

“Let’s Build New Trust” ... an Idea Whose Time Has Come

As context for this report – which integrates information and observations about MUFG’s extensive activities into a useful form for stakeholders – I would first like to share a few thoughts on our company’s deepest purpose, and on a past that informs our ideals for the future.

An Unwavering Commitment Honored for 360 Years

MUFG’s heritage dates back to an exchange bureau established more than three-and-a-half centuries ago, and is marked by major adversities overcome through skill and tenacity. These include global recessions, the rise and fall of economic bubbles, and – more recently – the financial crisis triggered by the Lehman Brothers bankruptcy. We have also undergone a number of mergers over the years. All this has contributed to our evolution into the MUFG you know today.

Over the years, as our businesses and products have evolved, one thing has remained constant: our commitment to safeguarding and enhancing the welfare of customers and society through quality financial services. Fulfilling this commitment is a requirement for earning society’s permission for us to exist – and to flourish. If we do our job right, we provide lifeblood to the economy and open the possibility for all boats to rise, including our own.

To accomplish this, we must deserve society’s trust – the bedrock of financial services. Trust demands certain fundamentals that we believe we have mastered: accurate clerical operations and stable systems that allow us to protect the assets entrusted to us; a solid financial position that enables us to provide reliable financial services; and a global force of mission-driven employees deeply committed to serving the best interests of customers.

We are grateful for the many stakeholders who express an ongoing appreciation of these MUFG strengths and the value of our services, security, and safety. And we are proud that these qualities have won the trust – and business – of many thousands of people in the 50-plus nations we serve.

Now, upon that foundation, we face an epoch of unrelenting, radical change.

Striving to Win Customer Trust, We Will Remain a Trailblazer in Terms of Innovation

With the global economy stuck in a low-growth trap, central banks around the world are applying monetary-easing policies to induce and maintain low interest rates. Developed countries are feeling the troubling effects of rapidly graying populations. A struggle for global hegemony between the United



Kanetsugu Mike
President & Group CEO

Message from the CEO

States and China is playing out through trade frictions, and some countries are seeing a disturbing rise in nationalism. The longstanding framework for international collaboration to support the global economy has been badly shaken.

Environmental and social issues are attracting public interest. So are business practices to achieve United Nations Sustainable Development Goals and to encourage Environment, Social, and Governance-oriented investment. Millennials and Generation Z are embracing new value systems and mindsets. All these forces help drive radical changes in customer behaviors.

Meanwhile, digital technologies are advancing swiftly and relentlessly, fueling disruption with breathtaking intensity – and significantly accelerating the pace of change. According to McKinsey Global Institute, the new technology of television required 13 years to grow an audience of 50 million. The publicly accessed Internet required only three years – Twitter, just nine months.

Consider how this has affected humanity. Technology is sweeping away conventions throughout society, and banks are not immune. Nontraditional players are deploying revolutionary digital technologies and innovative ideas to offer novel, convenient financial services that customers eagerly embrace.

In this environment, what manner of financial institution should MUFG aspire to be? When I assumed the role of Group CEO, I had to seriously reflect on this question. No matter how harsh the environment, of course we must maintain the highest standards of stability and trustworthiness, but at the same time we must innovate new services and user experiences to keep pace with blindingly fast changes in customer requirements.

Financial services have long fulfilled an essential function supporting economic activities and society

as a whole. MUFG should thus aspire to fulfill its unspoken social contract to be strong and trustworthy while also ensuring that it is capable of innovation.

Setting Our Sights Higher than Required

When our current medium-term business plan (MTBP) was formulated, the primary goal was to define a path – through a volatile environment – leading to sustainable growth. We concluded we need a full revival, one akin to a re-founding of MUFG. In that spirit, we launched our “MUFG Re-Imagining Strategy” in 2017. The strategy is supported by “Eleven Transformation Initiatives” that diverge significantly from the accepted ways of doing things, including how we use advanced technology.

We created the slogan – “Let’s Build New Trust” – as a banner for the work we must do while balancing two countervailing concepts. On the one hand, we must maintain customer confidence and trust. On the other, we can’t be too cautious or content with merely protecting what we have today. We must embrace the ambition to take on new things and generate new trust through constant innovation.

This means we must challenge the status quo; tailor products and services to customer needs at an unprecedented level; always prioritize customer convenience over our own; and create new innovative points of contact with them through digital technologies. When such efforts succeed in creating delight, we will be building “New Trust” and fulfilling the role I believe MUFG should aim for.

I ask our colleagues to set their sights above simply safeguarding the customer trust we have earned over the years. That trust is necessary, but not sufficient. We must also meet the challenge of building new trust by offering new products and services that satisfy the new needs of customers – old and new.

On Professional Pride, Humility and Leadership

With this being my inaugural letter to you as CEO, I felt that a personal note about the experiences that have led me to my current role would be in order.

At age 30, I entered a pivotal period of my life that would shape the arc of my career. Having graduated from the Wharton School in the U.S., I was assigned to the London branch of Mitsubishi Bank for seven years. Throughout that period, I was surrounded by colleagues of widely varied backgrounds and nationalities—a nourishing experience in diversity for anyone studying international finance, as I was at the time.

Apart from their immaculate professionalism, their genuine pride in their roles made a deep impression on me. Although they were from all over the globe, these colleagues shared certain qualities in common, including a focus on clients’ needs and carrying out their duties with resourcefulness, creativity, and excellent communication.

Collectively, they schooled me in my first real leadership—one that prepared me for what lay ahead.

By the year 2000, having returned to Japan to work in corporate banking sales for six years, I was transferred to New York and appointed deputy general manager overseeing our business with Japanese corporations. Then, five years later, I led the \$2.4 billion, 110,000-man-month project of integrating systems of The Bank of Tokyo-Mitsubishi and of UFJ Bank, the two organizations that combined to form MUFG Bank.

With no prior experience in IT, I immediately recognized the need to create a team of accomplished professionals, including system specialists, banking operators and others from across the organization who were well-versed in operations. The assignment exposed me to the impressive depth and range of MUFG’s talent bench. It also impressed upon me, through frequent engagement with senior leaders, how crucial management commitment is to success when executing critical, long-term projects.

In 2011, I was appointed officer in charge of systems and operations for the entire bank. Leading such a round-the-clock operation, which at peak could handle 100 million transactions a day—smoothly, without failure, using systems requiring constant upgrading and streamlining—was a daunting responsibility. This position gave me the chance to work with professionals who relished tackling serious challenges. It also reinforced my appreciation of IT and its irreplaceable role in finance.

Two years later, I led the latter part of MUFG’s negotiations, which had already progressed halfway, to acquire of the Bank of Ayudhya (Krungsri) in Thailand. My approach was to identify the cultural fit between the two organizations—particularly the mutual values they each cherished most—that would facilitate discussions and put us on an accelerated path to a final agreement.

In 2015, I transferred back to New York, became the regional executive for the Americas, and co-managed MUFG Union Bank and its 10,000 employees alongside our newly appointed American CEO in the United States. It was a valuable experience that exposed me to the uniquely fast-paced, dynamic approach to decision making often practiced by American executives. It also demonstrated to me the cultural importance of hiring managers sensitive to local market trends to effectively lead regional businesses.

If there is one conclusion from the sum of my experience, it’s that humility, paired with quiet confidence, is a vital trait for bankers—especially in leadership positions. It leaves a mind open to learn and improve, regardless of past accomplishments. It diverts attention to the needs and contributions of others. And, it drives one to leverage personal success for the greater good.

That is why, among all the characteristics that compose a corporate culture, the one I most sincerely wish for MUFG colleagues to exemplify is humility.

Message from the CEO

Where We Stand & Where We Aim to Go

I'd like to share some thoughts on our recent progress and the challenges we face as we continue to deploy our three-year MTBP.

Reflections on Fiscal 2018 Performance

Fiscal 2018 was the first year of this MTBP. We anticipated a year of assuming a "heads-down" stance while aiming for a turnaround in the second year and growth in the third. Accordingly, we were primed to tackle harsh conditions in fiscal 2018. However, the environment was even harsher than we had envisioned.

It is my sincere regret that we failed to meet our financial targets (which we revised upward with our November 2018 announcement of interim results) due to such factors as impairment losses from fundamentally revising our system integration plan for Mitsubishi UFJ NICOS.

As a positive, however, our overall progress on organizational transformation and business-model "re-imagining" has been steady.

We made important strides in optimizing our organization by integrating management based on our Business Groups. For example, we integrated the corporate loan-related businesses of the Bank and the Trust Bank for better collaboration and significantly increased intra-group referrals.

We also promoted digitalization strategies, jointly establishing Global Open Network with U.S.-based Akamai Technologies, Inc., an ambitious project to offer an open-payment network based on new blockchain technology we hope to eventually offer to customers.

In line with our domestic sales-channel strategy, we equipped all branches with self-service terminals, such as specialized store teller machines for paying taxes and bills, and LINKS teleconferencing systems for consulting services, while developing a branch offering an innovative user experience. We also upgraded our smartphone app to make it more customer-friendly.

Overseas, our net-interest income has increased, particularly in the Japanese corporate sector. Thailand-based Krungsri delivered stable growth, and



revenues from investor services overseas have increased under the MUFG Investor Services brand.

The Global Corporate & Investment Banking Business Group (GCIB) has curbed its balance of low-profitability assets by approximately ¥800 billion. In March 2019, we signed an agreement with Germany-based DVB Bank to acquire its aviation finance-related business, which included a solid portfolio of high-profit assets valued at more than ¥700 billion. We will continue to nurture aviation finance into the third earnings pillar of GCIB, alongside our global presence in project finance and securitization.

We have made significant progress in our inorganic strategies as well. In April 2019, Bank Danamon in Indonesia became a consolidated subsidiary, helping complete our seven-year initiative to establish a commercial banking business platform to serve key ASEAN nations. We will share expertise and pursue synergies with the partner banks in addition to

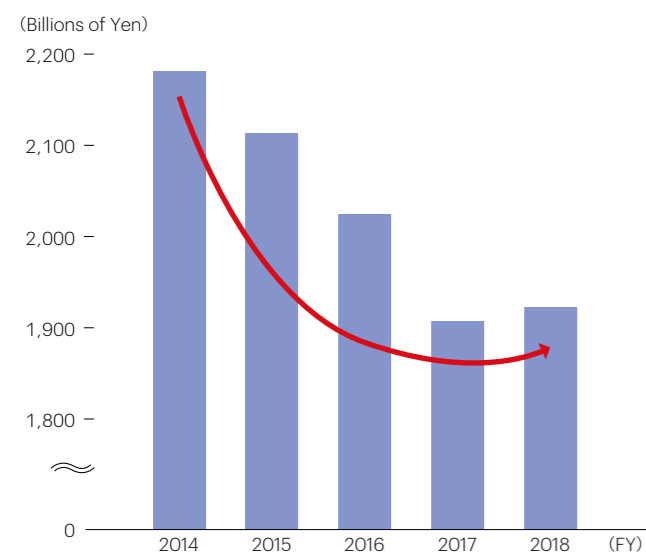
strengthening internal controls to enhance its value.

In August 2019, we completed procedures for acquiring Colonial First State Global Asset Management (CFSGAM) in Australia.

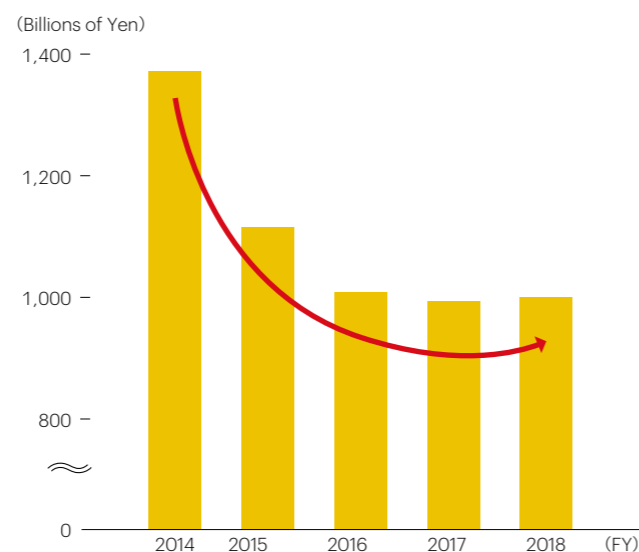
We have also taken steps to optimize our portfolio of strategic investments. As with the divestment of our shares in CIMB in fiscal 2017, we sold part or all of our shares in Standard Life Aberdeen, Banco Bradesco SA, and Dah Sing Financial Holdings.

As a result, we made two year-on-year improvements for the first time in four years. First, our net-interest income – the mainstay source of income in banking operations – has bottomed out. Second, we grew net operating profits from customer segments.

Net Interest Income



Net Operating Profits from Customer Segments



Message from the CEO

Fiscal 2019: A Turnaround Year

With this momentum, we aim for an overall turnaround in our performance in fiscal 2019, the second year of our MTBP. We will also revise strategies for some businesses that failed to meet planned milestones in fiscal 2018.

For example, the institutional investors business, especially Sales & Trading, felt negative effects from slumping stock prices and concerns about overseas credit markets. Accordingly, we should reconsider our strategies, downsize part of this business, and refocus management resources on forex, structured products, and other MUFG strengths.

The wealth management business struggled similarly in fiscal 2018. Although we believe our overall direction in this field is correct, this business has met difficulties in investment product sales. With this in mind, we must develop our platform for successful transition from a conventional business model focused on investment product sales to a new model of asset management and advisory services.

We are also stepping up cost control. We previously set a target of reducing domestic branches by 20% by the end of fiscal 2023, but we revised this target to 35%. Based on a review of bank counter, middle, and back-office operations, we are confident we can reduce the workload equivalent of more than 10,000 employees, compared with the original estimate of 9,500. We are also overhauling the entire cost structure and, to this end, considering a significant reduction in headquarters staffing.

We aim to show a turnaround in fiscal 2019 and growth in fiscal 2020. We see positive signs that indicate this outcome.

The Retail & Commercial Banking Business Group (R&C) is shifting to a business model that secures recurring revenues and is resilient despite fluctuations in the market environment. The Group is

also pushing ahead with an exhaustive reform of its cost structure and making steady progress toward a stronger financial base.

In the asset management business, R&C will reallocate hundreds of staff from the Bank to Mitsubishi UFJ Morgan Stanley Securities, which should help boost intermediary customer referrals. Similarly, it will reallocate staff in the real estate business to strengthen its overall structure.

The Group has also merged domestic commercial and retail banking offices under single branch management. This lowers costs and was accomplished 18 months ahead of schedule. By optimizing staffing, branches, and ATM networks, R&C aims to beat its cost-reduction target under the MTBP.

The Japanese Corporate & Investment Banking Business Group (JCIB) is improving its foreign currency lending/deposit gap and lending spreads, and will enhance its transaction banking functions while expanding its Origination & Distribution business.

The Group strove to upgrade its ability to propose Corporate Real Estate asset solutions, assist clients in the formulation of shareholder strategies through corporate agency services, and step up its pensions business in a way that incorporates financial strategy assistance functions by offering customers financial strategy advisory services. To this end, the Group increased the number of Product Officers to enhance its product offering capabilities.

To reduce equity holdings, the Group will accelerate negotiations with corporate clients to enter agreements by the end of fiscal 2019, ahead of schedule for divesting equity holdings earmarked under the MTBP.

The Group also established a Research & Advisory Unit in July 2019, to consolidate previously dispersed

functions and provide seamless, higher-quality intelligence and advisory services.

The Global Corporate & Investment Banking Business Group (GCIB) applied Balance Sheet Optimization for notably positive results by replacing assets in lending portfolios. Specifically, the Group stepped up monitoring transactions that failed to meet prescribed hurdles for returns on risk-weighted assets, reducing the number of low-profitability customers and raising overall transactional profits.

The Group also divested low-profitability assets while acquiring the aviation finance business described earlier as well as a supply-chain finance business in the United States, with the aim of accumulating highly profitable assets.

The Global Commercial Banking Business Group (GCB) has steadily grown overall operations thanks to the addition of Bank Danamon, along with contributions from Krungsri and its solid consumer business performance, somewhat mitigating the impact of lower revenues and profits anticipated at MUFG Union Bank.

With more than 3,000 branches operated by MUFG partner banks in ASEAN nations, the Group is positioned to draw on the dual strengths of this tremendous franchise base and the Company's global network. It aims to expand by developing a local business network serving the entire supply chain, ranging from major finished-product manufacturers seeking to expand into ASEAN nations; to their suppliers, dealers, and other local SMEs; and to retail customers such as these entities' clients and employees.

The Asset Management & Investor Services Business Group (AM/IS) expects lower profits, due to expenses associated with acquiring Colonial First State Global Asset Management (CFSGAM) and the absence of dividend income following the divestiture of Standard Life Aberdeen. However, the Group anticipates its

fiscal 2019 profits to rise year-on-year, excluding these one-off factors. Aiming to become one of the top 15 global asset managers on an assets-under-management basis, the Group will focus on working with CFSGAM on post-merger integration.

In the investor services business, the Group will expand its banking services associated with fund administration to secure a position among the global top-five firms in value of alternative funds under administration. The Group will continue upgrading its internal control systems and exercising a firm grip on costs, creating a more robust structure to support business expansion.

The Global Markets Business Group, as mentioned earlier, is considering downsizing S&T operations and shifting management resources to fields where MUFG has been strong or shows growth potential. Specifically, the Group will focus on services such as forex and asset management for institutional investors.

In treasury operations, the Group aims to grow net proceeds from sales and purchases by countering changes in external conditions, such as U.S. monetary policies. This includes reviewing its asset allocation policies for bonds and equities while engaging in hedging transactions.

Upgrading Compliance & Internal Control Systems

We are keenly aware of the exceeding importance of initiatives aimed at upgrading internal control systems that support the sales strategies and business endeavors discussed earlier.

Indeed, regulatory authorities in nations around the world – particularly in the U.S. – are calling for financial institutions to implement sophisticated financial crime countermeasures, due in part to growing public pressure.



In response, MUFG established the Global Financial Crimes Division (GFCD) in November 2017. Based in New York, GFCD is charged with supervising anti-money laundering, sanctions compliance, and anti-bribery and anti-corruption activities at business units across the enterprise. GFCD also maintains a team of experienced financial crime specialists overseeing Group operations in regions around the world. We will strengthen the organizational structure by enforcing globally unified standards at business bases in 50 countries.

In autumn 2019, Japanese financial institutions, including MUFG, will be subject to a fourth Financial Action Task Force evaluation, undergoing an important assessment of compliance and the effectiveness of our AML measures. With this in mind, in June 2019 we upgraded our “Know-Your-Customer” procedures and systems. As a crucial component of Japan’s financial system, we will maintain a firm stance against these financial crimes.

Regrettably, we recently experienced compliance-related incidents, such as market manipulation. We are seriously reflecting on these cases and are determined to address the challenge. To this end, we are rallying the enterprise and marshalling its powers to clamp down firmly on regulatory noncompliance.

Financial Services to Resolve Environmental, Social & Governance Issues

Today, growing public awareness and support of initiatives to create a sustainable society have become a major force. A broad range of businesses now actively promote Sustainable Development Goals, and ESG-oriented investment is a thriving mainstream asset-management methodology. In this method, investors select investments based on how sensitive business models are to environmental (E) and social (S) concerns, and how robustly governance (G) practices support their ideals.

With these factors taken into account, within our MTBP we identified seven high-priority issues to be addressed by MUFG in order to reach sustainable development goals – and developed initiatives to resolve them, using our financial services.

For example, we offer sustainable finance. MUFG has set a goal of ¥20 trillion for sustainable finance by fiscal 2030 (of this, ¥8 trillion will be used for environmental finance). To reach our goal, we will finance renewable energy projects and underwrite and distribute Green Bonds. We will also finance incubation projects to nurture startups and regional revitalization programs.

For another example, our revised MUFG Environmental and Social Policy Framework came into force in July 2019. MUFG will no longer finance new coal-fired power-generation projects, and we have reclassified transactions related to forestry, palm oil, and coal mining into categories requiring restrictions. In addition, we have formulated a Responsible Investment Policy to guide our asset management business and declared support for the Task Force on Climate-related Financial Disclosures. Accordingly, on page 69 of this report, we disclose figures on MUFG’s carbon-related assets. We have also undertaken analysis of climate-change scenarios to assess the possible impact of climate-change risks on our credit portfolio.

Governance Reforms—a Voyage, Not a Destination

Recently, a growing number of reports on scandals involving corporations and similar entities suggest that dysfunctional governance has been a primary cause of infractions. Given the importance of governance systems, the MUFG Group has endeavored to upgrade its since its inception in 2005 and transitioned to the “company with three committees” system to strengthen its management structure. The number of outside directors has grown from the original four members to form a majority of

our Board today. Our nine independent outside directors include three women and two foreign nationals, reflecting our commitment to diversity. In addition, all committees operating under the Board are chaired by outside directors. I, myself, was nominated as a Group CEO candidate through discussions at a series of seven Nominating and Governance Committee sessions presided over by one of these outside directors.

However, robust governance is a result of substance, not show, and requires constant upgrades in light of the business environment. MUFG still has much to do regarding upgrading its governance systems; for example, we need to enhance the overarching governance functions of a number of Group subsidiaries and affiliates operating in regions around the globe.

Ultimately, our pursuit of governance reforms is a voyage, not a destination. We are constantly evaluating ourselves and working to make our governance structure more effective.

Digitalization and Human Resource Development

It is a fact that employee engagement and empowerment are crucial to any success of structural reforms, especially on scale we are undertaking.

We expect to streamline operations, reducing our workload by the equivalent of more than 10,000 employees due to digital technology over a five-year period, but we also expect a natural headcount reduction of 6,000 at the same time. This means skill requirements for the MUFG employees will change considerably, and we face the major management challenge of offering fulfilling career opportunities to those displaced by the gaps.

Message from the CEO

We will work individually and personally to identify future career paths based on business experience, and provide training programs to equip candidates with skills and encourage them to take on rewarding new tasks.

We also will recruit and nurture tech specialists who can spearhead digital transformation and launch training programs that welcome all employees who wish to broaden their digital literacy.

In step with the globalization and diversification of our businesses, MUFG is confronting the challenge of developing future management. The importance of securing excellent candidates cannot be overstated.

To address this, we established “MUFG University” in 2018. Today, more than 200 colleagues, including executive officers and other senior management members hired in Japan and overseas, have signed up for its programs. Their common goal is to gain the global perspective and robust execution skills needed to manage Group operations via, for example, global leadership training programs hosted jointly with the Switzerland-based International Institute for Management Development.

Through personal experience, I am deeply convinced that diversity is wellspring of innovation and am determined to foster a company culture that encourages a diverse mix of individual talent to realize its full potential, regardless of gender or nationality.

Our current aim is to raise the percentage of female managers in our overall domestic managerial ranks to 24% by the end of fiscal 2020. To support their development we have also introduced joint training and mentoring programs to identify and nurture future corporate leaders among them.

My Stance on Shareholder Returns

As Group CEO, I am committed to returning profit to our shareholders. I have positioned this as an important management issue, and MUFG’s Basic Policies for Shareholder Returns announced in May 2018 has not changed since my appointment.

Although our CFO explains this subject in detail in the upcoming pages, I wish to be clear that I am determined to achieve our dividend payout ratio target of 40% at the earliest possible date. To that end, I will do my best to ensure that net operating profits, which represent MUFG’s earnings power in its mainstay operations, will see a reversal in the recent declining trend.

Also, in line with our policy of not accumulating excessive capital, I will consider executing share repurchases whenever our capital surplus is sufficient, due to factors such as the additional recording of profits or further reduction in the consumption of risk-weighted assets.

Final Words

Japan’s financial industry is navigating difficult times. Simply safeguarding what we have already built is not enough to restore healthy growth.

But, if we squarely face the facts of the future, take action on our toughest challenges and harness today’s tremendous new energy to build new trust, we can position ourselves once again for abundant opportunity.

MUFG’s customer base consists of approximately 34,000,000 retail customers and approximately 1,300,000 corporate clients. This suggests that a vast number of individuals and corporations find MUFG reliable and have entrusted us with precious and private information. This enormous customer base, built and maintained over generations, is an enviable asset, especially coveted by would-be

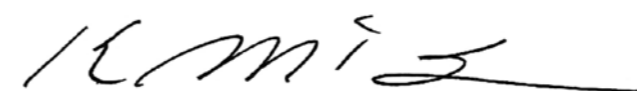
competitors entering from non-financial industries. Leveraged through advanced technologies – with updated marketing methodologies and a redefined business model – this asset can help us create even greater value.

Above all, MUFG is supported by nearly 200,000 employees operating in more than 50 nations around the world. I am confident that we can transform our enterprise if these individuals realize their full potential – and I will do my utmost to equip them.

When engaging with colleagues, I often quote from an African proverb:
“If you just want to go fast, go alone. If you want to go far, go together.”

Any team embarking toward a distant destination requires enlightened leadership. How far the team

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Kanetsugu Mike
President & Group CEO

can go depends on how well the leader encourages all members to unleash their potential. This is a core belief of mine.

MUFG aims to remain a steadfast, stable and trustworthy contributor to society 100 years from now. To this end, I pledge to work shoulder-to-shoulder with all Group members, assuming the pivotal task of deploying our talents to realize the MUFG Re-Imagining Strategy.

Standing on an unassailable foundation and stretching our imagination through relentless innovation, we will earn new trust around the globe. We ask your continued support as we strive for that goal.