D. Risk Factors

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

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

Risks Related to Our Business

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

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

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

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

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

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

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

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

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

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

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

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

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

We may provide additional loans, equity capital or other forms of support to troubled borrowers in order to facilitate their restructuring and revitalization efforts. We may also forbear from exercising some or all of our rights as a creditor against them, and we may forgive loans to them in conjunction with their debt restructurings. We may take these steps even when such steps might not be warranted from the perspective of our short-term or narrow economic interests or a technical analysis of our legal rights against those borrowers, in light of other factors such as our longer-term economic interests, and our commitment to support the Japanese economy. These practices may substantially increase our exposure to troubled borrowers and increase our losses. Credit losses may also increase if we elect, or are forced by economic or other considerations, to sell or write off our problem loans at a larger discount, in a larger amount or in a different time or manner, than we may otherwise want.

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

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

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

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

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

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

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

The Bank of Japan has maintained a "quantitative and qualitative monetary easing with negative interest rates" policy and applied a negative interest rate of minus 0.1% to the "Policy-Rate Balances," which are a part of current account amounts held by financial institutions at the Bank of Japan, while purchasing Japanese government bonds to increases its aggregate holding of such bonds by approximately ¥80 trillion each year. In September 2016, the Bank of Japan introduced a "quantitative and qualitative monetary easing with yield curve control" policy, adding to its monetary policy a Japanese government bond purchase program with an aim to keep the yield of 10-year Japanese government bonds around zero percent. If the policy is maintained in Japan for an extended period, or if the Bank of Japan's negative interest rate or target long-term interest rate is lowered from the current level, market interest rates may decline further, and the yield on the Japanese government bonds and other financial instruments that we hold may also decline. On the other hand, the value of our investment portfolio may decrease if interest rates increase rapidly or significantly because of heightened market expectations for tapering or cessation of the current policy in Japan. Separate from the Bank of Japan's monetary policies, interest rates could also significantly increase in the event that Japanese government bonds decline in value due to such factors as a decline in confidence in the Japanese government's fiscal administration or further issuances of Japanese government bonds in connection with emergency economic measures or in the event that interest rates on U.S. Treasury securities rise due to such factors as increases in the U.S. policy interest rate, additional issuances of U.S. government bonds, or acceleration of reduction in the balance sheet of the Federal Reserve Board, or FRB. Although we are managing our interest rate risk in light of the expected increases in policy rates in the United States, our investment portfolio could be affected by the shifts in U.S. monetary policy by the FRB. If relevant interest rates increase for these or other reasons, particularly if such increase is unexpected or sudden, we may incur significant losses on sales of, and valuation losses on, our bond portfolio. See "Item 5. Operating and Financial Review and Prospects—Business Environment."

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Significant costs may arise from enterprise-wide compliance and risk management requirements under, or failure to comply with, applicable laws and regulations, such as the U.S. Bank Secrecy Act and related amendments under the USA PATRIOT Act, and any adverse impact of the implementation of the Dodd-Frank Act. In addition, the FRB and other U.S. bank regulators have adopted rules to implement the Basel III global regulatory framework for U.S. banks and bank holding companies which require higher quality of capital, as well as significantly revise the calculations for risk-weighted assets. The FRB has also adopted rules to implement various enhanced prudential standards required by the Dodd-Frank Act for larger U.S. bank holding companies, such as MUFG Americas Holdings. These standards require the larger bank holding companies to meet enhanced capital, liquidity and leverage standards. Further, the FRB has adopted regulations applicable to foreign banking organizations operating in the United States, which require MUFG's and MUFG Bank's U.S. operations to be restructured and, subject to certain exceptions, conducted under a single U.S. IHC, with its own capital and liquidity requirements. Actions management may take in response to these regulatory changes may involve the issuance of additional capital or other measures. For more information, see “Item 4.B. Information on the Company—Business Overview—Supervision and Regulation—United States.”

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

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

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

- adverse economic conditions, substantial competition in the banking industry, volatile political and social conditions, natural disasters including floods, terrorism and armed conflicts, restrictions under applicable financial systems and regulations, or significant fluctuations in interest rates, foreign currency exchange rates, stock prices or commodity prices, in Southeast Asia, particularly in Thailand;
- the business performance of companies making investments in and entering into markets in the Southeast Asian region, as well as the condition of economies, financial systems, laws and financial markets in the countries where such companies primarily operate;
- losses from legal proceedings involving Krungsri;
- credit rating downgrades and declines in stock prices of Krungsri’s borrowers, and bankruptcies of Krungsri’s borrowers resulting from such factors;
- defaults on Krungsri’s loans to individuals;
- adverse changes in the cooperative relationship between us and the other major shareholder of Krungsri; and
- costs incurred due to weaknesses in the internal controls and regulatory compliance systems of Krungsri or any of its subsidiaries.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- we may be requested to participate in providing assistance to support distressed financial institutions that are not our consolidated subsidiaries;
- the government may elect to provide regulatory, tax, funding or other benefits to those financial institutions to strengthen their capital, facilitate their sale or otherwise, which in turn may increase their competitiveness against us;
- deposit insurance premiums could rise if deposit insurance funds prove to be inadequate;
- bankruptcies or government support or control of financial institutions could generally undermine confidence in financial institutions or adversely affect the overall banking environment;
- failures or financial difficulties experienced by other financial institutions could result in additional regulations or requirements that increase the cost of business for us; and
- negative media coverage of the financial industry, regardless of its accuracy and applicability to us, could affect customer or investor sentiment, harm our reputation and have a materially adverse effect on our business or the price of our securities.

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

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

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

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

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

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

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

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

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

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

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

Future developments or changes in accounting standards are unpredictable and beyond our control. For example, in response to the recent instabilities in global financial markets, several international organizations which set accounting standards have released proposals to revise standards on accounting for financial instruments. Accounting standards applicable to financial instruments remain subject to debate and revision by international organizations which set accounting standards. If the current accounting standards change in the future, the reported values of some of our financial instruments may need to be modified, and such modification could have a significant impact on our financial results or financial condition. In addition, the bodies that interpret the accounting standards may change their interpretations, or we may elect to modify our accounting methods to improve our financial reporting, and such change or modification may also have a significant impact on our financial results or financial condition. For more information, see “Item 5. Operating and Financial Review and Prospects—Critical Accounting Estimates.”

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

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

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

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

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

Global financial institutions, including us, have become subject to an increasingly complex set of sanctions laws and regulations in recent years, and this regulatory environment is expected to continue. Moreover, the measures proposed or adopted vary across the major jurisdictions, increasing the cost and resources necessary to design and implement an appropriate global compliance program. The U.S. federal government and some state governments in the United States have enacted legislation designed to limit economic and financial transactions with Iran by limiting the ability of financial institutions that may have engaged in any one of a broad range of activities related to Iran to conduct various transactions in the relevant jurisdictions. In addition, in May 2018, the United States withdrew from participation in the Joint Comprehensive Plan of Action. As a result of this withdrawal, the United States is again threatening to impose potentially severe secondary sanctions against non-U.S. persons who engage in or facilitate a broad range of transactions and activities involving Iran. The Japanese government has also implemented a series of measures under the Foreign Exchange and Foreign Trade Act, such as freezing the assets of persons involved in Iran’s sensitive nuclear activities and development of nuclear weapon delivery systems, and our most recently modified policies and procedures take into account the current Japanese regulatory requirements. We continue to work to improve our policies and procedures to comply with such legislative and regulatory requirements. There remains a risk of potential regulatory action against us, however, if regulators perceive the modified policies and procedures not to be in compliance with applicable legislation and regulations.

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

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

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

The Basel Committee on Banking Supervision imposes additional loss absorbency requirements to supplement the Common Equity Tier 1 capital requirement ranging from 1% to 3.5% for G-SIBs, depending on the bank’s systemic importance. The Financial Stability Board identified us as a G-SIB in its most recent annual report published in November 2017, and indicated that, as a G-SIB, we would be required to hold an additional 1.5% of Common Equity Tier 1 capital. The group of banks identified as G-SIBs is expected to be updated annually. The stricter capital requirements are being implemented in phases between January 1, 2016 and December 31, 2018 and will become fully effective on January 1, 2019. The Japanese capital ratio framework has been revised in line with the stricter capital requirements for G-SIBs.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Risks Related to Owning Our Shares

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

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

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

- the jurisdiction of the foreign court be recognized under laws, regulations, treaties or conventions;
- proper service of process be made on relevant defendants, or relevant defendants be given appropriate protection if such service is not received;

- the judgment and proceedings of the foreign court not be repugnant to public policy as applied in Japan; and
- there exist reciprocity as to the recognition by a court of the relevant foreign jurisdiction of a final judgment of a Japanese court.

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

Risks Related to Owning Our American Depositary Shares

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

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

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

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

Item 4. Information on the Company.

A. History and Development of the Company

Mitsubishi UFJ Financial Group, Inc.

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

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

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

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

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

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

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

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

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

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