Creating a Resilient Organization in a Disruptive World

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President & Group CEO

What do the times demand of management?

2018 arrived with turbulence – but also with reasons for optimism, as economic and political developments inspired some cautious confidence. Despite a volatile global environment, world leaders who gathered at Davos in January seemed to share a belief that upturns in employment, consumption, and investment would continue. This view was based largely on widespread economic growth in the 35 member countries of the Organisation for Economic Co-operation and Development – and endorsed by the leader of the world's largest economy. In a speech delivered the last day of the Summit, he implied that the domestic "America-first" policy he promoted since inauguration would accommodate this promising outlook.

But skeptics, including some bankers, identified three conditions that might threaten the global economy: Geopolitical risk, trade conflicts – and market volatility triggered by central banks' strategic shift from monetary-easing policies. Looking back, it seems the skeptics might have been right. In light of these serious issues, optimism among government, corporate, and consumer sectors has indeed steadily dwindled.

Consider Japan. Responding to a declining birth rate, graying society, and shrinking population, the government's stimulus policies – including monetary easing and fiscal action – did produce some good results over the past few years. But other major efforts – reforming labor markets, overhauling social security, and reducing the national deficit – have fallen short. Meanwhile, uncertainty has hardened the mindsets of corporate leaders and consumers, who tend to be overcautious about spending. This combined ineffectiveness of government, business, and consumer activity has led to stagnant innovation, slumping labor productivity, and an economy that can't seem to grow.

Japan is not unique in facing these problems. Other industrialized nations face them too, including in Europe. My fear is that aside from obvious economic effects, these problems fuel social divisions and anti-globalization sentiments that threaten political stability, even in advanced economies. Meanwhile, leaders in emerging economies that could – and should – act as global growth engines nervously wonder if policies guiding the U.S. mega-economy and China's state capitalism can really drive growth in a sustainable way.

Issues like these, I believe, are the real factors threatening order and stability in global politics and economies. This makes them management issues as well. Since the financial industry mirrors trends in the real economy, institutions like MUFG face the consequences of forces beyond any one sector's control.

Our home market suffers from relentlessly depressed interest rates. Monetary policies of the Bank of Japan have dealt blows to financial institutions. Government-led economic stimuli to encourage businesses investment may have actually started to do the opposite. Household budgets are shrinking, pension funds are underperforming, and the earning power of financial institutions are in long, steady decline. Given the low-growth environment, it's no wonder that bankers worry about their financial broking capabilities, and that abiding anxieties have crept into the national consciousness.

Still, we do see at least one profound bright spot, domestically and globally: digital technologies. If managed wisely, their widespread use can be a powerful force to improve daily lives, invigorate industry, and uplift society.

They also pose challenges. While FinTech startups have grabbed the public's attention as a threat to the financial sector, the real threat will come from BigTech. As the giants that dominate e-commerce, search engines, and social-networking services bring their online expertise and enormous customer data to bear on financial services, revolutionary mega-platforms will emerge.

We have to step up to the challenge. First, we must accurately read the long-term trends destined to shape society in the coming decades. Second, we must immediately identify real-world problems we are certain to face as they arise from these trends. Third, we must solve these problems using our powerful core capabilities. And fourth, we must invest in readying our team for this changing and challenging landscape.

I am being realistic by saying we can set the agenda to accomplish all this. We have the resolve and resources to maintain a vibrant workplace, nurture our corporate culture, contribute to society – and support sustainable growth.

CHANGE TO MANAGE CHANGE

Lessons from the recent past

Our previous three-year business plan – launched in fiscal 2015 – made reforms to our businesses, capital policies, and governance systems, designed to counter ultra-low interest rates in Japan and the phenomenon of "secular stagnation" in economies around the globe.

What were the results?

In terms of financials, regrettably our net operating profits declined for three consecutive years and fell significantly short of targets. We also failed to meet key management goals for our earnings-per-share growth, efficiency ratio, and return on equity. This was due in part to the Bank of Japan's negative interest-rate policy, a plunge in energy prices, and stagnant global trade. Also contributing were a decline in market volatility, a surge in U.S. dollar funding costs, and limited liquidity.

Indeed, the list of negative factors is long. Declining interest margins at our domestic retail and corporate banking businesses made things even more difficult. So did restructuring our oil-and-gas-sector portfolio. Fewer major corporate transactions in East and Southeast Asia, a decline in yen trading revenue due to low market volatility, poor asset-liability management revenues, and rising U.S. interest rates also played a role. In addition, expenses for our human-resource and systems development projects to deal with tightened regulations in the Americas and Europe deteriorated our efficiency ratio.

So it's true we can point to a long list of rationales to explain our disappointing results. But the sobering facts remain: We're still not resilient enough to absorb adversity on a great scale, and we've been too slow to change. These are real reasons we performed poorly and failed to offset a declining top line.

We also have done some important things right.

Since we set out to develop a robust commercial banking platform to serve ASEAN nations six years ago, the Bank of Ayudhya (Krungsri), a bank we acquired in 2013, has steadily grown and become one of Thailand's five Domestic Systemically Important Banks. Two other investments – Security Bank in the Philippines and Bank Danamon in Indonesia – helped lay the foundations of strong regional networks. Also, the turnaround of our Japanese subsidiary Acom into a consumer earnings pillar is almost complete.

In asset administration, we made multiple M&A deals and established the MUFG Investor Services brand. We are now globally ranked among the top ten financial institutions handling alternative fund administration of hedge funds and private equity. We also began integrating platforms of our banking and securities units associated with capital market and sales & trading. We reduced domestic expenses through a range of actions, including judiciously downsizing our workforce.

And regarding capital management, we bought back shares whenever possible and divested equity holdings ahead of plan.

We can also proudly make note of two other milestones. This autumn, we will celebrate the 10th anniversary of our successful strategic partnership with Morgan Stanley. And we recently strengthened our Board of Directors by welcoming two capable foreign nationals. I am gratified to say our Board is clearly moving closer to its vision of what it should become.

Transitioning to a new business model

In the summer of 2016, we launched Project Creare – Latin for "create" – deploying a team of young leadership talent representing the future of our company. We challenged them to start with a clean slate and create a new vision for MUFG as a future-facing enterprise. They explored how to remain resilient while facing drastic challenges in a mercurial environment.

Given that tough equation, they submitted a bold recommendation: Make fundamental reforms to our business model, by organizing ourselves into teams of colleagues drawn from across the enterprise whose common denominator is a shared customer. This led us to create a MUFG Re-Imagining Strategy and a new three-year Medium-Term Business Plan (MTBP) using what we call a "group-based approach."

Our previous three-year plan fell largely short of its goals because we simply weren't equipped for change. Now we've come to accept that MUFG cannot grow sustainably with a traditional domestic commercial banking model and a conventional management structure. Confronting this inconvenient truth with clear eyes, we see the necessity – and wisdom – of structural reforms.

We envision three steps toward those reforms.

One, start with the customer when redefining a business segment.
Two, apply resources first and foremost in service to customers.
Three, keep priorities focused on high-potential sectors.

We know these reforms will require more than three years. So we've set a deadline a full six years out – extending three years beyond our new MTBP. The first three years will be devoted to preparing management and resources to execute the restructure.

We expect to be clearly on track but see only modest progress by the end of year three. By the end of year six, we will have established an entirely new model purposefully built to grow our domestic and overseas business.

We drew up three principles to help chart this journey.

Three principles for a transformed organization

1. Customers should define our business segments
The nearby chart categorizes Japanese Customers, Non-Japanese Customers with subsections of Retail and Small-to-Medium Enterprise (SME) Businesses and Wholesale Banking Businesses. Within this context, MUFG Group now has six business groups.

Two remain unchanged – the Asset Management & Investor Services Business Group and Global Markets Business Group – so I will focus here on the four we've newly defined, the Retail & Commercial Banking Business Group, Japanese Corporate & Investment Banking Business Group, Global Corporate & Investment Banking (CIB) Business Group, and Global Commercial Banking Business Group.

We are taking on challenges in Japanese retail and commercial banking. Our banking arms – with a base of 34 million individual customers and 1.3 million corporate clients – need to break away from the conventional deposit and loan revenue-dependent business model. They also need strategies to offset legacy costs. Our recent integration of retail and commercial business was designed to address these issues by making it easier to reach out to business owners whose unique service needs have fallen in gaps between segments.

We've divided our overseas banking operations – previously centered on the Global Banking Business Group – into the wholesale banking business and retail and commercial businesses.

Wholesale banking has been a strength in our global expansion. In fact, after the worldwide recession triggered by the Lehman Brothers bankruptcy forced European and U.S. financial institutions to reduce their balance sheets, MUFG stood strong. We increased share of corporate lending, and earned a solid reputation in the U.S. and throughout Asia as the largest foreign lender.

But lending has become less profitable because of higher funding costs, especially when using yen converted into foreign currencies. Tighter liquidity and regulations are also forcing financial institutions to set aside greater liquidity reserves. So we are pivoting from a lending business aimed at quantity to one focused on quality.

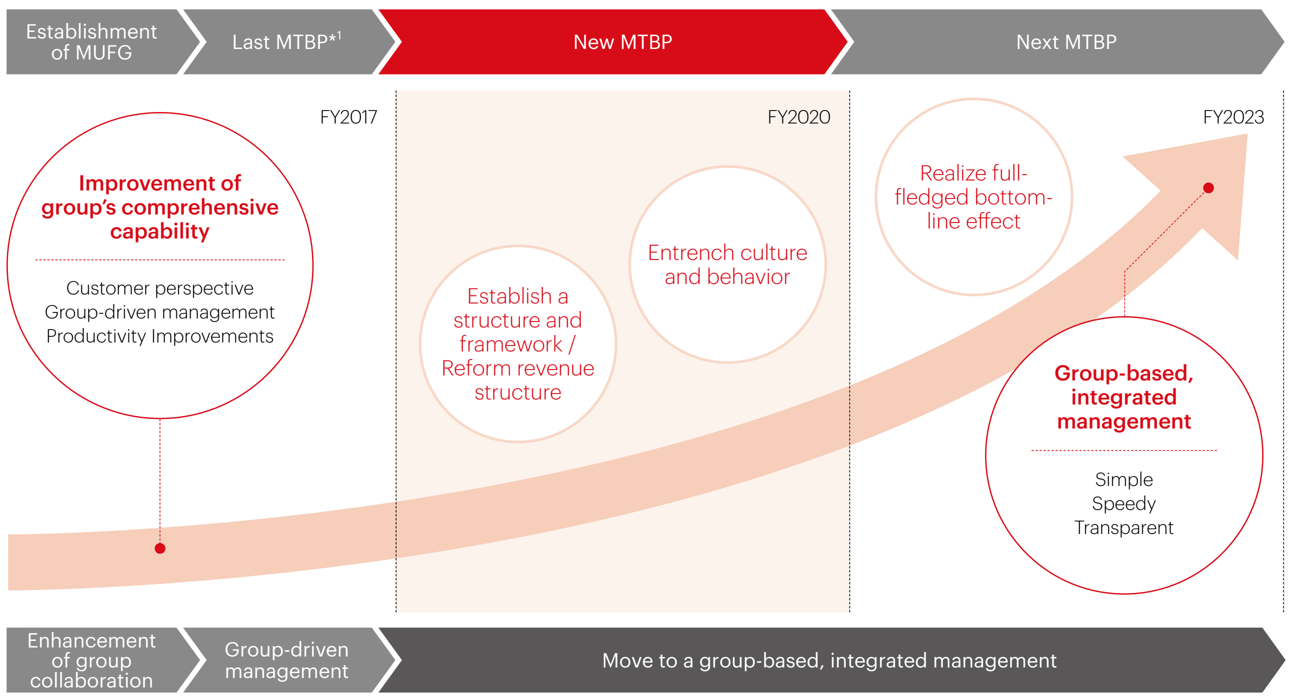
Meanwhile, retail and commercial businesses are growing. In addition to serving four ASEAN nations, we expect to build a robust global commercial banking platform encompassing the Asia-Pacific regions, collaborating with MUFG Union Bank on the U.S. West Coast. We believe these businesses can eventually grow into our largest customer segment but are approaching this prudently, because emerging markets can be fragile in stormy conditions.

2. Customers come first when applying our resources
The second step in our transformation is a structure that allows us to optimize resources. Typically described as being "efficient and effective," this means visibly bringing as much possible benefit of every resource to the attention and service of customers. To do this, we are shifting to a "product- and entity-neutral structure," meaning resources across MUFG are freely available to units in every business group.

For example, we recently integrated the corporate lending and relevant operations of the Bank and Trust Bank – a major step in across-the-board functional realignment. We intensified the integration of corporate center functions at the holding company and the Bank, and are now extending it to the Trust Bank and Securities businesses. And we've created the new position of Chief Operating Officer-International (COO-I) to manage our overseas business platforms, reduce their costs, and retire investments that have accomplished their missions.

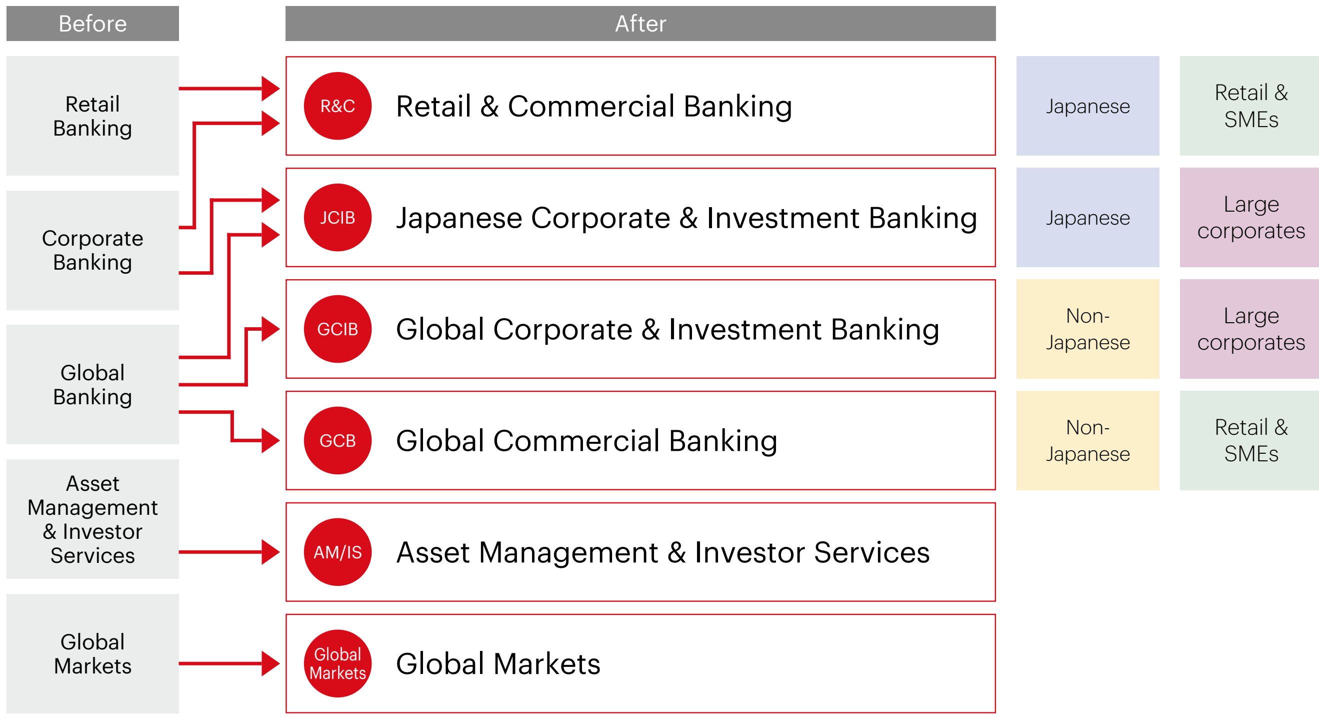
3. Keep priorities focused on high-potential sectors
The third transformative step is to focus on sectors with high growth potential where MUFG can fully exert our core competencies. We've identified eleven priorities to accomplish this. I want to quickly highlight eight that are closely associated with our key fields of business.

Time line



*1 Medium-term business plan

Reorganization of the business groups



Priority: Digital Technology. This is critical to all business units. As I mentioned, financial institutions face an emerging threat from BigTech and startup digital players invading our sector. They have certain advantages. Startups are unhampered by legacy costs; and BigTech has scale, infrastructure, and reach. But digital technology – in conjunction with external partners and customer big data – can also strengthen us, building marketing and consulting capabilities, and developing payment and financing businesses. This will increase our transaction volume and earning power. Technology can also make our operations more efficient. It can renovate our online banking services, dramatically reduce administrative tasks at the counter, allow digital sales and service for residential mortgage loans, and apply robotic process automation and artificial intelligence to handle routine administrative tasks. We expect applications of this sort to cut 30% of our domestic workload at MUFG Bank.

Priority: Sales Channel Strategy. In Japan, we will use digital technology and process re-engineering to make the customer's life easier and make us more efficient. For example, our online banking services will become more user-friendly and mark a massive shift from physical branches to virtual sales-and-service channels. We will launch next-generation services while streamlining our branch network – and we're advancing a blended model that offers a range of Bank, Trust Bank, and Securities services located at shared locations. In short, we will boldly transform our sales channels.

Priority: Wealth Management Strategy. In the past, we've served wealthy clients through three separate entities – the Bank, the Trust Bank, and the Securities. Now, these three entities will work together on one cohesive platform to serve this key clientele. We will also take a new approach to sales, emphasizing fiduciary duty and assets under management to ensure a stable, resilient revenue structure. We will offer high-end customers a variety of services delivered by highly skilled staff from the three entities, under the new brand name MUFG Wealth Management. These professionals will provide one-stop services in a private-banking business model unique to MUFG.

Priority: New Model for Wholesale Banking in Japan. We've created a new team by integrating our domestic wholesale corporate lending and relationship manager units at the Bank and Trust Bank – to work together as one. A select group of relationship managers will assist corporate clients, while product office units associated with the real estate business, pension service, corporate agency, and investment banking functions will hone their specialist skills. Performance reviews will be based on consolidated MUFG profits, an incentive for entity- and product-neutral cross-selling.

Priority: Real Estate. In Japan, the Trust Bank has a license as a real-estate broker, a unique advantage that can be shared across MUFG: unlocking value throughout the chain of real-estate transactions. This includes property appraisals, tenant leasing, custody, asset management and brokerage, and property management – all opportunities for new business for individual and institutional funds, developers, and even foreign investors. As part of an overall asset-management approach, we will establish private real-estate investment trusts (REITs), which can be linked with MUFG's own corporate real estate (CRE) assets.

Priority: Asset Management in Japan. Our previous MTBP revealed weaknesses in our abilities to develop certain new products. We corrected this in our new plan, which emphasizes competitive products and expanded lineups in Japan, and enriches our pool of human resources to support them. Specifically for this reason, we recently established the Investment Products Planning Division under the holding company. Overseas, we will continue to work hand-in-hand with existing investees to optimize potential and, for investment and acquisition, focus on candidates specializing in fields of high growth.

Priority: Institutional Investors. We have placed institutional investors alongside individual customers, Japanese corporations, and non-Japanese corporations as a fourth customer segment. In the past, our services to these investors have not been well-coordinated. Our new structure will facilitate collaboration and cross-selling among the Bank, the Trust Bank, and the Securities and three business groups – Global CIB, Global Markets and Asset Management & Investor Services. This will allow us, for example, to build capabilities as a comprehensive debt house with products tailored to institutional investors and asset managers.

Priority: Global CIB. This group, which handles wholesale banking for non-Japanese corporations, is breaking away from a conventional lending-centered, balance-sheet-dependent business model. It will curb growth in risk-weighted assets and optimize its portfolio by divesting low-profitability lending. It will begin handling collateralized loan obligations, commercial mortgage-backed securities, high-yield bonds, aviation finance, and other products in highly profitable asset categories.

A DEEPER PURPOSE

Environmental, Social & Governance criteria

In our pursuit of prosperity for customers and clients, we know success can be measured in many ways. Indeed our colleagues, our communities, and even our cultures have different ideas on what it means to prosper.

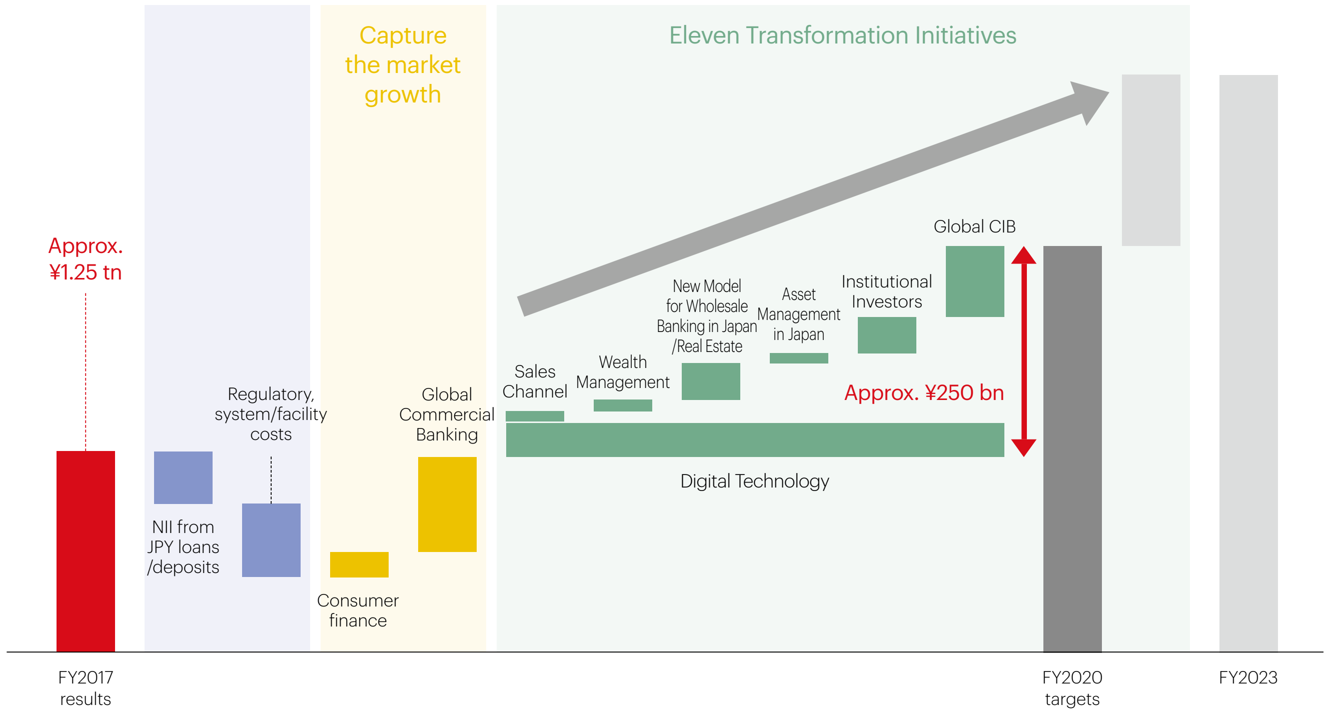
But we can all try to agree, even if not to-the-letter, on some fundamental measures. This is the spirit that created the seventeen United Nations Sustainable Development Goals (SDGs) – and their Environmental, Social & Governance (ESG) criteria. It is also the spirit that drives us to honor them.

We believe all businesses are called upon to strengthen society by contributing to its well-being through service to customers, communities, and colleagues.

The financial industry in particular has a duty to be a bastion of infrastructure by providing funding – essentially, society's lifeblood. We consider ESG duties integral to our day-to-day operations and activities across the board.

This philosophy has been passed down to us by our predecessors, the founders of today's core MUFG Group companies, whose individual histories can

Plan of net operating profits



extend back a century or more. It's part of our culture – both corporate and national – and we have always abided by it in our own way.

But in 2017, the MUFG Board of Directors applied new discipline to how we approach ESG criteria. This led us to codify our stance on these criteria, to conform with international standards and ensure that our ESG-related initiatives and disclosures are comprehensive, compliant, and clear.

The specific SDGs we wish to prioritize at MUFG include financial innovation, global warming & climate change, business incubation & job creation, social infrastructure & town planning, and an aging population & low birth rate.

These priorities are now incorporated into the strategies and policies of each business group. MUFG also welcomes stakeholder dialogue and direct feedback, while our Board monitors progress on initiatives alongside our company's management committees. In business terms, we are operating a Plan-Do-Check-Act – or PDCA – cycle geared for real improvement.

During this process, we reviewed, consolidated, and fortified a number of ad-hoc policies developed over time, and unified them into three official documents released this year – our Environmental Policy Statement, our Human Rights Policy Statement, and our Environmental and Social Policy Framework.

Human Dignity. Our Human Rights Policy Statement certifies MUFG's support of the Universal Declaration of Human Rights and the Guiding Principles on Business and Human Rights. It also defends human dignity by holding our suppliers and clients to standards protecting the rights of their workers.

Environmental Stewardship. Our Environmental and Social Policy Framework specifies cluster-bomb manufacturing as a type of business MUFG will never finance. It also mandates rigorous due diligence whenever we contemplate providing services to such businesses as coal thermal power generation.

In the renewable-energy sector, MUFG has built a noteworthy track record, part of our pledge to support countermeasures to global warming and climate change. In fact, MUFG is a pioneer in project finance for solar, wind, and geothermal power generation. In fiscal 2017, we occupied first place on the Asset Finance Lead Arrangers league table that ranks financial institutions serving as lead arrangers in financing for renewable energy projects. Securing this position for a second consecutive year, MUFG is demonstrably helping popularize clean energy on a worldwide basis.

We are also committed to abide by Task Force on Climate-related Financial Disclosures (TCFD) recommendations.

Social Responsibility. MUFG focuses on social initiatives tied to our core competencies, such as financial innovation, business incubation, job creation, population aging, and low birth rate.

Digital technology plays a part here, too. Successful innovation in financial services depends largely on IT, and we are involved in a wide variety of innovations in various technological fields to benefit society, from novel financial profit-making endeavors to operational platforms boosting productivity. We also are skilled in planning financial services to support Industry 4.0 and Society 5.0 – conceptual work aimed at industrial and societal reforms – and designing infrastructure to support them. This includes MUFG Coins – digital currencies using blockchain technologies – to support the IoT and shared economies, and to help regional economic zones flourish.

Other initiatives involve blockchain digital-payment services for swift low-cost transactions, co-developed with U.S.-based Akamai Technologies, Inc., and encouraging FinTech startups to use our open Application Programing Interface (the set of programming instructions and standards for accessing our software applications) to develop their ideas.

We believe our fundamental mission as a financial institution is to help clients and customers grow and protect their financial future. This informs our involvement in business incubation and job creation. It transcends financial services by helping clients find potential business partners among our vast customer base. In this prolonged low-growth economic environment, for 13 years we've organized business-matching events to make connections among SMEs and innovators seeking collaborators. These events have led to 87,000 successful business matchups involving 40,000 companies. And to nurture startups, we host "Rise Up Festa" events and joined with U.S.-based Plug and Play, LLC to operate the Accelerator Program that supports FinTech ventures.

We are also determined to help the Japanese people solve financial problems arising from the nation's declining birth rate and aging society. To help young people secure their future – and to relieve the public-pension burden to some degree – a thoughtful long-term investment strategy is essential.

As a major distributor of investment products in Japan, we're committed to fulfilling our fiduciary duty to individual customers, helping them build stable long-term assets. We're equally committed to educating all who seek to secure their financial future by offering financial-literacy and other outreach programs.

And as one of the largest domestic asset managers, we offer sophisticated but simple-to-use investment tools for investors, and we are always guided – in spirit and in concrete policy – by full compliance with the code of stewardship that anchors our business philosophy.

MAPPING OUR JOURNEY: A VOYAGE, NOT A DESTINATION.

Governance issues

Our continuous drive to elevate the company's governance system derives from a conviction that it's a matter of substance, not formality. We have seen too many cases of respected brands damaged – deeply and quickly – when their seemingly sophisticated governance systems failed to prevent or detect some spectacular misconduct.

We also believe governance is a voyage, not a destination. With this in mind, over the past several years MUFG has worked to fortify the function of its Board of Directors, by increasing the number of outside directors, shifting to a “company with committees” system, and appointing a Lead Independent Outside Director. This ensures that our Board and its committees can freely engage in meaningful, candid, in-depth discussions of management issues.

Recent MUFG governance changes include last year’s appointment of two foreign nationals as independent outside directors. Considering the global nature of our business – with overseas operations accounting for around 40% of our revenues – this was a welcome and relevant enhancement. Employees outside Japan also compose about 40% of our workforce, and overseas shareholders account for about the same percentage. So clearly we need a Board that reflects our increasingly diverse base. Appropriately, our two new outside directors are from the U.S. and Thailand, countries where MUFG has strong local subsidiaries that contribute substantially to our global presence.

This year, we reduced the number of executive directors, and we now have a total of fifteen directors, with independent members in the majority. This enhances the Board’s supervisory function over management.

Strong internal controls are also critical, including risk management and compliance. Key issues include volatility triggered by central banks’ strategic shifts on monetary policies, and significant trade or geopolitical events. We pay close attention for signs of a turning point in the credit cycle. And we apply increasingly sophisticated risk-management tools when we undertake new types of credit business and expand our foreign currency-denominated liquidity, and upgrade our cyber-security measures.

We are also alert to new international compliance and regulatory developments and stay fully responsive to regulations wherever we do business. For instance, Basel III reforms are almost finalized but the Fundamental Review of Trading Book (FRTB) is not. Regulatory trends, which of course we track with great care, suggest that financial institutions may need to take additional measures such as establishing intermediate holding companies (IHCs) and ensuring that their overseas branches meet local legal business requirements. Given the growing complexities of global financial regulations and local laws, we take strong measures to ensure our business conduct complies with the highest ethical and legal standards. We also allocate considerable resources to countermeasures against financial crimes.

Ultimately, though, our business conduct depends on our corporate culture. Clear messages about the high standards we are duty-bound to uphold must be communicated sincerely and passionately from top management to frontline colleagues. We need ongoing employee education programs, and message-cascading mechanisms, so everyone throughout the organization is well-versed on key information. And to emphatically underscore how important conduct is, we calibrate our job-performance evaluations to strongly encourage robust compliance and discourage fraudulent activity just as strongly.

My leadership mission

The success of every initiative I’ve mentioned hinges on the dedication of our 150,000 colleagues in 50 nations who compose our worldwide team. Simply put, our success depends almost entirely on them.

Therefore I consider stewardship of our greatest resource – our human resource – one of my highest duties, and I view it through three lenses.

1. Promoting Workforce Diversity

Diversity adds power to an organization only when tied to inclusion. Each individual has unique qualities and characteristics – and that distinction is valuable, particularly when multiplied 150,000 times. Different viewpoints and opinions can cause friction among people, but it’s essential to share them. Suppressing differences defeats diversity’s purpose. Harnessing them can energize a small team or an entire organization and spark innovative solutions.

At this point, please allow me to directly address our colleagues for a moment.

Right now, MUFG is poised to enact profound reforms. That means that right now, we need free exchange of ideas more than ever before. We all need to step away from conventional thinking and help create a workplace with an open, interactive atmosphere. This is how ideas and new insights arise to guide us.

Our 150,000 colleagues around the world are quite diverse in gender, race, religion, age, and orientation. In the U.S., Europe, and at partner banks in Asia, our organizations are operated by colleagues – including C-Suite leaders – who reflect the regions’ broad diversity.

Our Japanese workforce is lagging behind, however. For instance, the percentage of women in management positions remains at 20%. This year, we’ve only managed to increase the number of female directors and executive officers to four. That’s progress, but it’s small and too slow. On the positive side, our Board now includes three women among our eight independent outside directors.

Considering all factors, I think our diversity initiatives over the past ten years are starting to deliver results. We will continue to set higher targets and work hard to reach them – building that 20% number closer to 30% over the next six years, for example, by helping women chart career paths and bolstering our mentoring programs.

2. Nurturing Next-Generation Leaders

It is a simple fact that every CEO, no matter who or where, has a duty to identify and develop talent to assume the helm, sooner or later. At MUFG, we expect leaders to protect our legacy and nurture our future talent while doing their utmost to fulfill our business mission. Their role is like a relay racer’s – combining running ability with baton-passing skills. Both qualities are essential.

MUFG also has a distinct tradition of succession - each new leader has had viewpoints and characteristics in unusual contrast to his predecessor. (I hope for a great day when the previous phrase might just as well say, “in contrast to her predecessor.”) This is a tradition we should preserve. It’s a strength.

But systematically nurturing talent to meet all these criteria isn’t easy. For several years, our Nominating and Governance Committee has discussed this issue and developed CEO succession plans for the holding company, the Bank, the Trust Bank, and the Securities.

In 2017, we began placing more formal emphasis on identifying and developing next-generation leaders earlier in their careers. This led to establishing MUFG University this year, to prepare succession candidates for near- and long-term horizons and different management levels. Its curriculum includes management skills as well as a liberal-arts education that incorporates cross-cultural studies to instill a broad, open perspective.

3. Guiding How Digital Technologies Change Our Work Styles

In the best-seller Race Against The Machine, the author makes a case that intelligent machines will someday replace humans in the workforce. Meanwhile today, advances in artificial intelligence, robotic process automation, and other digital technologies are prompting lively management discussions about how technological trends are changing how humans work. In Japan, “work style reforms” are part of the national conversation, within the context of an aging society with a low birthrate.

In 2017, I announced a six-year plan to automate some of our domestic banking operations, reducing the human workload by roughly 30% – equivalent to 9,500 employees. I’ve been flooded with mixed reactions from colleagues and external observers ever since. Some have doubted the plan’s feasibility. And most colleagues are understandably anxious about their own futures.

But there’s no escaping the fact that digitalization is destined to improve productivity across all industries. At MUFG, we have identified and specified almost every task and function subject to automation throughout the organization – and we're developing a detailed staffing schedule to ensure a smooth switchover in each case.

I take the position that digitalization of routine tasks will lead to more flexible work styles and creative jobs for people – provided they're open to learning new skills. For this to work, all managers, myself included, must provide education, skill training, and new opportunities. Then, colleagues must accept the challenge and take the initiative to forge a path to new job satisfaction.

Enhancing Shareholder returns

Obviously, financial targets and capital policies are key topics as we establish a new sustainable business model – it's our fundamental duty to deploy the capital our shareholders entrust to us as effectively, efficiently, and responsibly as possible. We follow three metrics to assess our performance: efficiency ratio, return on equity, and common equity tier 1 capital ratio.

As described earlier, we've designated the three-year span of our new MTBP as a time to start making drastic structural reforms – a period of intense "heads-down" focus. In the short term, we expect only limited improvement to our ROE and efficiency ratio, even with a likely upturn in operating income.

Still, we've set mid- and long-term targets of approximately 9% to 10% for ROE and 60% for our efficiency ratio. This is based on our confidence in our new business structure and lower risk profile.

After we announced our upgraded capital and shareholder-return policies in May 2018, I received a variety of comments and questions from shareholders. Although our CFO provides a detailed discussion of these matters on the following pages, I want to summarize MUFG's stance with these three points:

(i) We will maintain our basic policy for capital management and strive to strike an appropriate balance among maintaining solid equity capital, making strategic investments for sustainable growth, and enhancing shareholder returns. We are also determined not to carry over capital surplus and to maintain a tight grip on capital policy.

(ii) We will place great emphasis on paying dividends as a vehicle for shareholder returns. Although MUFG continually repurchases shares, our dividend payout ratio has remained relatively low. Looking ahead, however, we will strive for steady, continuous increases in dividends per share, targeting a dividend payout ratio of 40%.

(iii) We will engage in share repurchases in a more flexible manner, giving due consideration to our performance, capital status, and opportunities for growth investment, as well as stock prices and other market conditions.

We intend these capital policies to enhance shareholder returns and help fulfill expectations of our investors.

Reflections

It's been ten years since the worldwide recession was triggered by the Lehman Brothers bankruptcy. As the crisis unfolded, I observed how financial institutions around the world reacted, each making different decisions on how to avoid fallout – then facing different consequences.

This experience drove home the importance of the following three lessons. First, a financial institution must remain true to its core competencies. Second, it must lay out clear strategies attuned to the dynamics driving industrial and societal changes. Third, when action is necessary, it is leadership's duty to enact it as swiftly as possible.

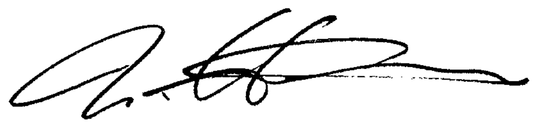
I'm grateful for the valuable lessons my predecessors have passed down by example. However, I wonder if the current adversities are even greater than those in the past, including in 2008. Ours are not cyclical in nature. Instead, they are arising from irreversible structural changes. Our response to these challenges must therefore be bold, with deep reforms based on clear-eyed reality. That's why we launched initiatives this year aimed at re-imagining MUFG – a goal we clarified by formulating an MUFG Re-Imagining Strategy.

Our long voyage toward transformation has just begun. I am almost certain it will involve treacherous passages, rough seas, high winds, sudden squalls and major storms. But we must keep true to our course – especially through rough weather.
A successful voyage requires a crew willing to act as one. So often, challenges are rooted in some inconvenient truth that everyone sees but no one mentions – they're afraid to speak up. That is a toxic environment. We all need the freedom to share what's really going on, and the power to make changes shoulder-to-shoulder with our fellow crew. Once we absorb this mindset into our culture, solutions will be clearer and actions swifter. This is exactly what I mean when I say we need to embrace management methods that are "simple, speedy and transparent."

We are the change agents as one of the world's leading financial institutions is making a fresh start. That in itself is very exciting – and the results will be, too. By re-imagining our place in the world and executing concrete initiatives, we are transforming our enterprise to earn and deserve a reputation as the world's most-trusted financial group.

We ask your continued support as we reach for our goal.

July 2018

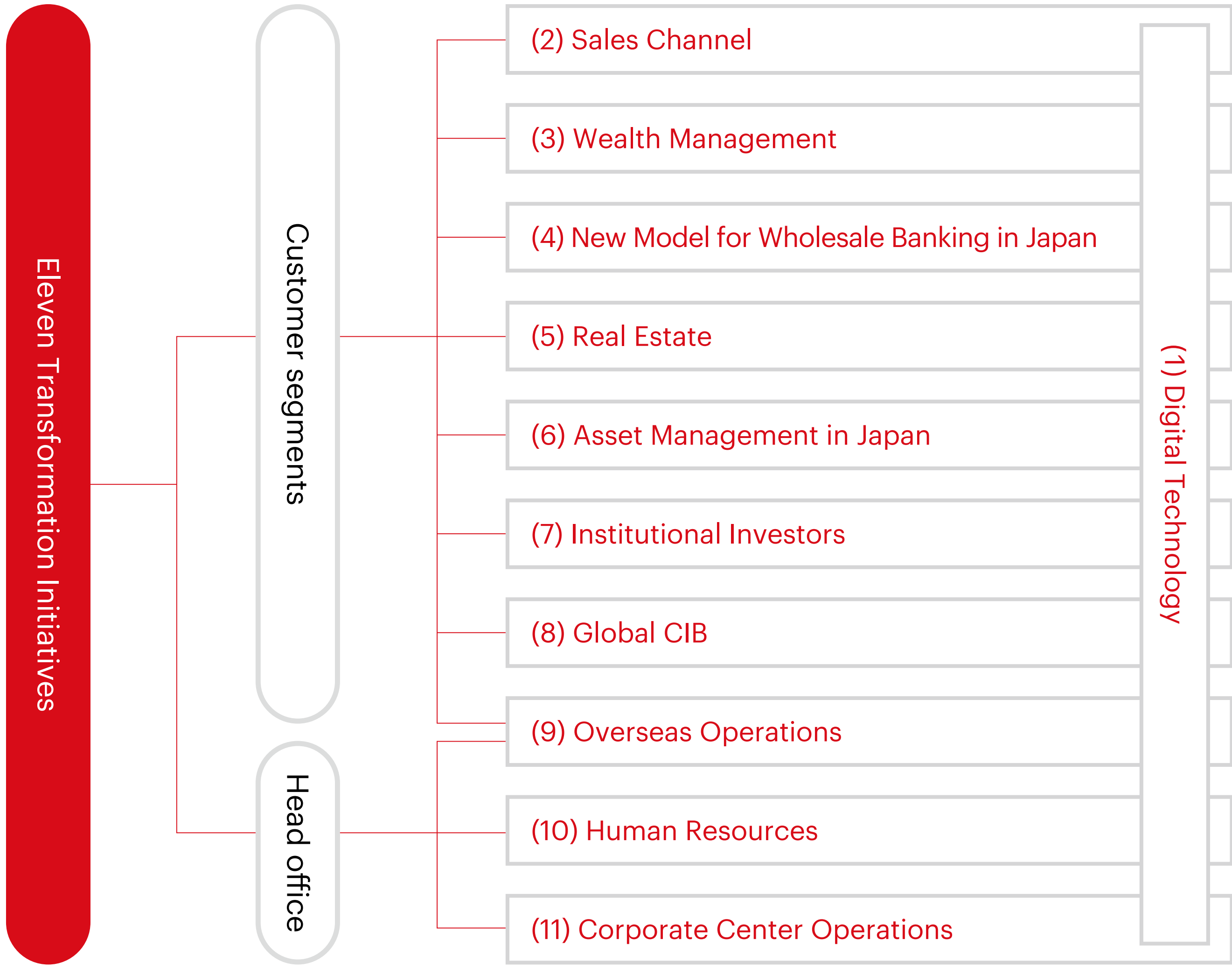


Nobuyuki Hirano
President & Group CEO

The New Medium-Term Business Plan—Eleven Transformation Initiatives

Under the new medium-term business plan, we have outlined the Eleven Transformation Initiatives, which are specifically designed to help MUFG weather a difficult business environment and get back on a sustainable growth track. Each initiative shares the following features: (1) a large growth potential, (2) the power to enable MUFG to demonstrate its capabilities and (3) the promise to become a main MUFG business, or a support function of a main business.

We are aiming for growth of approximately ¥250 billion in net operating profits, with MUFG Group companies, business groups and the corporate center working as one to push forward with these initiatives.

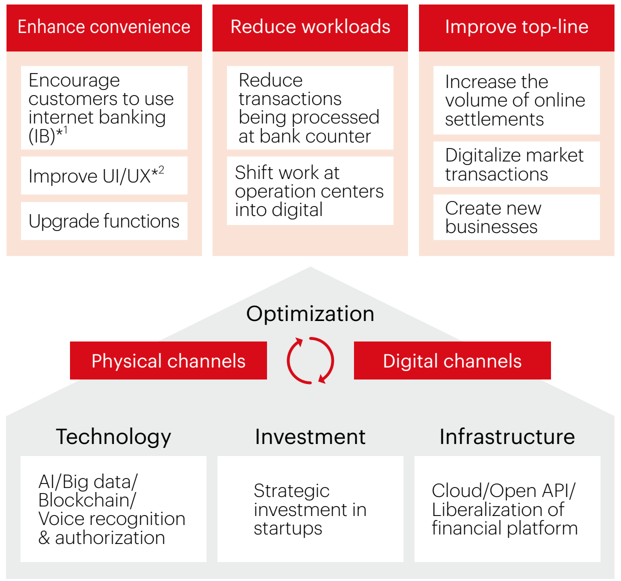


(1) Digital Technology

Utilize Digital Technologies to Drive Strategic Reforms across the Board

Today's customers are increasingly choosing alternative banking transactions methods. With the growing popularization of smartphones and other digital devices, the number of customers who prefer online settlement is growing, while the number of those who regularly visit bank branches is decreasing.

In response, we are striving to utilize digital technologies to provide customers with diverse lineups of highly convenient transactional channels that allow them to choose the one best for them. At the same time, we expect these technologies to help us reduce workload and improve productivity while facilitating the expansion of online transactions and the creation of new businesses. Our digitalization strategies are thus intended to boost our overall business profitability.

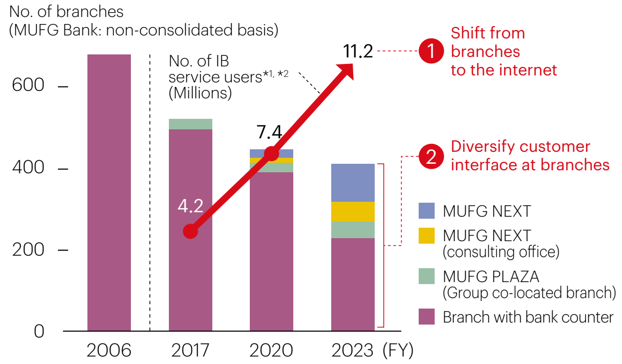


*1 Mitsubishi UFJ DIRECT: Internet banking for individual customers
*2 UI: User interface; UX: User experience

(2) Sales Channel

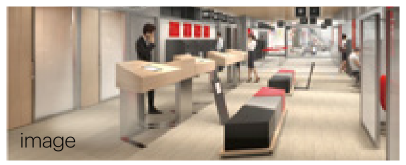
Upgrade Our Channels

By enhancing user-friendliness and online transaction functions, we will facilitate a shift from "real" to "online" channels. This will, in turn, help us optimize both face-to-face channels and non face-to-face channels. Specifically, we will diversify the face-to-face channels operated by branches and, to this end, offer a wider variety of options and types of transaction to meet customer needs. These options will include MUFG NEXT branches that offer customers access to easy-to-operate terminals and thereby accommodate needs for even quicker and more convenient banking services as well as MUFG NEXT consulting offices that provide face-to-face consulting services. Furthermore, we will establish MUFG PLAZA, a blended model that offers a range of Bank, Trust Bank, and Securities services at shared locations.



*1 Mitsubishi UFJ DIRECT: Internet banking for individual customers
*2 The number of DIRECT users = the number of active accounts (excluding accounts used only for bank transfers) that have been logged into by users at least once in the last six months

For more details of non face-to-face channels, please also see page 28.

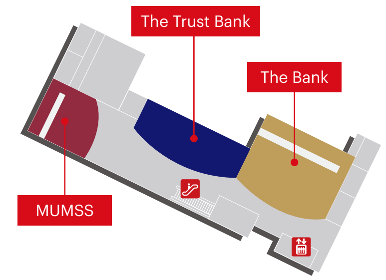


MUFG NEXT

New EXperience Together
—Create a brand-new UX with customers—

MUFG NEXT

Consulting office



MUFG PLAZA

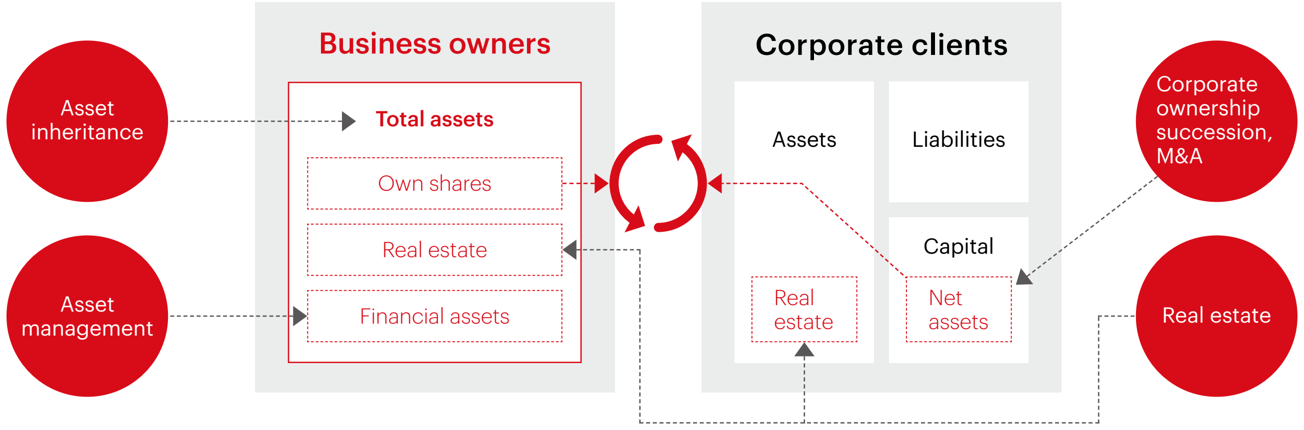
Group co-located branch

The New Medium-Term Business Plan–Eleven Transformation Initiatives

(3) Wealth Management

With the integration of the retail and commercial banking units, as well as a "group-based, integrated approach" taken by the Bank, the Trust Bank and the Securities, we can support rising customer needs for asset management and inheritance services. This is an important consideration for Japan's aging, low-birthrate society. Additionally, we will strive to establish a consistently profitable business structure by focusing on fee-based asset management. Professionals of the Bank, the Trust Bank and the Securities will develop and implement a business model that seamlessly provides various business solutions.

Our approach to individual customers (business owners) and corporate clients

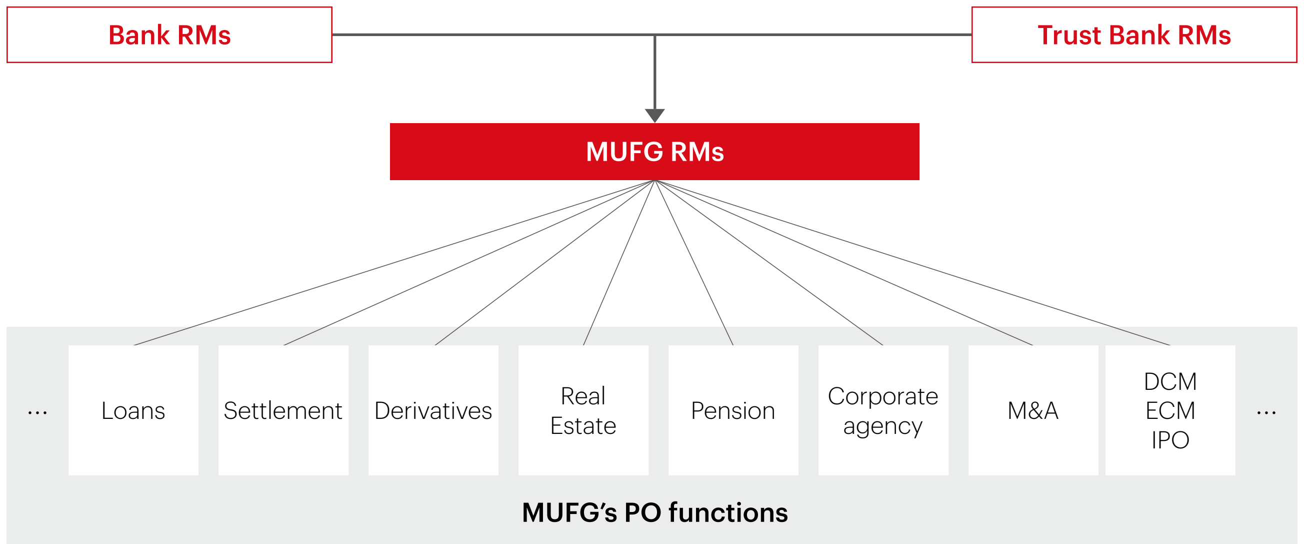


(4) New Model for Wholesale Banking in Japan

In implementing restructuring measures by business function, the corporate loan businesses of the Bank and the Trust Bank have been consolidated. Additionally, the RMs*1 are now referred to as "MUFG's RMs"—those who itemize customers' business issues. Meanwhile, the PO*2 will extend its expertise, providing optimized solutions for customer needs.

*1 Abbreviation for Relationship Managers, in charge of sales.
*2 Abbreviation for Product Office, namely, business units and staff in charge of the planning, development and the provision of products and services

RM/PO model



(5) Real Estate

The Group, in an integrated and continuous manner, provides solutions to satisfy various customer needs with regard to the real estate value chain.* Branches will assess customer needs and collect extra information so that it can be maximized to enhance brokerage businesses and asset management businesses, adding more value.

* The course of business regarding real estate from "sales" to "development" to "tenant leasing" to "asset management."

(6) Asset Management in Japan

We will offer asset management services to our customers on an integrated groupwide basis. We will develop competitive products, supply a full product lineup, and expand our talent portfolio to support these moves. Additionally, we will upgrade our asset management business by pushing to be a more globally recognized industry player and by enhancing our talent, products and solutions.

(7) Institutional Investors

We will provide a wide range of services to satisfy various professional needs for asset management on an integrated groupwide basis, while extending business relationships with the institutional investors of each legal entity and business group across the Group.

(8) Global CIB

In order to realize the sustainable growth of the Global CIB* business, we will respond to the needs of global corporate customers and improve portfolio return by constantly recycling loan assets, etc. In addition, we will be shifting value to "quality" over "quantity" through origination and distribution under the integrated platform of banking and securities functions.

* Abbreviation for Corporate and Investment Banking. This business consists of traditional corporate banking (e.g. deposits and loans) and investment banking (e.g. capital markets and M&A etc.) and provides sophisticated financial services.

(9) Overseas Operations

We will shift our business focus from "region-/legal entity-based" to "customer-/business-based," and reinforce business-driven operations across the Group. Our global branch network will also be upgraded, centralized, and standardized for business administration and systems in order to establish a structure to flexibly address environmental changes.

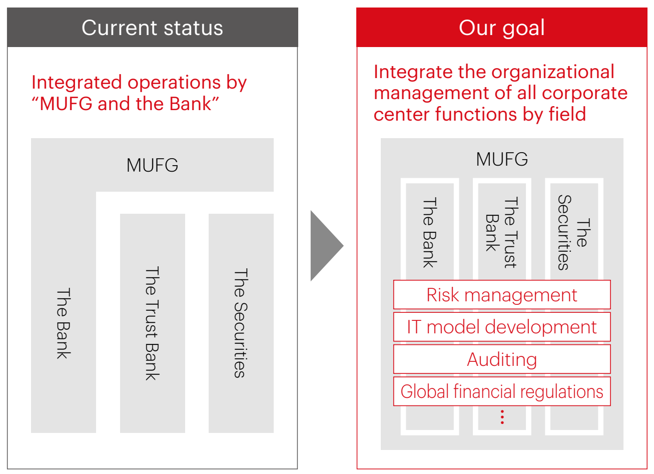
(10) Human Resources

In addition to the acceleration of personnel allocations and transfers across the Group to drive our strategy, the new HR Division will be set up to manage domestic and international HR operations, creating a globally integrated HR capability.

For more details, please also see pages 82 to 85.

(11) Corporate Center Operations

The Corporate Center function will be reorganized from integrated operations by "MUFG and the Bank" to that of "MUFG, the Bank, the Trust Bank and the Securities" to effectively take advantage of our business resources on a groupwide basis. This move will also help us improve the sharing of specialist knowledge and know-how among Group entities, thereby boosting our corporate center functions.



5 Financial Innovation

Digitalization Initiatives

MUFG boasts extensive expertise in the financial business and over time has built a reputation for trustworthiness. Bringing together these strengths with cutting-edge digital technologies as well as innovative ideas and services offered by FinTech startups, we will create next-generation financial services that boast superior customer convenience and are more secure. Through these initiatives, we will also strive to deliver solutions for various issues society is now confronting, including those that cannot be resolved by financial institutions alone.

Improving UI/UX of Mitsubishi UFJ Direct

At MUFG Bank, we are stepping up efforts to improve UI/UX and expand functions of our "Mitsubishi UFJ Direct" internet banking service for individual customers. For example, our plans call for incorporating fingerprint and other biometric authorization systems into Mitsubishi UFJ Direct smartphone apps in addition to providing users with access to up to 10 years of transactional banking statements via this service.

End-to-End Paperless Procedures for Opening Accounts kabu.com Securities Co., Ltd.

kabu.com Securities offers end-to-end paperless procedures for customers wanting to open new accounts. These procedures require only government-issued individual number cards and NFC*-equipped smartphones. As of June 2018, some Android smartphones can be used for these procedures.

Compared with conventional procedures that require customers to deal with physical documents posted to them, the new streamlined procedures make opening accounts much faster.

* Near Field Communication

Initiatives toward Realizing the Practical Use of MUFG Coin

Expanding the Scope of In-House Verification Testing

Discussions are now under way at MUFG Bank to publically issue MUFG Coin, a digital currency employing blockchain technologies. This project aims to provide a new financial infrastructure that transcends the conventional boundaries of transfer and settlement services.

We have also, conducted verification testing of payment via on-premises convenience stores and a café that uses MUFG Coin settlement accessed via a scanned QR code, with an eye to realizing the practical use of these currencies in a wider society.

Hackathons

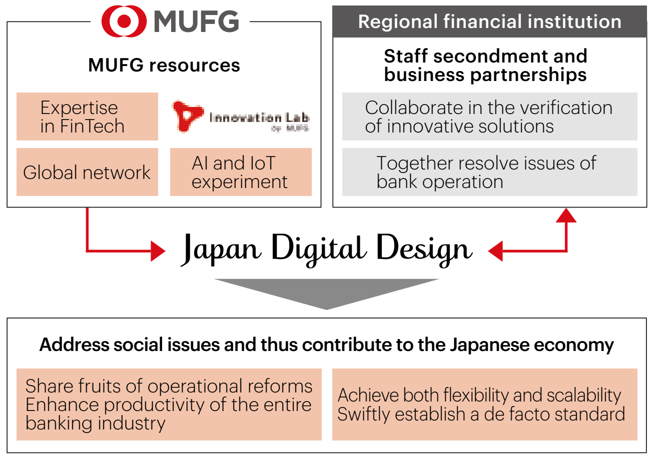
In March 2018, MUFG Bank held a hackathon* with the theme "A New World Emerging from the Use of Digital Currencies." This event, sponsored by a financial institution and aimed at utilizing its digital currency functions, was the first of its kind in Japan. Looking ahead, we will strive to expand the possibilities of MUFG Coin and, to this end, hold these and other events in addition to engaging in business collaboration with external corporations. In this way, we will deliver new value that could not be created by banks alone while helping resolve various issues society is now confronting.

* A neologism combining "hack" and "marathon," a hackathon is an event in which software developers collaborate intensively on development projects aimed at creating new programs and designing innovative services. Such events often incorporate competitive elements.

Japan Digital Design Synergies of MUFG Expertise and External Insights

In October 2017, Japan Digital Design, Inc. (JDD) was established. Spun out from MUFG, JDD was founded upon the platform of the Innovation Lab, a former in-house business unit, and has been recruiting external engineers while collaborating with 35* regional financial institutions. Looking ahead, JDD will engage in the development of new services that offer revolutionary UX and other initiatives aimed at reducing social cost.

* As of June 30, 2018



Establishment of MUFG AI Studio

Within JDD, MUFG AI Studio (M-AIS) was launched as an initiative aimed at researching and developing proprietary AI models for use by MUFG Group.

Going forward, M-AIS will engage in joint research with such external research institutions as the University of Tokyo and collaborate with domestic and overseas AI venture companies. Through this work, M-AIS will endeavor to provide solutions to improve financial services and help solve social issues.

Key Fields	Finance	Cash flow analysis*1 and scoring	Market transactions
	Management	Customer behavior prediction and marketing	HR Tech*2

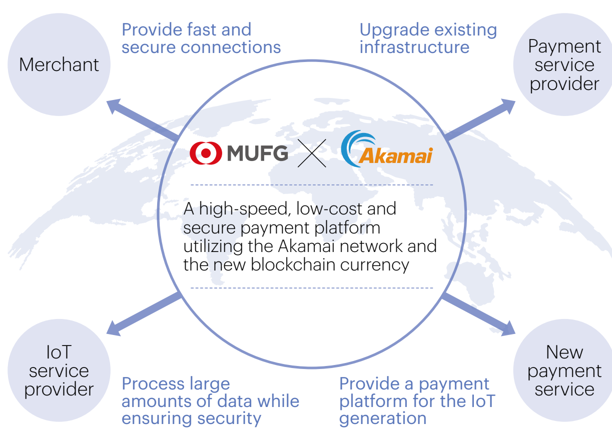
*1 Analysis of cash flows based on such data as bank account deposits and withdrawals
*2 A neologism combining "Human Resources" and "Technology"

Collaboration with Akamai Technologies, Inc. (U.S.A)

MUFG and Akamai Technologies, Inc. (Akamai), a U.S.-based cloud delivery platform, jointly developed a new blockchain-based technology boasting the capacity to process a million transactions per second and the ability to finalize transactions in less than two seconds.

Leveraging this technology, MUFG and Akamai will strive to offer diverse payment options by developing an open platform capable of supporting pay-per-use, micropayments and other upcoming payment methods that are expected to become commonplace in the IoT* generation.

* Internet of Things



Verification Testing Employing Technologies Offered by Ripple Inc. (U.S.A)

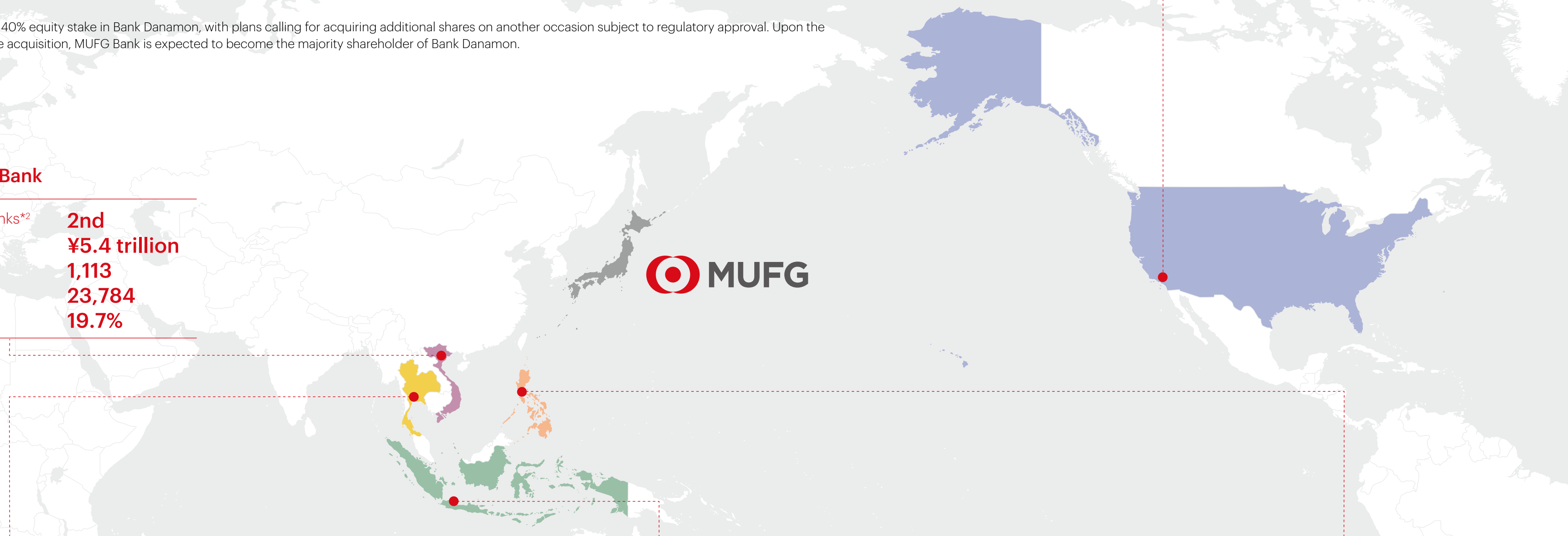
In May 2017, Bank of Ayudhya Public Company Limited (Krungsri), a subsidiary of MUFG Bank carried out a pilot test for moving real funds using software provided by Ripple Inc., with the objective of making cross-border payments more speedy and transparent. This is the first time for a Japanese company to conduct cross-border payments from Thailand to Singapore between real accounts using Ripple. We will continue to promote a variety of innovative projects in the future.

MUFG Operations Encompassing the Asia Pacific Region

Under the previous medium-term business plan, we strove to help the Bank of Ayudhya Public Company Limited (Krungsri), a consolidated subsidiary, achieve business growth while executing strategic investments in Security Bank Corporation and PT Bank Danamon Indonesia, Tbk.,*1 major commercial banks based in the Philippines and Indonesia, respectively. Thanks to these efforts, we were able to make steady progress in the development of a robust business platform encompassing regions across Southeast Asia.

Looking ahead, we will promote business operations with partner banks, including MUFG Union Bank, N.A. in the United States and VietinBank in Vietnam, helping them enhance their corporate value, stepping up efforts to create synergies and striving to raise the level of internal management at each partner bank.

*1 As of August 2018, MUFG holds 40% equity stake in Bank Danamon, with plans calling for acquiring additional shares on another occasion subject to regulatory approval. Upon the completion of the planned share acquisition, MUFG Bank is expected to become the majority shareholder of Bank Danamon.



U.S.A.: MUFG Union Bank

Ranking among domestic banks*2	13th
Total assets*3	¥27.6 trillion
Number of business bases*4	361
Number of employees*4	12,641
MUFG's equity stake*5	100.0%

Vietnam: VietinBank

Ranking among domestic banks*2	2nd
Total assets*3	¥5.4 trillion
Number of business bases*4	1,113
Number of employees*4	23,784
MUFG's equity stake*5	19.7%

Thailand: Krungsri

Ranking among domestic banks*2	5th
Total assets*3	¥6.7 trillion
Number of business bases*4	700
Number of employees*4	31,545
MUFG's equity stake*5	76.8%

Indonesia: Bank Danamon

Ranking among domestic banks*2	5th
Total assets*3	¥1.5 trillion
Number of business bases*4, *7	992
Number of employees*4	36,410
MUFG's equity stake*6	40.0%

The Philippines: Security Bank

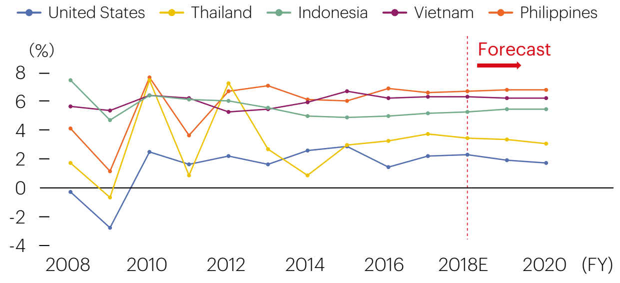
Ranking among domestic banks*2	5th
Total assets*3	¥1.7 trillion
Number of business bases*4	302
Number of employees*4	5,437
MUFG's equity stake*5	20.0%

(Source: Data publicized SNL Financial, Philippine Central Bank and Bloomberg as well as information disclosed by each partner bank)
*2 Calculated based on total assets as of December 2017. However, Krungsri's ranking among Thai banks is based on the Domestic Systemically Important Bank (D-SIBs) rankings.
*3 The sum of total assets held by each partner bank and loan balances recorded at local business bases run by MUFG Bank.
*4 As of December 2017, based on information disclosed by each partner bank and data compiled for internal managerial purposes.
*5 As of March 2018
*6 As of August 2018
*7 Excluding the number of business bases run by Adira Finance and Adira Insurance, etc.

The Market Environment Surrounding Our Partner Banks Suggests Abundant Growth Potential

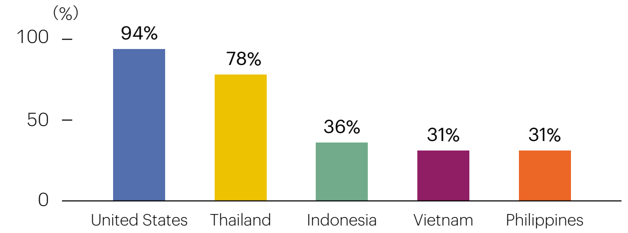
All the five countries in which our partner banks operate boast significant GDP growth and are expected to maintain GDP growth at the current level. On the other hand, the banking services penetration rate has been stagnant in such countries as Vietnam, the Philippines and Indonesia. This, in turn, suggests these countries' considerable future potential for market growth and economic expansion.

Growth of Real GDP



Source: International Monetary Fund, World Economic Outlook Database

Bank Account Penetration



Source: 2014 World Bank data

Our Track Record in Business Collaboration in the Field of Retail Settlement Services

To seize opportunities arising from burgeoning inbound marketing demand backed by constant growth in the number of tourists visiting Japan from elsewhere in Asia, we are striving to expand our lineup of settlement services.

Specifically, Mitsubishi UFJ NICOS Co., Ltd. is acting in partnership with Krungsri (Thailand), VietinBank (Vietnam) and Security Bank (the Philippines), to provide foreign tourists who hold membership cards issued by a partner bank with some of the membership privileges offered at Mitsubishi UFJ NICOS card franchise stores across Japan.

Initiatives to Create Synergies

In December 2017, we held the second round of the MUFG Global Partnership Conference to facilitate the sharing of expertise and collaboration among partner banks and MUFG Bank. With chairpersons, CEOs and other executives from partner banks attending the event, the conference focused on three key themes, namely, "collaboration in the trust banking business," "digitalization" and "businesses targeting local corporations." Engaging in active discussion, attendees from partner banks and MUFG Bank were able to discuss issues each is now confronting while exchanging insights.

Message from the CFO

Practicing Solid Financial & Capital Management: Supporting MUFG's "Re-imagining"

MUFG has just launched its new Medium-term Business Plan (MTBP). As Group CFO, it is my pleasure to explain the initiatives we will be undertaking under this plan, as well as our outlook.

August 2018

Muneaki Tokunari
Group CFO

Financial Management and Business Plan

Fiscal 2017 Business Results

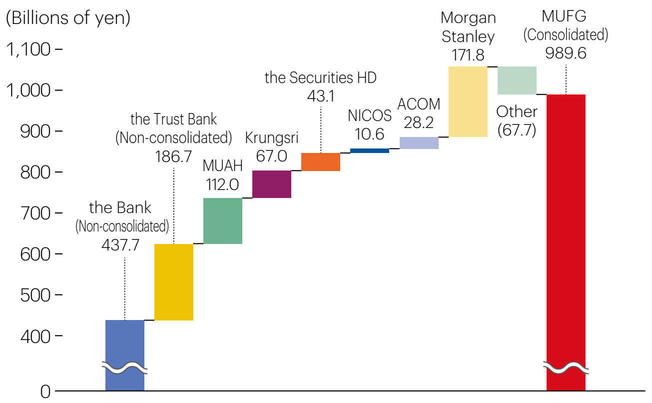
The operating environment remained tough throughout fiscal 2017, despite moderate recovery in the domestic economy. This was due to intensifying competition between lenders on the back of Japan's prolonged ultra-low interest rate environment. Overseas, robust economic growth in the United States compelled the raising of interest rates. This, in turn, triggered major fluctuations in financial markets.

Against this backdrop, MUFG's gross profits totaled ¥3,854.2 billion, down approximately 4% year-on-year. Key contributing factors included decreases in net interest income from loans and deposits in Japan and from bond portfolios, as well as a decrease in net trading profits. These offset robust revenues from loans and deposits at overseas operations.

Overall expenses rose from the previous fiscal year. While expenses associated with domestic operations fell, thanks to cost control efforts and other factors, these were offset by higher expenses for overseas operations due to matters related to complying with financial regulations.

As a result, net operating profits decreased approximately 13% year-on-year to ¥1,232.8 billion.

Breakdown of Profits Attributable to Owners of Parent*



* The above figures reflect the percentage holding in each subsidiaries and equity method investees (after-tax basis)

Credit costs decreased ¥109.2 billion compared with the previous fiscal year. This was mainly attributable to the reversal of allowance for credit losses. The balance of non-recurring gains and losses improved ¥171.1 billion from non-recurring losses in the previous fiscal year. This was due to falls in the provision of allowance for the repayment of excess credit card/ loan interest, as recorded by consumer finance subsidiaries in the same fiscal year.

Extraordinary losses totaled ¥53.0 billion, virtually unchanged from the previous fiscal year, and were mainly attributable to the impairment of branch buildings under a subsidiary bank as part of structural reforms. Some extraordinary gains were also realized, such as gains on the exchange of shares of affiliates in connection with the merger of a MUFG equity-method affiliate.

Taking all this into account, profits attributable to owners of parent totaled ¥989.6 billion, a year-on-year increase of approximately 7%, exceeding the previously announced target of ¥950.0 billion.

The breakdown of profits attributable to owners of parent shows that all key subsidiaries and affiliates, both in Japan and overseas, contributed to profits. Specifically, contributions from MUFG Americas Holdings Corporation (MUAH; the United States), Krungsri (Thailand) and Morgan Stanley together comprised approximately 35% of the profits. This is a testament to steady progress in MUFG's efforts to diversify and globalize profit sources.

Review of the Previous MTBP (fiscal 2015 – 2017)

Four financial targets were identified under the previous MTBP. Of these, the Common Equity Tier 1 (CET1) capital ratio exceeded its target. However, earnings per share (EPS), return on equity (ROE), and the expense ratio all fell short of their respective targets.

In particular, consolidated net operating profits decreased year-on-year for the third consecutive year. Over the last three years, falls in net operating profits have been significant, totaling approximately ¥440.0 billion. This has been attributable in part to the introduction of the Bank of Japan's negative interest rate policy and other external factors. However, I must admit that our actions to counter such changes were not taken as quickly or as thoroughly as conditions dictated.

Looking ahead, we expect longstanding low-growth, low-interest rate conditions to remain in place. We also forecast that Japan's structural problems attributable to its low birthrate and aging society will continue. Meanwhile, advances in digital technologies are poised to bring drastic changes to society and to the industrial sector. We therefore need to make a bold shift away from our conventional business model. Taking the above forecasts into account and in consideration of the previous MTBP's results, the MUFG Re-Imagining Strategy, specifying basic policies for structural reforms, was announced in May 2017.

These policies have been translated into concrete measures and incorporated into the new MTBP.

Financial Targets under the New MTBP

The new MTBP was formulated based on the presumption that global economic growth will decelerate. Our forecasts for the financial environment therefore include consistently low interest rates—despite the gradual shift to the normalization of central bank monetary policies in mostly developed countries.

Although the new MTBP is a three-year plan, a longer time frame is needed in order to yield sufficient effects through various structural reform measures, such as enhancing operational efficiency and reforming channels for customers. Accordingly, financial targets for fiscal 2020, the final year of the new MTBP, as well as medium- to long-term targets, have been set.

The plan specifies targets for three key indicators: ROE, the expense ratio, and CET1 capital ratio.

Of these, ROE is the most essential indicator. Our aim

Financial Targets under the New MTBP

	FY2017 results	FY2020 Targets	Medium- to long-term targets
ROE (MUFG definition)*1	7.53%	Approx. 7% to 8%	9% to 10%
Expense ratio	68.0%	Below FY2017 results	Approx. 60%
Common Equity Tier 1 capital ratio (finalized Basel III reforms basis)*2	11.7%	Approx. 11%	

*1 For details on calculation methods, please also see descriptions on ROE featured in "Financial Highlights" on page 6.
*2 Estimated Common Equity Tier 1 capital ratio reflecting the risk-weighted assets increase, as calculated on a finalized Basel III reforms basis.

Forecast Assuming Normal Economic and Financial Development in Key Regions over the Next Three Years

Economy	Japan	Modest economic recovery will continue, supported by robust corporate earnings and cyclical recovery in production
Economy	United States and Europe	The upward trend will continue on the back of improving employment, despite political and policy risks
Economy	Asia	While the economy is likely to continue maturing, overall growth will remain robust due to the expansion of the middle class and strong investment in infrastructure
Financial		Monetary policies will be gradually normalized, mainly in developed countries. However, interest rates will be kept low, reflecting lower growth rates

		2018	2019	2020
Policy interest rate*1 (%)	Japan*2	(0.1)	(0.1)	(0.1)
	U.S.A.	2.25	2.50	2.50
Long-term interest rate*1 based on 10-year government bonds (%)	Japan	0.2	0.3	0.3
	U.S.A.	2.7	2.9	2.9
Foreign exchange (rate in business plan)	US$/yen	110		
	Euro/yen	125		

*1 Policy interest rate is the closing value. Long-term interest rates are averaged for each period.
*2 Rate applicable to the policy interest rate balance of the Bank of Japan's current account deposits.

is to stably maintain a level exceeding capital cost over the medium- to long-term. Of course, we will also strive to improve EPS.

As for the expense ratio, we expect the newly introduced "Eleven Transformation Initiatives" to yield cost reduction effects totaling ¥50.0 billion for fiscal 2020. The medium- to long-term target is approximately 60%.

Solid equity capital, assessed via indicators such as the above-mentioned CET1 capital ratio, is critically important to financial institutions. With an eye to maintaining our external credit ratings at "single-A" or above, we will strive to keep our CET1 capital ratio in excess of 11%. This also factors in the increase of risk-weighted assets, as calculated on the basis of finalized Basel III reforms.

Management Resource Allocations and Risk Appetite Framework

To secure sustainable growth, the new MTBP is designed to counter the adversity by implementing Eleven Transformation Initiatives. To this end, the key for success is to realize optimal allocation of human resources, systems and facilities, and capital.

Human Resources

Expectations hold for reducing the workload equivalent of about 9,500 employees by introducing Robotic Process Automation (RPA) and Business Process Re-engineering (BPR), as well as overhauling our channels. They will also help ensure that despite the inevitable retirement of large numbers of employees hired en masse decades ago, our workforce will remain sufficiently robust without additional hiring. Furthermore, human resources will be shifted to higher-value-added operations in growth areas, such as wealth management services targeting High-End customers and real estate-related businesses.

Systems and Facilities

Regarding IT investment strategies, we are aware of the importance of striking an optimal balance between investment for maintaining existing systems and investment for promoting digitalization.

The former is essential to the long term maintenance of our financial intermediary functions as social infrastructure. The latter includes strategic investments to improve operational efficiency, and other forward-looking /experimental investments aimed at the rapid emergence of FinTech. For financial institutions, the success or failure of respective IT investments will directly impact their futures.

Capital

In addition to utilizing our capital for strategic investments, we periodically review investments in light of profitability/strategy and recover them where necessary. We will also formulate ROE plans by business group. In doing so, capital efficiency will be enhanced through the replacement of our portfolio with highly profitable assets and by the acceleration of O&D to increase profitability.

Capital is an essential component for financial institutions in two important ways: by strengthening resilience against risk and by serving as a source of revenues. At MUFG, we have clarified our risk appetite in terms of types and levels of acceptable risk. This has afforded a management framework aimed at appropriating necessary capital based on risk appetite. Thanks to this framework, we are able to connect business strategies, financial plans and risk management practices in an organic manner, thereby realizing even more transparent management.

Linking Financial Targets and Compensation

Under the new MTBP, the current compensation plans for directors and officers have been revised in a way that links financial targets and pay more closely, thus ensuring that they are even more aware of the risks and returns shared with shareholders. Specifically, with CET1 capital ratio set as a minimum requirement, compensation is determined based on degree of accomplishment in terms of ROE and expense ratio targets. Comparisons with the performance of other financial institutions will also be considered.

Compared with the prior compensation package, the currently installed package allocates a greater proportion to share-based compensation and other medium- to long-term incentives and less to cash compensation.

The Fiscal 2018 Outlook

The operating environment is expected to remain tough in fiscal 2018 due to the previously mentioned prolonged ultra-low Japanese interest rate environment and other factors. Considerable expenses for structural reforms will also be incurred. As a result, net operating profits will stay weak. The absence of one-time gains recorded in fiscal 2017 will also affect year-on-year performance. Accounting for these factors, we aim for profits attributable to owners of parent at ¥850.0 billion, down from comparable fiscal 2017 figures.

Capital Management

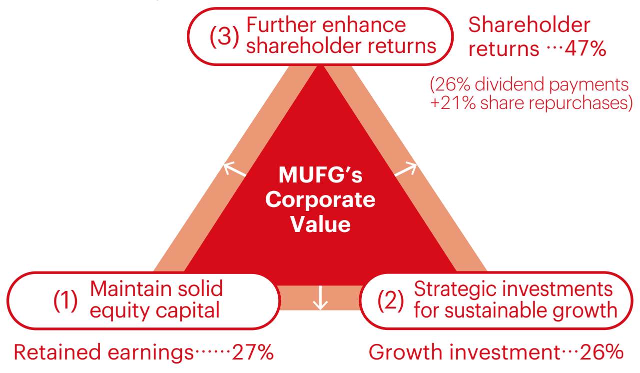
Basic Policy (Capital Triangle)

MUFG maintains a focus on capital management that appropriately balances: (1) maintaining solid equity capital, (2) strategic investments for sustainable growth, and (3) further enhancement of shareholder returns.

Capital management policies are regularly discussed as one of our most important management subjects by the Board of Directors, which is comprised of a majority of outside directors.

Over the prior three-year MTBP, profits attributable to owners of parent totaled approximately ¥2.8 trillion. Of this, funds appropriated for objectives (1), (2) and (3) listed above accounted for 27%, 26%, and 47% (26% cash dividend payments + 21% share repurchases) of the total, respectively.

Capital Triangle



(Percentages in this figure represent the appropriation of profits yielded over the course of the three-year period during the previous MTBP.)

Maintenance of Solid Equity Capital and Our Actions to Meet TLAC Requirements

As a Global-Systematically Important Bank (G-SIB), MUFG is expected to maintain its CET1 capital ratio at more than 8.5%. Moreover, new requirements will be enforced from March 31, 2020. This will mandate keeping a Total Loss Absorbing Capacity (TLAC) ratio of at least 16% as of the starting day of the mandate, and 18% after March 31, 2022.

MUFG raised various regulatory capital totaling approximately ¥1.9 trillion during fiscal 2017 to meet these requirements. MUFG also issued its first TLAC-eligible Green Bonds in Europe. We continuously strive to diversify capital funding methods.

We aim to combine these debt instruments efficiently in order to pursue what we call the "best capital mix." In doing so, we will improve ROE while satisfying regulatory requirements for capital adequacy ratios.

Total Amount of Funding (FY 2017)

AT1 perpetual subordinated debt	¥320.0 billion
Tier 2 subordinated debt	¥479.5 billion
TLAC-eligible senior debt	Approx. ¥1.1 trillion

Strategic Investments for Sustainable Growth
Strategic investment that employs excess capital is a key driver for achieving sustainable growth. As of August 2018, we hold 40% equity stake in PT Bank Danamon, with plans calling for acquiring additional shares on another occasion subject to regulatory approval, in line with our strategy aimed at seizing upon growth opportunities in Southeast Asia.

As CFO, maintaining capital discipline when making strategic investments is of primary importance. Careful examination is performed to ascertain whether the expected return from an investment will exceed the cost of capital within an allotted time frame.

Periodic reviews of existing investments are also conducted in light of strategy and capital efficiency. Most recently, we divested equity stakes in CIMB Group Holdings Berhad in Malaysia and Banco Bradesco SA in Brazil.

Results of Investment and Divestment

Stock	Investment/Divestment (Date)	Value
PT Bank Danamon (Indonesia)	Investment (December 2017, August 2018)	Approx. ¥266 billion
CIMB Group Holdings Berhad (Malaysia)	Divestment (September 2017)	Approx. ¥68 billion
Banco Bradesco SA (Brazil)	Divestment (April 2018)	Approx. ¥45 billion

(As of August 2018)

Further Enhancement of Shareholder Returns
MUFG continuously seeks to improve shareholder returns in the pursuit of maintaining solid equity capital and making strategic investments for growth, as described in the above-mentioned Capital Triangle. This has long been a staple of MUFG's fundamental stance on shareholder returns.

While maintaining this stance, as CFO I am determined to enhance shareholder returns and help fulfill our investors' expectations, as also stated in the Message from the CEO.

Basic Policies for Shareholder Returns have recently been announced in order to clarify our relevant directions. A summary of these policies follows.

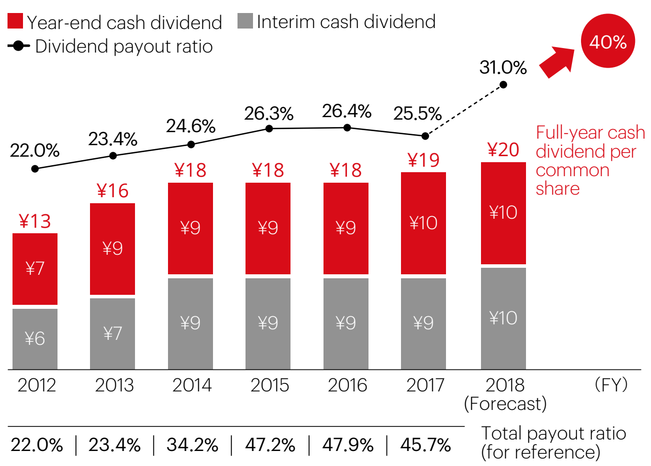
Dividends are the focus of the primary means for shareholder returns. As such, we aim for stable and sustainable increases in dividends per share, toward the payout ratio target of 40%. Plans also call for the flexible repurchase of our shares, the holding of a maximum of approximately 5% of the total issued share count, and the cancellation of shares that exceed this amount.

Based on these policies, MUFG paid a year-end dividend of ¥10 per share for fiscal 2017, an increase from the initially planned ¥9, bringing the full fiscal year total to ¥19. For fiscal 2018, a further increase to ¥20 per share is planned.

Looking ahead, MUFG will endeavor to sustainably enhance shareholder value. To this end, we aim for stable increases in dividends per share through profit growth, and for the early achievement of the above-mentioned 40% dividend payout ratio target. The flexible share repurchase effort will be carried out on an ongoing basis.

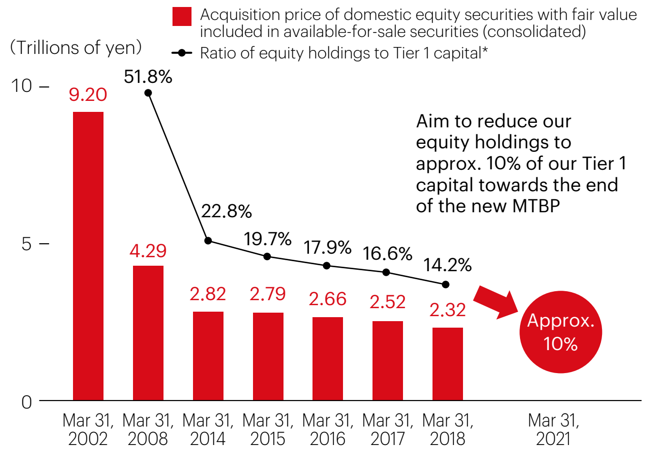
Basic Policies for Shareholder Returns	MUFG continuously seeks to improve shareholder returns, focusing on dividends in the pursuit of an optimal balance between solid equity capital and strategic investment for growth.
Dividends	MUFG aims for a stable and sustainable increase in dividends per share through profit growth, with a dividend payout ratio target of 40%.
Share Repurchases	MUFG plans to flexibly repurchase its own shares, as part of its shareholder return strategy, in order to improve capital efficiency.
Share Cancellation	In principle, MUFG plans to hold a maximum of approximately 5% of the total issued shares, and cancel shares that exceed this amount.

Results and Forecasts of Dividend per Common Stock



Divestment of Equity Holdings
Regarding equity holding divestment, ongoing policy calls for limiting the ratio of equity holdings in the total balance of Tier 1 capital to approximately 10% by the end of fiscal 2020. Under this policy, the value of divested equity holdings since fiscal 2015 now totals ¥467.0 billion. As a result, the ratio of equity holdings to total Tier 1 capital declined to 14.2%. Going forward, we aim to further divest of our equity holdings.

Reduction of Equity Holdings



* On a Basel II basis until Mar. 31, 2012 (consolidated)

Compliance with Tax Regulations and Tax Planning

MUFG recognizes that as a corporate citizen, displaying the best effort toward making appropriate tax payments is an important duty. With this in mind, the entire MUFG Group strives to enhance corporate governance with regard to tax compliance and to maintain and enhance tax compliance through, among other means, employee education and training. In practice, we strive to maintain transparency by disclosing tax information in accordance with local regulations of the countries in which we operate and, where necessary, consult with the local tax authorities in advance.

Through these initiatives, we aim to comply with the spirit of tax legislation, the BEPS Action Plan, OECD Transfer Pricing Guidelines, and other international rules on taxation. Finally, in the course of tax planning, we prioritize compliance with tax laws. In doing so, we are engaged in the appropriate payment of taxes.

Dialogue with Shareholders and Investors

Dialogue Affords Valuable Insights
For MUFG, it is very important to stably raise capital and debt from capital markets, so as to comply with financial regulations, maintain credit ratings, and secure foreign currency liquidity. Dialogue with our shareholders and investors is my primary mission, and often provides valuable opportunities to learn and to be exposed to new insights. We will continue to ensure that opinions voiced by our shareholders and investors are shared among Board members.

Enhancement of Disclosure
MUFG's operations are becoming increasingly diverse, both by region and in the types of business it handles. This, in turn, makes it difficult for people outside MUFG to get a good overview of the whole organization. We therefore believe that providing accurate and timely explanations to our stakeholders about our operations and strategies has become ever more important, and that furnishing such explanations is a prerequisite for meaningful dialogue.

In line with this belief, during fiscal 2017 we held a business strategy seminar in September 2017, where the Chief Digital Transformation Officer offered a presentation on MUFG's digital strategies.

To enhance MUFG's brand recognition among overseas investors, we changed our ticker symbol used at the New York Stock Exchange (NYSE) to "MUFG" in April 2018.

Stance on SR Initiatives, ESG Issues and SDGs
MUFG has garnered a solid reputation for its investor engagement and other IR activities, and has received several awards from the Japan Investor Relations Association, the Securities Analysts Association of Japan, and Institutional Investor magazine.

Looking ahead, we remain committed to engaging in investor dialogue, with an eye to stepping up shareholder relations (SR) activities while placing greater emphasis on environmental, social, and governance (ESG) issues, as well as such sustainability initiatives as the United Nations Sustainable Development Goals (SDGs).