

Message from the CEO

“Committed to Empowering a Brighter Future.”

Propelling Innovation



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Declaring Our Purpose

Over the past couple of years – particularly since the pandemic began to force deep institutional and behavioral changes across society – I found myself asking, “What ultimate relevant purpose should MUFG be serving today?”

We of course have long understood our practical function as a financial institution. But how we expressed our vision and mission has been hard to intuit. We needed a direct, simple phrase to capture why we take pride in our work and believe it’s vital.

So I took out a pen and wrote the following as a rough draft: “We provide safe, secure and highly convenient financial services that customers can delight in using.” Obviously, this was just a start, but it prompted opinions from others throughout the organization, and we embarked on an energetic discussion to refine our thinking.

Our fundamental question was how MUFG can equip stakeholders to deal effectively with drastic shifts in social and lifestyle norms. We agreed we feel a profound duty to act as a partner for customers and communities, moving forward alongside them, and sometimes taking the lead in instituting beneficial change.

This is how we arrived at the phrase, *Committed to empowering a brighter future*. And today, this is how we now define our purpose.

MUFG aspires to support our customers, employees, shareholders, investors and all other stakeholders in their ‘next step forward’ – whatever positive step they wish that to be; and to act as a constructive force for the earth’s natural environment and society as a whole.

As a result of this collective exercise – in itself an emblematic process of collaborative engagement – we’ve vitalized our management vision, as presented in *The MUFG Way*, and positioned our *Purpose* at its center.

Assessing Our Environment & Challenges

How then do we help our stakeholders take that next step forward?

We start by addressing two society-altering sea changes: *Digital* and *Green*.

Regarding the first, manifestations of finance’s role in a *Digital* society have clearly arrived. Money itself is morphing toward a form of pure data, so financial services are becoming a subset of digital services. Once these services are fully digitalized, data regarding consumer behavior will be handled like settlement and other transactional data. In this way, finance is becoming a ubiquitous service connected to a vast spectrum of life events and transactional scenarios.

Regarding *Green*, climate change is an existential threat to humanity, and in my view should be the highest-priority item on the international community’s agenda. For its part, the Japanese government has issued a carbon neutrality declaration, and other efforts to address the issue are gaining momentum across a variety of fields. The trend may well induce drastic structural shifts, including in the industrial sector.

Finance is playing more of a central role in these two trends, and we expect major business opportunities to emerge as a result. Some novel financial services from industry newcomers are rising in popularity, but financing must be extended safely, securely and consistently. This is why we are confident that the trust MUFG has earned over the years places us in a position of strength and stability as society navigates disruptive trends. We are also positioned to be bold innovators; the fact is, our Group operations have deep, unique capabilities to meet a wide range of needs arising from shifts in industrial structure.

We’re equipping ourselves to analyze such shifts with accuracy, and to find opportunities in trends

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like *Digital* and *Green* to fuel significant growth – for ourselves and our clientele. In the coming era, we intend to pioneer mechanisms that extract value from the digital shift, address climate-change issues and solve social problems caused by these and other forces.

Meanwhile, the traditional business environment for banking remains harsh. With slow economic expansion and low interest rates as the lingering norm, we can no longer rely on established patterns of our commercial business to generate substantial growth. In this rapidly changing environment – accelerated by pandemic-fueled upheavals – our relevance depends on more than just business-as-usual banking.

MUFG stock price reflects this severity, with a Price Book-value Ratio (PBR) persistently below 0.5. Obviously, all members of MUFG management take this issue very seriously. Two reasons explain the stagnation. First, our capital management is not efficient enough. Second, we are failing to articulate a clear path toward growth and to realizing our vision. We know prolonged low interest rates are no longer an excuse. We must openly push business-model reforms forward at an even faster pace.

Outcomes & Issues From Our Previous Three-Year Plan

Our aim throughout the three years of our previous Medium-Term Business Plan – under the banner of the MUFG Re-Imagining Strategy^{*1} – was the transition to a business model adaptable to a low interest rate environment. These three years were positioned as the first half of a six-year course of structural reforms.

So far, we've focused on integrating management structures across all MUFG Groups, such as the corporate lending operations of the Bank and the Trust Bank. We've

also promoted structural reforms using digital technologies. These efforts help optimize how we allocate resources, including management, across our enterprise.

We've expanded our overseas business portfolio as well, building on a long-term strategy that commenced in 2008 with our investment in Morgan Stanley; making the U.S.-based Union Bank a wholly-owned subsidiary that same year; and acquiring the Thailand-based Bank of Ayudhya (Krungsri) in 2013. In 2019, Indonesia-based Bank Danamon, along with Australia-based asset-management specialists First Sentier Investors (FSI), joined our constellation as subsidiaries. Our business portfolio has progressively grown more extensive, freeing us to diversify both profit sources and risks on a global basis. This portfolio of business assets equips us with a unique source of strength that no others in Japan's financial industry can claim.

To be sure, we faced other challenges as we focused on overseas expansion. For instance, the earning power of our domestic commercial banking business is ebbing. Also, our overseas acquisition strategy has focused too keenly on commercial banks that primarily handle interest-rate dependent businesses like deposits and lending. This makes our structure more sensitive to rate fluctuations and vulnerable to global interest-rate trends. Administrative costs at Head Office have also grown more burdensome, to meet growing demands of overseas regulatory compliance and support more collaboration among Group teams.

But this doesn't mean the overall direction of our MUFG Re-Imagining Strategy has been misguided. Our assessment of trends and deep social shifts at the launch of this strategy four years ago was generally correct. So was our identification of issues to address, and because the COVID-19 pandemic has since given many of them added momentum and significance, we need to gear up our efforts to adapt.

We've made steady progress on certain transformation initiatives by applying our "re-imagining" strategies. We've also identified new issues. For instance, despite headway in developing a structure to support initiatives in such businesses as wealth management, institutional investors, and Global Corporate & Investment Banking, we still face issues in monetizing each of these categories.

We also fell short of targets for ROE and expense ratio under our previous MTBP. Although these shortcomings were due in part to pandemic fallout, I attribute them more to the following: First, our plan for improving ROE depended too much on the size of profit, which we could not raise to the expected level because of low interest rates. Second, we weren't agile enough to respond quickly to changes in the environment, despite strategic adjustments we had made through our previous MTBP, to tighten cost controls and thus make us more nimble.

All members of MUFG management, myself included, share an unprecedented sense of crisis as we face the stark reality of not meeting our MTBP targets for a second consecutive term. We're very aware that in order to flourish, we must do much more than simply fortify the status quo.

What might we do?

Our New Medium-Term Business Plan

One key step was to change our approach to creating our three-year plan.

This time, we began our planning through intense, open discussions among senior leadership throughout the MUFG constellation, starting a year in advance with multiple online sessions. We examined our strengths and

obstacles to shape a shared view of our future, with not only business but also social forces sharply in mind

We agreed that MUFG's distinctive strength lies in our customer base and brand recognition, cultivated over decades, if not centuries; and also in our safe and secure financial infrastructure, our comprehensively capable Group operations and our extensive network with global reach. We respected the imperative to maintain unparalleled strength in our home market if we are to be relevant on the world stage.

On the other hand, we accepted that a number of issues need serious attention. These include our too-conservative culture – a weakness when addressing customer needs – and our lack of flexibility and executional speed.

So we devoted considerable effort in the summer of 2020 deliberating what MUFG should aim to be in these times. We did this with the emblematic backdrop of our pandemic response, which showcased our company as a resilient institution society can rely on, with trust, when society itself is struggling. Our business-group heads and their teams then began forming strategies, with outside directors invited to add their multifaceted perspectives to our lively discussions.

The result was our new Medium-Term Business Plan.

Through the next three years, this MTBP will guide our transformation into what we aspire to be: *The premier business partner that pioneers the future through the power of finance and digital services* by developing and deploying a business model aligned with *Digital*, *Green* and other pertinent megatrends.

One key word for this transformation is *speed*, which is tied to our tolerance for risk. We will always be prudent, but we cannot allow slow decision-making or excessive risk-aversion to make us hesitate to address tough changes

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head-on. So we've positioned the new MTBP as three years of new challenges and transformation beginning in 2021. We've defined three strategic pillars: *Corporate Transformation*, or changing how we operate and execute; *Strategies for Growth*, or strengthening profitability; and *Structural Reforms*, or ensuring resilience.

A primary target of our new plan is to raise ROE to 7.5% in fiscal 2023. To help achieve this, we've set associated targets for profits, expenses and risk-weighted assets (RWAs). We intend to strengthen control of our resources, solidify our domestic business revenue base and render our global business more resilient – all with the aim of being consistently capable of at least ¥1 trillion in profits attributable to owners of the parent. To be clear, this target simply represents our strong commitment to higher profits and in no way implies we will be satisfied with a ¥1 trillion level. Moreover, our ROE target of 7.5% for fiscal 2023 also is simply a milestone. Over the medium- to long-term, we aim for an ROE of 9% to 10%.

With this in mind, let me elaborate on the plan's first pillar, *Corporate Transformation*. This pillar is built on three initiatives: *Digital transformation*, *addressing environmental & social issues* and *transforming our corporate culture*.

Digital Transformation

Lifestyle norms have been radically reshaped in the past decade. We read news through electronic displays, many of them portable; we immerse ourselves in social network services; we shop at e-commerce websites that ship all manner of goods to our homes with a tap. A virtual universe of knowledge is at our fingertips. We casually and impulsively take pictures and videos with portable devices. And so on and so on. Amazing changes – but not the deliberate outcome of hard work by consumers. The transition to these digitally driven lifestyle norms

has been organic. With repeated short learning curves, transformation on the consumer side has gone pretty smoothly.

In contrast, corporations too often still rely on paper documents and physical systems that move them around. Some institutions even require customers to place personal seals on paper forms, on site and in person. Originally, these conventions were put in place to protect customers; today, they can be annoyances that drive them away. We need to rethink every process from the customer perspective and adapt to current (and impending) realities.

To transform in pace with the customer's world, we must make, and execute, decisions with precision and speed. This is why we established the Digital Service Business Group in April 2021. This group is tasked with providing highly convenient value-added customer services online (also through offline channels) using digital technologies, so our customers can conduct key transactions online, anytime, anywhere. We intend to deliver products finely tuned to diverse customer lifestyles through digital technologies as a matter of course.

The group is also spearheading across-the-board digital transformation to make us far more efficient as an organization. We will step up collaboration with external business operators to build out our Banking as a Service (BaaS) model that offers our financial functions through application programming interface (API)-based connectivity to diverse digital channels. As our first step toward this model, we entered a business alliance with NTT DOCOMO in May 2021.

Our intention is to become a financial and digital platform operator that supports the digital shift of society as a whole, in collaboration with partners where appropriate.

Addressing Environmental & Social Issues

We know MUFG's long-term health is tied to environmental and social responsibility, and management strives to balance our own growth strategies with duties. Our new MTBP steps up this approach and targets ten environmental and social priorities that each Business Group will address through its business strategies – with each strategy radiating from one of these priorities and tailored to the Business Group's specific strengths.

To address environmental issues, we announced the MUFG Carbon Neutrality Declaration*² in May 2021, a vigorous commitment – based on concrete action plans – to combat climate change. Simultaneously, we became the first financial institution in Japan to join the Net-Zero Banking Alliance (NZBA)*³ launched by the United Nations Environment Programme Finance Initiative (UNEP FI). Applying substantive input from dialogue with investors, we will identify and commit – with clarity and transparency – to specific targets for action.

We've also introduced a heightened metric for ESG-related external ratings – a new Key Performance Indicator for all executive officers, tied to their remuneration. This is meant to elicit commitment from leaders to support carbon neutrality and the effectiveness of our sustainability-oriented management philosophy.

Levering our gravitas as a business to drive decarbonization aligns with our newly stated Purpose: *Committed to empowering a brighter future*. In addition to our own 'green' commitments, we will extend an even broader range of financing to customers offering innovations and initiatives that promote carbon neutrality.

To address social issues, we're keenly focused on inclusion & diversity, and because of upheavals caused by the pandemic, we believe people are

primed to help shape an uncertain future by embracing positive social change. As an organization, we wish to seize this moment to share diverse perspectives and infuse new ideas into our own workplace, not just the market.

To improve gender diversity at our leadership levels, we've set a target of raising the ratio of women holding positions of deputy manager or higher to 18% in our Japan operations by 2023. Among officer ranks – although the current number of females is still small – three women were appointed as managing corporate executives in 2021.

The pandemic also accelerated interest in so-called "smart" workstyle systems that let employees choose working hours and locations. We believe this system encourages flexibility in career opportunities, and we intend to maintain it after the pandemic is contained.

Our plans also call for constructing a new MUFG headquarters building. We wish it to not only symbolize but actively foster innovation, diverse thinking, sharing and flexible workstyles, dovetailing with our groupwide integrated management approach.

Transforming Our Corporate Culture

Because culture touches everything we do, this is perhaps our most important transformation initiative. It's imperative that MUFG operates with an open-minded, speed-oriented global team of employees who resonate with management's vision, think and act spontaneously and welcome innovation.

Naturally, customer safety and security remain our top priorities, and are supported by conservative legacy operational rules and procedures at every level. From this perspective, our enterprise is rock-solid. But we also need an

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open perspective on innovation and initiatives that lead to transformation.

The dilemma is understandable; MUFG's corporate culture has always focused on prudence above all; this explains our insistence – at times excessive – on risk aversion, and our sluggish process of making decisions. But while prudence certainly has its place, we also need a decisive, speed-oriented culture that frees everyone to share what they think, encourages individuals and teams to take on challenges and gives second chances to those who have setbacks.

Changing a culture is probably the hardest job a leader can face, and requires relentless, honest communication. So I frequently engage directly with employees across the spectrum, in a variety of interactive settings.

For instance, in fiscal 2020, MUFG held more than 100 online town halls with 60,000 employees around the world, and along with other officers I participated in quite a few. I held fireside chats with a number of CEOs and exchanged ideas as younger colleagues listened and contributed. I also visited social entrepreneurs and engaged other high performers in various fields, with younger colleagues in attendance, to share thoughts on the future of finance. And I engaged in lively discourse with young employees who offered concrete proposals on how to improve our company. We've implemented some initiatives based on these exchanges, and I believe our robust communication may be taking real effect on how we think.

Capital Management & Shareholder Returns

In May 2021, MUFG announced our renewed target for capital management. Previously, our Common Equity Tier 1 (CET1) capital ratio was calculated using a variety of methods

encompassing the finalized Basel III reforms basis and versions of the current regulation, both including and excluding net unrealized gains on available-for-sale securities. But the lack of a single, definitive calculation method has made it hard for investors to assess MUFG's status.

So, in conjunction with our new MTBP, we've adopted a unified, easy-to-understand calculation method based on the finalized Basel III reforms, excluding net unrealized gains on available-for-sale securities, with our target for the CET1 capital ratio set at the 9.5% to 10.0% range. Premised on a CET1 capital ratio that falls within this range, we will maintain a policy of progressive dividends while making decisions on measures aimed at capital accumulation, additional shareholder returns and/or growth investments in light of prevailing circumstances.

From the perspective of capital utilization, under the previous MTBP we used capital to acquire Bank Danamon and FSI. In line with the new MTBP, we will switch our focus to securing returns from major investments we've already undertaken. However, we will consider the possibility of new investment in digital, overseas asset management and other select fields on an ongoing basis. Also, the gradual exemption of special treatment that allows our investment in Morgan Stanley to not be deducted from capital will completely expire in fiscal 2022. Therefore, we expect capital surplus to emerge during the new MTBP period.

Taking these factors into account, we will keep enhancing the content of shareholder returns under our new MTBP, with dividends as a primary vehicle. In line with our fiscal 2023 targets of profits attributable to owners of the parent of ¥1 trillion or more, and a dividend payout ratio of 40%, we will steadily raise the amount of dividends per share.

As for our dividend forecasts for fiscal 2021, we intend to pay a full-year dividend of ¥27 per share, up ¥2 per share year-on-year. With regard

to share repurchases, we have adopted a cautious stance in light of current circumstances – namely, difficulty in predicting when the pandemic will be contained – and in May 2021 decided not to execute share repurchases. But we will not remove the possibility of executing repurchases some time before the end of fiscal 2021.

I have a strong personal sense of mission to enhance MUFG's stock price and would like to see it rise to a PBR of 1. I've also incorporated MUFG's Total Shareholder Return (TSR)*4 vis-à-vis competitors as a KPI for determining my remuneration as a director. To improve MUFG's stock price, I'm determined to successfully execute our transformation imperative. I look forward to updating investors on tangible progress in our initiatives to raise the Group's growth potential and operational efficiency.

Envisioning "MUFG Has Changed!" a Year Later

As discussed earlier, we know the path to our future is paved with innovation, not the status quo. To follow the right path we must transform, and I'm confident we can.

I'm confident MUFG has the strength and potential to marshal the well-earned trust of our public, the comprehensive capabilities of our Group operations, the robust pool of our human talent, our immense base of customers and our vast global network. I'm confident we can focus these powers on deploying speed, courage and imagination to benefit our stakeholders. I'm confident we will stand out as a thriving, robust financial group in the coming era of relentless change.

The will to accomplish all this begins with each MUFG colleague thoroughly *Committed to empowering a brighter future*. Our fresh statement of *Purpose* applies to all we do, from

the most overarching strategy to the most humble routine. This idea, this ideal, inculcated in minds of all our colleagues, has the power to transform our culture, propel innovation and drive our performance to where it should be.

I pledge to spearhead this transformation so that, a year from now, we can hope to hear customers, employees, shareholders and investors attest with gratification:

"MUFG has changed!"

July 2021



Hironori Kamezawa
President & Group CEO

Notes

- *1 Business-model reforms to achieve a simple, speedy and transparent groupwide integrated management approach.
- *2 MUFG declared our commitment to reduce greenhouse gas (GHG) emissions from our investment & financing portfolio to net zero by the end of 2050, and from our own business operations by the end of 2030.
- *3 An international initiative for banks launched by the UNEP FI in April 2021 to support a commitment to reduce GHG emissions attributable to its members' investment & financing portfolios to net zero by the end of 2050.
- *4 An indicator for comprehensively measuring yields available to shareholders, TSR is calculated by dividing the sum of dividends per share and capital gains by investment in specific stock.

Reflections & Aspirations

Propelling Innovation With an Open-Minded Organization

Since assuming the office of CEO, I've promoted a policy of engagement-oriented management to challenge mindsets, open eyes and showcase how finance can play a role in society much deeper than commonly conceived.

A case in point is my "Finance of Tomorrow" initiative – where we gathered young MUFG colleagues to hear the ideas and dreams of passionate, ambitious guests from across the disciplines, driven to solve social problems with a sense of mission. This stirs the imagination, especially of our youth, on how finance can help.

Engagement like this helps us understand what society might hope for from MUFG. It stimulates thoughts on how to keep raising the bar of what "finance" might mean to the young, fertile minds who will take our company and society into the future.

I've had the priceless chance to interact with this young talent at MUFG. I'm reminded how youth seems naturally equipped with a mindset free from too many preconceptions. My generation tends to think within frameworks and boundaries of nations and organizations. But younger people are inclined to pay more attention to issues transcending these borders – universal human and social issues like inequality and environmental threats. It's thrilling to work with these nimble young minds as we brainstorm on the future of MUFG, plowing and planting a fresh field of ideas.



Outside observers often describe the MUFG culture as categorically conservative. There's truth to that. But I'd also say that, over recent years, we've grown more open, gradually transitioning to a freer-thinking culture where we can all interact naturally, across ranks, geographies and business units. To create a workplace that's fun and attractive to the types of people we need, we have to foster an environment where defenses can be safely lowered and people can share what they really think.

This is how we're transforming our culture into one with more sense of possibility, more agility, capable not only of adapting to the diversity and blinding speed of change in the world we serve, but in fact to help propel it for progress.