 2017:

	Fiscal years ended March 31,		
	2015	2016	2017
	(in billions)		
Interest income	¥ 2,894.6	¥ 3,005.7	¥ 2,990.7
Interest expense	663.1	744.3	769.6
Net interest income	2,231.5	2,261.4	2,221.1
Provision for credit losses	87.0	231.9	253.7
Non-interest income	2,845.1	2,407.7	1,196.7
Non-interest expense	2,726.9	3,274.5	2,891.6
Income before income tax expense	2,262.7	1,162.7	272.5
Income tax expense	666.1	369.5	94.4
Net income before attribution of noncontrolling interests	¥ 1,596.6	¥ 793.2	¥ 178.1
Net income (loss) attributable to noncontrolling interests	65.5	(9.1)	(24.6)
Net income attributable to Mitsubishi UFJ Financial Group	¥ 1,531.1	¥ 802.3	¥ 202.7

Major components of our net income attributable to Mitsubishi UFJ Financial Group for the fiscal years ended March 31, 2015, 2016 and 2017 are discussed in further detail below.

Table of Contents**Net Interest Income**

The following table is a summary of the interest rate spread for the fiscal years ended March 31, 2015, 2016 and 2017:

	Average balance	2015 Interest income (expense)	Average rate	Fiscal years ended March 31, 2016			Average balance	2017 Interest income (expense)	Average rate
				Average balance (in billions, except percentages)	Interest income (expense)	Average rate			
Interest-earning assets:									
Domestic	¥ 146,830.0	¥ 1,157.1	0.79%	¥ 153,612.6	¥ 1,097.5	0.71%	¥ 145,179.3	¥ 1,018.5	0.70%
Foreign	90,417.7	1,737.5	1.92	99,103.1	1,908.2	1.93	94,013.1	1,972.2	2.10
Total	¥ 237,247.7	¥ 2,894.6	1.22%	¥ 252,715.7	¥ 3,005.7	1.19%	¥ 239,192.4	¥ 2,990.7	1.25%
Financed by:									
Interest-bearing liabilities:									
Domestic	¥ 151,990.2	¥ (241.8)	0.16%	¥ 159,312.9	¥ (296.9)	0.19%	¥ 166,305.3	¥ (313.5)	0.19%
Foreign	58,101.3	(421.3)	0.73	61,822.3	(447.4)	0.72	57,217.0	(456.1)	0.80
Total	210,091.5	(663.1)	0.32	221,135.2	(744.3)	0.34	223,522.3	(769.6)	0.34
Non-interest-bearing liabilities	27,156.2			31,580.5			15,670.1		
Total	¥ 237,247.7		0.28%	¥ 252,715.7		0.29%	¥ 239,192.4		0.32%
Net interest income and interest rate spread		¥ 2,231.5	0.90%		¥ 2,261.4	0.85%		¥ 2,221.1	0.91%
Net interest income as a percentage of total interest-earning assets			0.94%			0.89%			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, 2017 compared to the fiscal year ended March 31, 2016, and the fiscal year ended March 31, 2016 compared to the fiscal year ended March 31, 2015:

	Fiscal Year Ended March 31, 2015 versus Fiscal Year Ended March 31, 2016			Fiscal Year Ended March 31, 2016 versus Fiscal Year Ended March 31, 2017		
	Volume ⁽¹⁾	Rate ⁽¹⁾	Net change (in millions)	Volume ⁽¹⁾	Rate ⁽¹⁾	Net change
Domestic	¥ (44,670)	¥ (70,013)	¥ (114,683)	¥ (100,575)	¥ 5,033	¥ (95,542)
Foreign	183,420	(38,824)	144,596	(4,601)	59,897	55,296
Total	¥ 138,750	¥ (108,837)	¥ 29,913	¥ (105,176)	¥ 64,930	¥ (40,246)

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