

# Earning Enduring Trust



Hironori Kamezawa

President & Group CEO

The worldwide MUFG community extends our deep condolences to those who have suffered and lost loved ones due to COVID-19, and to all afflicted or affected by the coronavirus. Also our profound respect and gratitude go out to the devoted healthcare professionals and others fighting this disease at personal peril.

These concerns are not just situational for MUFG and they won't subside with a vaccine, a cure, or herd immunity. They go to the heart of our company. With fallout from the pandemic affecting real economies at home and abroad, we're more acutely aware than ever of our financial obligations – but also our mission and duty to support the social infrastructure.

Specifically, we're determined to meet customer needs through our skills and services while maintaining a sound financial base. We'll also step forward to contribute solutions addressing social issues, including dramatic changes in customer behavior accelerated by digital shift and pandemic forces.

Put simply, to prevail through this crisis, we will rally the strength of the MUFG Group to earn and deserve the trust of customers and society, regardless of environment forces and factors.

## Learning from the Pandemic

Society is operating in circumstances unthinkable just months ago. Like literally millions of others, I now often work from home and conduct most meetings via web or teleconference. Although this can seem inconvenient, my productivity has actually improved – thanks in part to more direct communication with an unprecedented number of people both inside and outside the MUFG Group, including stakeholders overseas.

Adapting to this new way of work has also produced insights, prompting me to think even more deeply than before about what's best for my community and my country. In fact, instead of being cumbersome, the work-from-home process has given me time and opportunity to reconsider how the power of our organization can help society.

These trends aren't limited to MUFG, of course. Remote working will be embraced, quickly and possibly permanently, by a wide variety of institutions. This will lead to real changes in working styles and values, and may possibly herald novel ideas about how society should function.

Changes in behavior will accelerate in countless sectors, and banking is no exception. Our customers have recognized they have access to a variety of financial services without leaving home. In fact, the volume of internet and other non-face-to-face transactions has exploded as this convenient style of banking becomes common.

*Technology as a weapon against disease.* Humans have battled viruses throughout history, but this particular battle is new. However, what's also new is our potential arsenal of weapons.

We all know vaccines and other medical treatments are key to suppressing the pandemic. But a new dawn of *digitalization*, I am convinced, can emerge as a potent weapon not just to suppress but help defeat it.

Web and teleconferencing, remote learning and remote diagnosis, digital technologies – all these can free us from physical contact. Data from mobile and other smart devices can track behavior of those infected, and pinpoint hotspots as they break out.

These technologies are on the brink of becoming fully deployed, thanks to the blazing pace of innovation over the past ten years in smartphone apps, AI, other data analyses, and ICT technologies driven by high-speed communications. It seems sure that society will embrace a massive shift to digital channels in the post-pandemic period, as people protect themselves from resurging disease.

Obviously, this tectonic shift has huge implications across society, financial services included. Recently in Japan, flaws in special cash-payment programs exposed problems in IT infrastructure and administrative processes. I believe financial institutions as a group – MUFG among them – share the responsibility for addressing them. One commendable motive is to address social issues. And so is seizing the rare chance to fundamentally change ourselves as a company.

Our customers are clearly embracing change. We should lead the way. Massive organizations like ours must shoulder – and should welcome – the challenge to reconsider how society should function, and how we should function within it. We're confronted with the question of what MUFG's *raison d'être* could and should be in a new-normal, post-pandemic society. How do we create a safe, secure, and inclusive society?

As a financial institution, we're morally bound to support society's digital shift and contribute to solving social issues. These duties predate the pandemic, but are magnified by its forces.

Message from the CEO

**MUFG’s Social Mission & Organizational Strength**

Two main points come to mind as we contemplate the power of the pandemic.

*First*, it reminds us of the profound social responsibility that financial institutions uniquely bear. Prolonged measures to prevent the spread of the virus – like restrictions on local and global movement – have stagnated social activities essential to daily life. This leads to deterioration in the real economy, and the duty falls on financial institutions to help restore and defend it. This, put simply, is our social mission.

Specifically, we have to keep funds flowing smoothly to support customer livelihoods and business activities. We also have to maintain stable operations, such as settlement services, while ensuring the safety of customers, colleagues, and other stakeholders. It seems the pandemic has served at least one positive purpose: to snap back into sharp focus this social mission we’re obliged to fulfill.

It will likely take several years to fully contain the coronavirus and calm lingering anxiety over subsequent waves. We can hardly expect society to one day crush the disease, once and for all, and simply return to our “normal” lives. Instead, we all face the future with a sense of caution, and MUFG will be called on to help reshape society in a manageable post-pandemic scenario.

*Second*, this pandemic has revealed the distinct strengths of the MUFG enterprise. Any organization’s resilience is tested during crisis, and MUFG has proven itself by responding admirably to this one.

When spearheading our Crisis Management Headquarters as the pandemic took hold, I supervised the implementation of measures to counter its threats. My colleagues rose to the challenge – spontaneously, creatively, and collaboratively – to serve our customers and society, and I have never been more proud of our team and more confident in the strength of the MUFG Group.

We have survived and thrived through various crises in the recent and distant past, including the collapse of bubble economies and the worldwide recession triggered by the Lehman Brothers bankruptcy. In each case, our steady commitment to safeguard customer and social wellbeing with quality financial services – a commitment passed down through generations – has prevailed. We’re determined to weather this crisis with the grace and strength that has earned the confidence of our customers and the trust of society for more than 360 years.

Please see pages 22 & 23 for details on our response to the COVID-19 pandemic.

**Fiscal Performance & Business-Plan Progress**

Fiscal 2019 was the second year of our current Medium-Term Business Plan (MTBP). Here are some thoughts on the outcomes of our initiatives under the MTBP, starting with operating results for fiscal 2019.

**Reflections on Fiscal 2019 Performance**

Fiscal 2019 profits attributable to owners of the parent amounted to ¥528.1 billion, down ¥344.5 billion year-on-year – severe annual financial results due mainly to one-time amortization of goodwill related to partner banks in the ASEAN region.

Despite this, we reversed the downward trend in net operating profits for the first time in the past five fiscal years. This was due to our efforts to improve capital efficiency through a firm grip on risk-weighted assets (RWAs), successfully reducing RWAs by approximately ¥9 trillion on a finalized Basel III basis. Moreover, we’ve maintained an ongoing upward trend in net operating profits from customer segments since fiscal 2018. Our efforts to secure future growth have produced solid results in many ways.

We have also worked on expense control – an ongoing issue we’ve addressed and are improving upon. There’s more to be done, but our performance metrics show headway in reversing the upward trend in costs of domestic operations.

**Reflections on the MTBP**

Moving on now to accomplishments through initiatives under the Medium-Term Business Plan:

*First*, we made progress in upgrading our groupwide, integrated management apparatus. Specifically, we enhanced our business structure to help meet diverse customer needs, with better collaboration among the Bank, the Trust Bank, and the Securities, a groupwide business strategy formulated by the holding company. For corporate clients, we’re now ranked first in the DCM League Table and have seen an approximate 10% increase in profits from the real-estate business. For individual customers, we offer solutions in asset and business succession, capturing a growing volume of transactions related to asset management, inheritance, and real-estate purchasing and sales.

*Second*, we developed and completed a commercial banking business platform to serve key ASEAN nations. By consolidating Indonesia-based Bank Danamon into our MUFG Group, our platform is now supported by four commercial banks with a formidable presence in the region. We’re pursuing growth opportunities through ASEAN economic expansion and devising a unique business model distinct from our competitors in Europe and the United States.

*Third*, we have initiatives underway to enhance operational efficiency. Our businesses that target large global corporations overseas have adopted stricter transactional profitability criteria and reduced the volume of low-profitability assets, replacing them with high-profitability assets. In the global markets business, we’ve focused on selection-and-concentration, consolidating our management resources in the types of business where our Group can best exert our unique strengths. Also, we’re prompting a channel-shift by reviewing our domestic branch networks and expanding our non-face-to-face channels. We expect this to upgrade customer convenience and propel cost-structure reforms.

We have also made steady progress in digitalization. Each business group has incorporated digitally based strategic measures to improve customer convenience and reform operational processes, and the Group is collaborating with outside partners that have strengths in multiple fields, to help us build a strong portfolio of unconventional financial services. For example, our plans call for launching a payment-network service using a new blockchain technology jointly developed by the MUFG Group and U.S.-based Akamai Technologies by the end of fiscal 2020. We will continue to collaborate with others to develop new sources of profit over the medium-to-long-term.

We have continued to upgrade our corporate governance system as well. In fiscal 2019, the Board of Directors held robust discussions on how to strengthen governance for the entire Group. At the same time, the Board is making strenuous efforts to crystalize issues they identified through their annual evaluation – and which must be addressed – and to improve the effectiveness of the Board’s operations.

Strengthening corporate governance is an abiding challenge, and it will continue to be a major emphasis for us, particularly as we embrace a sustainability-oriented management practice – the practice of managing our firm’s impact on people, the planet, and profit.

**CEO Management Policies & Strategic Emphases**

Now, a word on my management policies as CEO and areas of strategic emphasis.

MUFG has been asserting systemic changes to support sustainable growth in a harsh business environment – changes such as our Eleven Transformation Initiatives, including digitalization, under the Re-Imagining Strategy.

Looking back over the three years since launching the strategy, we see real progress in some areas, but also a need to adjust our strategy in others. Fallout from the COVID-19 pandemic will no doubt turbocharge some changes previously in progress, like digitalization and the wide-ranging workstyle reforms mentioned earlier. It will also trigger urgent calls for solutions to social issues specified in the United Nations Sustainable Development Goals. We need to revisit our current strategic initiatives and formulate growth strategies for a post-pandemic world.

Three management policies to support MUFG growth strategies in light of these factors can be described as emphases on “Digitalization,” “Resilience,” and “Engagement.”

**Digitalization**

To align with society’s digital shift, we will innovate our transactional channels for customers not only through digitalization, but by digitizing our processes and workstyles; in other words, “digitalize the way we are in our entirety” – toward a thoroughly transformed mode of business management.



**Resilience**

The current crisis pulls into sharp focus what kind of company MUFG wants to be: a financial institution that deserves trust regardless of circumstance or environment. To earn that status, we must be secure, safe, and sound as a financial institution, and deploy our resources to areas where we have a competitive edge.

**Engagement**

Finally, our management approach is built on engagement. Relentless, swirling change can be disorienting. Colleagues must understand and feel connected with their company's reforms and comfortable with its direction. I want MUFG to become more attractive, a company where colleagues feel empathy among themselves, toward the entire organization, and with customers and the community, too.

A personal priority has always been to keep business as down-to-earth as possible. So I'm committed to applying the three emphases described above to three concrete business strategies described below: *Digitalization of our Domestic Retail Business*, *Reshaping our Global Strategy*, and *Innovating our Infrastructure and Processes*.

*First*, "digitalization of our domestic retail business" means forging ahead with my first management emphasis – digitalization – through a review of all channels, including those at our branches as well as UI/UX, administrative processes, and system architecture. Although we were already shifting to non-face-to-face transactions, customer access has now suddenly accelerated due to the pandemic.

We're responding by actively promoting digitalization so customers can enjoy more convenient, safe, and secure service; we're also using digitalization to accelerate our cost-structure reform.

*Second*, "reshaping our global strategy" is related to resilience, my second management emphasis, and means optimizing our management-resource allocation to capitalize on region-specific opportunities, such as market growth potential and fields where we can take utmost advantage of our strengths. To date, such allocations have mainly taken the form of strategic investments in ASEAN commercial banks as we seek new growth opportunities to counterbalance domestic stagnation.

We have completed our ASEAN commercial banking business platform by welcoming Bank Danamon as our subsidiary. A capital and business alliance in February 2020 with Grab Holdings, a leading super-app company in Southeast Asia, demonstrates our optimization strategy – to strengthen our ASEAN platform's digitalization aspect. This alliance aims to take advantage of Grab's ability to provide local customers with ride-hailing, food delivery, payment, and other digitally-based services. In particular, we want the ability to deliver financial services in a flexible manner aligned with customers' desires and consumption behavior. This can be done by combining Grab's dynamic data capabilities and MUFG's wealth of customer and financial information, brought to bear through a super-app platform.

We also made progress in the global asset management field in fiscal 2019 by acquiring Australia-based asset manager First Sentier Investors.

*Third*, through "innovating our business infrastructure and processes," we aim to improve operational efficiency, for example by going paperless, retiring obsolete protocols that require a personal seal, and developing bespoke systems as well. These reforms are relevant to the third emphasis – engagement – through changes in our organizational culture. We will step up the development of a workplace environment and platform to foster relevant, contemporary workstyles that help colleagues find their jobs more stimulating and rewarding.

**Helping Resolve Social Issues**

The pandemic has suddenly amplified the general public's growing call for businesses to help solve social issues – in some cases raising this duty almost to the status of *raison d'être*. Accordingly, MUFG has reinvigorated our resolve as a financial institution to support the health of society. We're keenly aware of growing stakeholder expectations for us to deliver corporate growth and contribute to society's health in a sustainable manner – namely, by integrating efforts to both resolve social issues and execute our business strategies.

In this light, as a financial institution we must step up our response to climate change, given its concerns among environmental, *social*, and governance (ESG) advocates. Among the three ESG acronyms, businesses are now hearing louder voices calling for even stronger emphasis on "S" – the *Social* issues discussed above.

So far, we've addressed ESG concerns primarily through finance, our main business. In 2019, we became the first financial institution in Japan to set a numerical target for sustainable financing. In the area of "E" – the *Environment* – we have been financing renewable energy projects while underwriting and marketing "Green Bonds." In the area of "S" – *Social* – we have pursued finance projects to nurture startups, create employment, battle poverty, and support other social causes. Having set a cumulative target of ¥20 trillion over the course of the fiscal 2019 – 2030 period, we have made steady progress in the first year with a current total of ¥3.7 trillion.

We've also established our Environmental and Social Policy Framework, which helps ensure due consideration to environmental and social issues in the course of financing. In fiscal 2019, we explicitly declared we will refrain from financing new coal-fired power generation projects; we have updated this framework by expanding the scope of sectors we carefully scrutinize prior to financing, and we will continue to periodically review and refine our policies.

Message from the CEO

As mentioned earlier, the COVID-19 pandemic unmasked some poor IT infrastructure and administrative processes when executing special cash-payment programs. Some municipalities even had to resort to manual operations. As a financial institution, we must contribute to the digitalization of Japan's social infrastructure to help resolve lingering issues that have long hindered progress.

To that point, given the aging Japanese demographic, our physical branch network can reassert its popular value as a warmer, face-to-face venue for customer interaction. Our strategy is based on optimizing channels and services so all customers feel assured that high quality is available both virtually and in person – their choice.

In fiscal 2020, we appointed a Chief Sustainability Officer to upgrade our in-house structure and push ahead with the initiatives described above. We intend to step up sustainability-oriented management by reorganizing our business priorities through the lens of environmental and social concerns. We believe this will help us contribute to a virtuous cycle of resolving social issues through business activities, thereby improving corporate value.

But we don't believe these initiatives are enough. To broadly and effectively address social issues, corporate philanthropy is simply irreplaceable. MUFG has established a ¥10.0 billion investment fund to support new pharmaceuticals, regenerative medicine, and other life-science endeavors in the wake of the COVID-19 pandemic. We've also committed to donate ¥2.5 billion to help medical institutions, students struggling to make ends meet while pursuing higher education, and artists following their calling.

To fortify our approach to philanthropy, we've also developed a framework to stipulate and allocate a portion of our profits to the greater social good. We expect the MUFG Group's involvement in these initiatives not only to help society at large, but to raise our colleagues' social awareness, engagement, and contribution.

We believe our business activities must exist in tandem, and in harmony, with the pursuit of solutions for social issues.

**Management Focus on Engagement: Toward a More Attractive, Attentive Company**

To me, there's no doubt the success of reforms underway at MUFG hinges on talent. Today, corporate reforms are no longer straightforward endeavors sustainable by a single voice from the top. Rather, leaders and their teams must focus on nurturing real talent that deeply desires to make a meaningful contribution. A foremost senior management responsibility is to ensure that all colleagues play their part in pursuit of successful reforms.

My ideal MUFG is an attractive, attentive company where colleagues can work, day in and day out, at rewarding jobs in a vibrant setting. I also envision a growing community of colleagues genuinely fond of the MUFG community and willing to do their utmost for the sakes of their teams and each other. If these ideals come true, MUFG's organizational strength will increase in an inspiring fashion. I believe it's critical for everyone involved to feel they are taking part in guiding the company and for MUFG's *raison d'être* to win their hearts and minds, their support and sympathies.

These are the thoughts I put into deciding on the word "engagement" as a key element of my management policy. To my mind, a management style that engages the heart and mind is the best path – not only to sustainable growth and reforms, but also to meaningful contributions, both corporate and individual.

Throughout my daily work, I try to honor three commitments. One, act on a modest motto: "Think simple." Two, confidently delegate authority to my team members. And three, create and protect an environment where everyone feels liberated to speak their minds.

We live in a world of radical changes that demand courage and resolve. I will advocate an open-minded environment where my colleagues can exercise those qualities. I want them to share their thoughts with others and incorporate forward-looking, unconventional ideas. I want them to take on with passion the challenges entrusted to them. I hope to see a workplace of this kind flourish in every corner of our MUFG Group.

I aspire to increase the number of colleagues who understand such values wholeheartedly, through *practice* of relentless trials and errors as a team. Such experiences should, and will, lead to heartfelt *realization*, not only of what works and what doesn't, but also what the team roles they are asked to play really mean.

*Practice* and *realization* combined will elevate our team performance, inspire personal challenges, and lead to tangible business results.

And in this context, I would like to emphasize the importance of *synchronization*. Sophisticated ideas, understanding, and methodologies are indispensable to superior team performance – true enough. But the strongest organizations also depend on members' ability to excel in the roles they play – and how well they mesh – within the team. The capabilities of MUFG can best be unleashed through *synchronization* of hearts, minds, and actions.

I pledge to spearhead such an engagement-oriented management approach to maximize our potential.

**Shareholder Returns**

I hope it's clear we believe corporate value can, and must, be expressed in more dimensions than one in order to be deeply meaningful. But in the end, of course, value must ultimately be expressed in profitable returns to the investor, and clearly this remains an important management issue for MUFG. Although our fiscal 2019 operating results were harsh, we've effected a turnaround in net operating profits for the first time in five years, while maintaining an upward trend in net operating profits from customer segments. As such, we've made steady progress toward sustainable growth.

To improve ROE, a challenge we've been confronting for some time, we will exert efficiency as measured by our expense ratio, and will raise capital efficiency through firm control of RWAs. The results will support our determination for returns that correspond to our shareholders' expectations.

**In Closing**

The world community today is engaged in an unprecedented battle against the coronavirus, and my appointment to CEO coincided with its emergence, so my tenure began with overseeing responses to the pandemic. The situation has been, and will be, a challenge, as we all know. But I'm confident we'll emerge wiser and kinder and stronger.

I'm devoted to the ideal that MUFG remain a company deserving of trust from customers and society, in any environment and circumstance. Along with our own colleagues, they merit the best of us, not only through the lifeblood of financial services but as warp and weft of the social fabric.

Another ideal is achieving the right social and fiscal balance – an artful science. It demands a vibrant workplace that attracts the right talent, fosters the right attitude, inculcates the right values, sets the right standards, and defines the right goals, so *all* colleagues find their jobs rewarding. The results then accrue to other stakeholders.

With these ideals in mind as CEO, I am determined to spearhead the initiatives discussed above so our customers can see tangible changes underway at MUFG. I expect that, ultimately, all these efforts and factors will accelerate the momentum of a great company as it delivers greater value to all stakeholders, including shareholders, customers, colleagues, communities, and society as a whole.

I gratefully ask your continued support.

July 2020



**Hironori Kamezawa**  
President & Group CEO

## CEO Profile

### Practice, Realization & Synchronization

Throughout my career, I've been assigned positions that didn't exist before I assumed them. For instance, as soon as I joined the company, I was dispatched to the United States to study bond-option related operations in the markets division there. I relocated alone and spent six months closely studying how local U.S. financial institutions handled such operations. Returning to Japan, I built the bond-option business from the ground up.

Then, I was involved in the launch of ALM\*1 operations and developing new residential-mortgage loan and term-deposit products in the midst of interest-rate liberalization.

Next was a transfer to the Securities subsidiary, to launch equity-related operations amid the major turmoil of Yamaichi Securities' bankruptcy, which affected Japan's entire securities industry. For a while, I engaged in securities-dealing operations by day and interviewed potential team members by night, but even though the pace and pressure kept me busy, I found the work stimulating and fulfilling.

Eventually, I was transferred back to the Bank to launch CPM\*2. Banks worldwide had just begun to incorporate this novel management framework to control credit risk from lending and other core banking operations.

I've always felt a sense of fulfillment watching a tiny project – launched either by myself or in tandem with a handful of colleagues – grow into a robust business that needs to be passed on to a larger team or department, or even greater division.

An important lesson I learned from these experiences involves three key concepts. A successful project needs teammates who *practice* trial-and-error to accumulate knowledge, who awaken to *realize* results when the knowledge "clicks," and are

*synchronized* in mind and spirit with colleagues who share the assignment. The success of these three stages is due partly to the individual, and partly to the team.

Despite mishaps along the way, I very much enjoyed working shoulder-to-shoulder with my teammates throughout these episodes. I'm also grateful to my supervisors for choosing to trust me with a variety of duties. I've learned a lot about the importance of building a good team, including the truth that the strongest team isn't usually homogeneous. It's fortified with diverse qualities, from sharp logical minds to executional muscle.

As my career path progressed into senior positions, like a lot of others during this volatile stretch of history I've been tested by struggles far larger than my function. Soon after my appointment as General Manager of the CPM Division in 2008, the Lehman Brothers bankruptcy triggered the financial crisis. When I was serving as General Manager of the Credit Policy & Planning Division in 2011, the Great East Japan Earthquake struck. In 2012, I witnessed the repercussions of LIBOR scandals as a General Manager of the Global Markets Planning Division.

It seemed that each assignment came with another crisis potent enough to seriously damage the Company's business operations in the precise area under my supervision. My response was to focus on giving top management accurate facts and figures on the status of operations within my purview, even if it meant delivering bad news. Having executive management responsibilities myself, I knew that avoiding bad news is inviting bad business.

One of my supervisors in these tough periods used to encourage me by saying, "A crisis gives us an opportunity to prove our true organizational strength. Once you've spent enough time thinking through

what to do, just be confident and go ahead." This calls to mind the aphorism to never let a good crisis go to waste. My supervisor was right. Looking back, each one of those trying experiences helped me grow, not only professionally but personally. Each one was an opportunity.

In 2014, I was appointed Deputy Chief Executive in charge of MUFG Americas operations. This transfer came with a new challenge, too. The CRO\*3 soon resigned, and I was asked to fill that position as well. I became an expatriate for the first time at the age of 53, and found myself supervising 2,000 U.S. nationals.

This felt awkward at first, but I resolved to visit the front lines as often as possible and engage with my new colleagues face-to-face. Fortunately, I earned their support. I believe that in part, this was because I encouraged meaningful discussions on real issues – conversations based on case studies and factual figures – with a practical, realistic perspective.

After the Americas assignment, I returned to Japan and was appointed CDTO\*4 in 2017, a newly created position in charge of digital transformation. I formed a team of diverse talent from inside and outside the Group, spearheaded the digitalization of a variety of operations, and oversaw the signing of an alliance with Akamai and an investment in Grab to fuel disruptive innovation.

One thing I learned is that complexity can be the enemy of endurance, so my motto when facing difficulties became, "Think simple." There's no substitute for a concise, focused message when reaching out to people across various cultures, nationalities, and languages.

*Bringing the three key concepts together.* Repetitive *practice* is important, even if we make a mistake or

two. Indulging in static, abstract theories can hold us back, but incremental lessons from trial-and-error keep us moving forward. We shouldn't fear small failures. This leads us to *realize* – through slow or sudden revelation – the direct connection between our practical efforts and tangible outcomes in the real world. This "aha" moment then *synchronizes* the team through mutual understanding of individual roles and shared goals – which excites the heart as much as the mind.

Active dynamic, progressive teamwork *should* be exciting – it is for me, and I believe others thrive in it, too. I also believe that to create a company attractive to customers and society as a whole, first we have to enjoy what we do. We have to create a vibrant organization attractive to colleagues by offering fulfilling work that we ourselves know is worthy.

\*1 Asset Liability Management  
\*2 Credit Portfolio Management  
\*3 Chief Risk Officer  
\*4 Chief Digital Transformation Officer