Management Systems
Management Systems

Group Business Management

Operational Management Framework

MUFG has adopted a Group organizational structure that features cross-integration along functional lines to deliver timely and value-added financial products and services that address the needs of a wide range of customers. This framework involves close cooperation among Group companies and is based on an integrated business group system to develop operations in line with a unified strategy. The holding company has established integrated business groups: Retail, Corporate, Global, Trust Assets, and Global Markets. This framework aims to ensure that MUFG can address customer needs with speed and accuracy.

Business Management Indicators

MUFG has formulated a system for monitoring and allocating capital across Group companies, business groups, and segments and between different categories of risk. Based on quantitative measurements of the various risks faced by MUFG using internal risk management methods, the plan guides the risk-weighted allocation of capital (economic capital) with the aim of improving the overall risk-return profile for MUFG and by ensuring the proper allocation of economic resources delivers returns that are commensurate with risk.

In addition, a risk-weighted asset (RWA) system has been formulated from the perspective of regulatory capital requirements to achieve compliance with the stricter international capital adequacy requirements to be implemented with Basel III, and this plan is managed at the business group level.

MUFG has also introduced business management indicators (capital expense-adjusted return, consolidated operating ROE, RORA, etc.) to assess and manage risk-weighted profitability and capital productivity at each business group and strives to raise the Group’s overall capital efficiency (risk-return management).

Glossary of terms:

- **Capital expense-adjusted return** is a post-tax performance indicator (derived from Japanese GAAP data) equal to segment net income* minus regulatory capital expense in which interest and dividend expense is counted. MUFG aims to build corporate value over the medium term and long term by assessing the returns from business development after fully taking into account the costs of capital procurement and dividend policies (the expected return for shareholders).
- **Consolidated operating ROE** is a post-tax performance indicator (derived from Japanese GAAP data) equal to segment net income divided by the value of allocated capital. MUFG pursues higher returns on capital by seeking to maximize the returns generated from allocated capital at each business group and segment.
- **RORA** is a post-tax performance indicator (derived from Japanese GAAP data) equal to segment net income divided by the segment’s risk assets. MUFG pursues profitability and efficiency that are commensurate with risk assets.

* Segment net income = Net operating profits + Adjustments for capital investment + Other net non-recurring gains (losses) + Extraordinary gains (losses) – Income taxes – Gains (losses) from minority interests

Risk-Return Management

<table>
<thead>
<tr>
<th>Overall Group</th>
<th>By Group company, business group, or other segments</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>(Numerator)</strong></td>
<td>Return</td>
</tr>
<tr>
<td><strong>(Denominator)</strong></td>
<td>Economic capital</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital allocation plan</td>
<td>Economic capital allocated across companies, business groups, and segments</td>
</tr>
<tr>
<td></td>
<td>RWA plan</td>
</tr>
<tr>
<td></td>
<td>Management at company and business group level</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital expense-adjusted return, consolidated operating ROE, RORA</td>
<td></td>
</tr>
</tbody>
</table>

- Assessment of risk-weighted profitability and capital productivity
- Application to performance assessment
Overview of Internal Capital Adequacy Assessment Process

The holding company regularly assesses its internal capital adequacy from two perspectives: regulatory capital, based on capital adequacy regulations (Basel III), and its own economic capital, based on internal risk assessment.

In assessing internal capital adequacy based on regulatory capital, the holding company confirms that it is maintaining sufficient capital both at the current time and in terms of what will be required in the future, calculating the Common Equity Tier 1 ratio, the Tier 1 ratio, and the total capital ratio using capital and risk-adjusted assets as stipulated in the capital adequacy regulations. At the same time, the holding company confirms that it is maintaining appropriate capital relative to risk using the benchmark of a “Common Equity Tier 1 ratio of at least 9.5%,” which has been designated from the perspective of risk management and is included as a target in the Group’s medium-term business plan.

Internal capital adequacy assessment based on economic capital is carried out within the framework of the capital allocation system, which allocates capital to credit risk, strategic equity portfolio risk, market risk, and operational risk.

Credit concentration risk and interest rate risk in the banking book, as stipulated by the Second Pillar of Basel, are included in these risks. The method of calculating each risk under the capital allocation system uses the basic assumptions of a confidence level of 99.9% and a holding period of one year to enhance consistency with Basel III. The capital allocation plan is formulated after assessing internal capital adequacy by comparing the total risk amount, taking into account the effect of risk diversification, with total capital (Tier 1 capital + Tier 2 capital). Thereafter, internal capital adequacy is monitored on an ongoing basis by regularly checking the use of allocated capital versus the plan and the amount of allocated capital versus total capital.

Both the regulatory capital plan and the economic capital plan are stress-tested and are prepared based on a detailed analysis of the impact on capital and risk as well as an assessment of internal capital adequacy.

The same framework for the assessment of internal capital adequacy used at the holding company is applied at the Group’s two main banks: The Bank of Tokyo-Mitsubishi UFJ, Ltd., and Mitsubishi UFJ Trust and Banking Corporation.

Required Regulatory Capital Adequacy Levels (%)

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Common Equity Tier 1</td>
<td>3.5</td>
<td>4.0</td>
<td>4.5</td>
<td>5.5</td>
<td>6.5</td>
<td>7.5</td>
<td>8.5</td>
</tr>
<tr>
<td>Tier 1 ratio</td>
<td>4.5</td>
<td>5.5</td>
<td>6.0</td>
<td>7.0</td>
<td>8.0</td>
<td>9.0</td>
<td>10.0</td>
</tr>
<tr>
<td>Total capital ratio</td>
<td>8.0</td>
<td>8.0</td>
<td>8.0</td>
<td>9.0</td>
<td>10.0</td>
<td>11.0</td>
<td>12.0</td>
</tr>
</tbody>
</table>

Note: Based on G-SIFIs surcharge of 1.5%.

Common Equity Tier 1 Ratio Requirements

%  

8.5  

7.0  

6.0  

5.0  

4.5  

4.0  

3.5  

0  

March 2013  

March 2014  

March 2015  

March 2016  

March 2017  

March 2018  

March 2019 and beyond  

*1 G-SIFIs surcharge  
This surcharge is an additional capital adequacy requirement placed on financial institutions designated as global systemically important financial institutions. The designation of covered financial institutions and the surcharge rates are updated annually. The 1.5% shown in the accompanying chart is the surcharge rate announced in 2013 that is expected to be required of MUFG.

*2 Capital conservation buffer  
This buffer seeks to maintain capital that can be drawn upon during times of stress, and banks are required to hold this buffer to avoid falling below minimum regulatory capital levels. The required buffer is 2.5% of risk-weighted assets on a Common Equity Tier 1 capital basis. In the event the levels shown in the chart cannot be maintained, certain restrictions would be imposed on measures associated with the distribution of capital, such as the payment of dividends or the repurchase of shares.
Overview of Stress Testing Process

(1) Development of Stress Testing Scenarios
Develop several scenarios taking into account such factors as our risk profile and underlying macroeconomic environment.
- A worst-in-a-decade scenario and worst-in-a-quarter-century scenarios are developed in principle and some additional scenarios are developed where necessary.

Prepare macroeconomic variables for the testing horizon under each scenario.
- Macroeconomic variables include GDP, TOPIX, JGB yield, dollar-yen exchange rate, euro-yen exchange rate, unemployment rate, CPI, and others.

(2) Review and Approval Process of the Scenarios
Scenarios developed under process (1) are reviewed by our internal committee and ultimately approved by our Chief Risk Officer.

(3) Estimation of Financial Impact
Estimate stress impacts on major assets and income based on the scenarios approved in process (2).
- Major items estimated include credit cost, losses on write-down on equity securities, net gains/losses on equity securities, net interest income, risk-weighted assets, and others.

(4) Assessment of Capital Adequacy
Assess capital adequacy of both regulatory and economic capital, calculating the following ratios/amounts based on the stress impacts estimated in process (3).
- Regulatory Capital: Common Equity Tier 1 ratio, Tier 1 ratio, and total capital ratio
- Economic Capital: Capital margin (difference between total capital and total risk amount)

Stress testing results are reviewed by the Corporate Risk Management Committee.
Risk Management

Numerous changes in our business environment have occurred as a result of globalization of the financial industry, the advancement of information technology, and changes in economic conditions. We aim to be a global and comprehensive financial group encompassing leading commercial and trust banks, and securities firms. Risk management plays an increasingly important role as the risks faced by financial groups such as us increase in scope and variety.

We identify various risks arising from businesses based on uniform criteria, and implement integrated risk management to ensure a stronger financial condition and to maximize shareholder value. Based on this policy, we identify, measure, control and monitor a wide variety of risks so as to achieve a stable balance between earnings and risks. We undertake risk management to create an appropriate capital structure and to achieve optimal allocation of resources.

Risk Classification

At the holding company level, we broadly classify and define risk categories faced by the Group including those that are summarized below. Group companies perform more detailed risk management based on their respective operations.

<table>
<thead>
<tr>
<th>Type of Risk</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit Risk</td>
<td>The risk of financial loss in credit assets (including off-balance sheet instruments) caused by deterioration in the credit conditions of counterparties. This category includes country risk.</td>
</tr>
<tr>
<td>Market Risk</td>
<td>Market risk is the risk of financial loss where the value of our assets and liabilities could be adversely affected by changes in market variables such as interest rates, securities prices and foreign exchange rates. Market liquidity risk is the risk of financial loss caused by the inability to secure market transactions at the required volume or price levels as a result of market turbulence or lack of trading liquidity.</td>
</tr>
<tr>
<td>Liquidity Risk</td>
<td>The risk of incurring loss if a poor financial position at a group company hampers the ability to meet funding requirements or necessitates fund procurement at interest rates markedly higher than normal.</td>
</tr>
<tr>
<td>Operational Risk</td>
<td>The risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events.</td>
</tr>
<tr>
<td>Operations Risk</td>
<td>The risk of incurring loss that might be caused by negligence of correct operational processing, or by incidents or misconduct by either officers or staff, as well as other similar risks.</td>
</tr>
<tr>
<td>Information Asset Risk</td>
<td>The risk of loss caused by loss, alteration, falsification or leakage of information, or by destruction, disruption, errors or misuse of information systems, as well as other similar risks.</td>
</tr>
<tr>
<td>Legal Risk</td>
<td>The risk of loss due to failure to comply with applicable laws and regulations, adequately evaluate contractual rights and obligations, or appropriately deal with disputes, as well as other similar risks.</td>
</tr>
<tr>
<td>Reputation Risk</td>
<td>The risk of loss due to deterioration in reputation as a consequence of the spread of rumors among customers or in the market, or as a consequence of inadequate response to a particular circumstance by MUFG, as well as other similar risks.</td>
</tr>
</tbody>
</table>

Risk Management System

We have adopted an integrated risk management system to promote close cooperation among the holding company and group companies. The holding company and the major subsidiaries (which include BTMU, MUTB and MUSHD) each appoint a chief risk officer and establish an independent risk management division. The board of directors of the holding company determines risk management policies for various type of risk based on the discussions at, and reports and recommendations from, committees established specially for risk management purposes. The holding company has established committees to assist management in managing risks relevant to the Group. Following the fundamental risk management policies determined by the board of directors, each group company establishes its own systems and procedures for identifying, analyzing and managing various types of risks from both quantitative and qualitative perspectives. The holding company seeks to enhance groupwide risk identification, to integrate and improve the Group’s risk management system and related methods, to maintain asset quality, and to eliminate concentrations of specific risks.

The diagram on the next page summarizes our integrated risk management framework.
Crisis Management Framework

In order to have a clear critical response rationale and associated decision-making criteria, we have developed systems designed to ensure that our operations are not interrupted or can be restored to normal quickly in the event of a natural disaster or system failure so as to minimize any disruption to customers and markets. A crisis management team within the holding company is the central coordinating body in the event of any emergency. Based on information collected from crisis management personnel at the major subsidiaries, this central body would assess the overall impact of a crisis on the Group’s business and establish task forces that could implement all countermeasures to restore full operations. We have business continuity plans to maintain continuous operational viability in the event of natural disasters, system failures and other types of emergencies. Regular training drills are conducted to upgrade the practical effectiveness of these systems.

Recognizing that our operations particularly in Japan are subject to the risk of earthquakes and other natural disasters as well as accidents resulting from such disasters, including a sudden massive blackout in major metropolitan areas in Japan, and that our contingency plans may not address all eventualities that may occur in the event of a material disruption to our operations, we have been conducting a comprehensive review of our existing business continuity plans to more effectively respond to such extreme scenarios, and continue to contemplate and implement measures to augment our current business continuity management framework, including enhancing our off-site back-up data storage and other information technology systems.

Implementation of Basel Standards

Basel II, as adopted by the FSA, has been applied to Japanese banks since March 31, 2007. Certain provisions of Basel III were adopted by the FSA effective March 31, 2013 for Japanese banking institutions with international operations conducted by their foreign offices. Basel III is based on Basel II’s comprehensive regulatory framework which is built on “three pillars”: (1) minimum capital requirements, (2) the self-regulation of financial institutions based on supervisory review process, and (3) market discipline through the disclosure of information. Based on the Basel principles, MUFG has adopted the Advanced Internal Ratings-Based Approach to calculate its capital requirements for credit risk since March 31, 2009. The Standardized Approach is used for some subsidiaries that are considered to be immaterial to our overall capital requirements, and MUFG Americas Holdings Corporation (MUAH) has adopted a phased rollout of the Internal Ratings-Based Approach. MUFG has adopted the Advanced Measurement Approach since March 31, 2012 to calculate its capital requirements for operational risk, except that we use the Basic Indicator Approach for entities that are deemed to be less important in the calculation of the operational risk equivalent amount and for entities that are still preparing to implement the Advanced Measurement Approach. As for market risk, MUFG has adopted the Internal Models Approach mainly to calculate general market risk and adopted the Standardized Measurement Method to calculate specific risk.

In response to the recent financial crisis, the Group of Central Bank Governors and Heads of Supervision has made a series of announcements regarding the new global regulatory framework, which has been referred to as “Basel III,” to strengthen the regulation, supervision and risk management of the banking sector. Various Basel III measures are being phased in from the calendar year 2013, including those designed to raise the level of minimum capital requirements and to establish an internationally harmonized leverage ratio and a global minimum liquidity standard. In addition, the Basel Committee on Banking Supervision has proposed additional loss absorbency requirements to supplement the Common
Equity Tier 1 capital requirement ranging from 1% to 3.5% for global systemically important banks, or G-SIBs, depending on the bank’s systemic importance. The Financial Stability Board identified us as a G-SIB in its most recent annual report published in November 2013, and indicated that, as a G-SIB, we would be required to hold an additional 1.5% of Common Equity Tier 1. The group of banks identified as G-SIBs is expected to be updated annually, and the first group of G-SIBs to which the stricter capital requirements will initially be applied is expected to be identified in 2014. The stricter capital requirements are expected to be implemented in phases between January 1, 2016 and December 31, 2018 and will become fully effective on January 1, 2019.

Based on the Basel III framework, the Japanese capital ratio framework has been revised to implement the more stringent requirements, which are being implemented in phases beginning on March 31, 2013. Likewise, local banking regulators outside of Japan, such as those in the United States, have revised or are expected to revise the capital and liquidity requirements imposed on our subsidiaries and operations in those countries to implement the more stringent requirements of Basel III as adopted in those countries. We intend to carefully monitor further developments with an aim to enhance our corporate value and maximize shareholder value by integrating the various strengths within the MUFG Group.

Credit Risk Management

Credit risk is the risk of losses due to deterioration in the financial condition of a borrower. We have established risk management systems to maintain asset quality, manage credit risk exposure and achieve earnings commensurate with risk.

Our major banking subsidiaries (which include BTMU and MUTB) apply a uniform credit rating system for asset evaluation and assessment, loan pricing, and quantitative measurement of credit risk. This system also underpins the calculation of capital requirements and management of credit portfolios. We continually seek to upgrade credit portfolio management, or CPM, expertise to achieve an improved risk-adjusted return based on the Group’s credit portfolio status and flexible response capability to economic and other external changes.

Credit Risk Management System

The credit portfolios of our major banking subsidiaries are monitored and assessed on a regular basis by the holding company to maintain and improve asset quality. A uniform credit rating and asset evaluation and assessment system is used to ensure timely and proper evaluation of all credit risks.
Under our credit risk management system, each of our subsidiaries in the banking, securities, consumer finance, and leasing businesses, manages its respective credit risk on a consolidated basis based on the attributes of the risk, while the holding company oversees and manages credit risk on an overall groupwide basis. The holding company also convenes regular committee meetings to monitor credit risk management at banking subsidiaries and to issue guidance where necessary.

Each major banking subsidiary has in place a system of checks and balances in which a credit administration section that is independent of the business promotion sections screens individual transactions and manages the extension of credit. At the management level, regular meetings of the Credit & Investment Management Committee and related deliberative bodies ensure full discussion of important matters related to credit risk management. Besides such checks and balances and internal oversight systems, credit examination sections also undertake credit testing and evaluation to ensure appropriate credit risk management.

**Credit Rating System**
MUFG and its major banking subsidiaries use an integrated credit rating system to evaluate credit risk. The credit rating system consists primarily of borrower rating, facility risk rating, structured finance rating and asset securitization rating.

Country risk is also rated on a uniform groupwide basis. Our country risk rating is reviewed periodically to take into account relevant political and economic factors, including foreign currency availability.

Risk exposure for small retail loans, such as residential mortgage loans, is managed by grouping loans into various pools and assigning ratings at the pool level.

**Borrower Rating**
Our borrower rating classifies borrowers into 15 grades based on evaluations of their expected debt-service capability over the next three to five years.

**Facility Risk Rating**
Facility risk rating is used to evaluate and classify the quality of individual credit facilities, including guarantees and collateral. Ratings are assigned by quantitatively measuring the estimated loss rate of a facility in the event of a default.

**Structured Finance Rating and Asset Securitization Rating**
Structured finance rating and asset securitization rating are used to evaluate and classify the quality of individual credit facilities, including guarantees and collateral, and focus on the structure, including the applicable credit period, of each credit facility. In evaluating the debt service potential of a credit facility, we scrutinize its underlying structure to determine the likelihood of the planned future cash flows being achieved.

**Pool Assignment**
Each major banking subsidiary has its own system for pooling and rating small retail loans designed to reflect the risk profile of its loan portfolios.

**Asset Evaluation and Assessment System**
The asset evaluation and assessment system is used to classify assets held by us according to the probability of collection and the risk of any impairment in value based on borrower classifications consistent with the borrower ratings and the status of collateral, guarantees, and other factors.

The system is used to conduct write-offs and allocate allowances against credit risk in a timely and adequate manner.

**Quantitative Analysis of Credit Risk**
MUFG and its major banking subsidiaries manage credit risk by monitoring credit amount and expected losses, and run simulations based on internal models to estimate the maximum amount of credit risk. These models are used for internal management purposes, including loan pricing and measuring economic capital.

When quantifying credit risk amounts using the internal models, MUFG and its major banking subsidiaries consider various parameters, including probability of default, or PD, loss given default, or LGD, and exposure at default, or EAD, used in their borrower ratings, facility risk ratings and pool assignments as well as any credit concentration risk in particular borrower groups or industry sectors. MUFG and its major banking subsidiaries also share credit portfolio data in appropriate cases.

**Glossary of terms:**

- **PD (Probability of Default)**
  The estimated default rate or the probability that the borrower will default. The definition of default is nonperformance in payments of interest or principal in the narrow sense; however, in quantifying credit risk, a wider definition of default is used.

- **LGD (Loss Given Default)**
  The percentage loss at time of default, or in other words, the estimated percentage of loss on loan when a borrower defaults due to bankruptcy or other reasons.

- **EAD (Exposure at Default)**
  The amount expressed in relevant currency of exposure to loss at time of default, or in other words, the estimated amount of exposure to loss on loan when a borrower defaults due to bankruptcy or other reasons.
### Definition of MUFG Borrower Rating

<table>
<thead>
<tr>
<th>Borrower Rating</th>
<th>Definition</th>
<th>Borrower Category</th>
<th>NPL Classifications under FRL</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>The capacity to meet financial commitments is extremely certain, and the borrower has the highest level of creditworthiness.</td>
<td>Normal</td>
<td>Normal claims</td>
</tr>
<tr>
<td>2</td>
<td>The capacity to meet financial commitments is highly certain, but there are some elements that may result in lower creditworthiness in the future.</td>
<td>Normal</td>
<td>Normal claims</td>
</tr>
<tr>
<td>3</td>
<td>The capacity to meet financial commitments is sufficiently certain, but there is the possibility that creditworthiness may fall in the long run.</td>
<td>Normal</td>
<td>Normal claims</td>
</tr>
<tr>
<td>4</td>
<td>There are no problems concerning the capacity to meet financial commitments, but there is the possibility that creditworthiness may fall in the long run.</td>
<td>Normal</td>
<td>Normal claims</td>
</tr>
<tr>
<td>5</td>
<td>There are no problems concerning the capacity to meet financial commitments, and creditworthiness is in the middle range.</td>
<td>Normal</td>
<td>Normal claims</td>
</tr>
<tr>
<td>6</td>
<td>There are no problems concerning the capacity to meet financial commitments presently, but there are elements that require attention if the situation changes.</td>
<td>Normal</td>
<td>Normal claims</td>
</tr>
<tr>
<td>7</td>
<td>There are no problems concerning the capacity to meet financial commitments presently, but long-term stability is poor.</td>
<td>Normal</td>
<td>Normal claims</td>
</tr>
<tr>
<td>8</td>
<td>There are no problems concerning the capacity to meet financial commitments presently, but long-term stability is poor, and creditworthiness is relatively low.</td>
<td>Normal</td>
<td>Normal claims</td>
</tr>
<tr>
<td>9</td>
<td>The capacity to meet financial commitments is somewhat poor, and creditworthiness is the lowest among “Normal” customers.</td>
<td>Normal</td>
<td>Normal claims</td>
</tr>
<tr>
<td>10-12</td>
<td>Borrowers who must be closely monitored because of the following business performance and financial conditions: (1) Borrowers who have problematic business performance, such as virtually delinquent principal repayment or interest payment; (2) Borrowers whose business performance is unsteady, or who have unfavorable financial conditions; (3) Borrowers who have problems with loan conditions, for whom interest rates have been reduced or shelved.</td>
<td>Close watch</td>
<td>Claims under close observation</td>
</tr>
<tr>
<td>10</td>
<td>Although business problems are not serious or their improvement is seen to be remarkable, there are elements of potential concern with respect to the borrower’s management, and close monitoring is required.</td>
<td>Close watch</td>
<td>Claims under close observation</td>
</tr>
<tr>
<td>11</td>
<td>Business problems are serious, or require long-term solutions. Serious elements concerning business administration of the borrower have emerged, and subsequent debt repayment needs to be monitored closely.</td>
<td>Close watch</td>
<td>Claims under close observation</td>
</tr>
<tr>
<td>12</td>
<td>Borrowers who fall under the criteria of Rating 10 or 11 and have a loan concession granted. (Borrowers who have “Loans contractually past due 90 days or more.” As a rule, delinquent borrowers are categorized as “Likely to Become Bankrupt,” but the definition here applies to borrowers delinquent for 90 days or more because of inheritance and other special reasons.)</td>
<td>Close watch</td>
<td>Claims under close observation</td>
</tr>
<tr>
<td>13</td>
<td>Borrowers who pose a serious risk with respect to debt repayment, loss is likely to occur in the course of transactions. While still not bankrupt, these borrowers are in financial difficulty, with poor progress in achieving restructuring plans, and are likely to become bankrupt in the future.</td>
<td>Likely to become bankrupt</td>
<td>Claims over bankrupt or virtually bankrupt borrowers</td>
</tr>
<tr>
<td>14</td>
<td>While not legally bankrupt, borrowers who are considered to be virtually bankrupt because they are in serious financial difficulty and have no prospects for an improvement in their business operations.</td>
<td>Virtually bankrupt</td>
<td>Claims over bankrupt or virtually bankrupt borrowers</td>
</tr>
<tr>
<td>15</td>
<td>Borrowers who are legally bankrupt (i.e., who have no prospects for continued business operations because of non-payment, suspension of business, voluntary liquidation, or filing for legal liquidation).</td>
<td>Bankrupt</td>
<td>Claims over bankrupt or virtually bankrupt borrowers</td>
</tr>
</tbody>
</table>
Loan Portfolio Management
We aim to achieve and maintain levels of earnings commensurate with credit risk exposure. Products are priced to take into account expected losses, based on the internal credit ratings.

We assess and monitor loan amounts and credit exposure by credit rating, industry and region. Portfolios are managed to limit concentrations of risk in specific categories in accordance with our Large Credit Guidelines.

To manage country risk, we have established specific credit ceilings by country. These ceilings are reviewed when there is a material change in a country’s credit standing, in addition to being subject to a regular periodic review.

Continuous CPM Improvement
With the prevalence of securitized products and credit derivatives in global markets, we seek to supplement conventional CPM techniques with advanced methods based on the use of such market-based instruments.

Through credit risk quantification and portfolio management, we aim to improve the risk return profile of the Group’s credit portfolio, using financial markets to rebalance credit portfolios in a dynamic and active manner based on an accurate assessment of credit risk.
**Risk Management of Strategic Equity Portfolio**

Strategic equity investment risk is the risk of loss caused by a decline in the prices of our equity investments.

We hold shares of various corporate clients for strategic purposes, in particular to maintain long-term relationships with these clients. These investments have the potential to increase business revenue and appreciate in value. At the same time, we are exposed to the risk of price fluctuation in the Japanese stock market. For that reason, in recent years, it has been a high priority for us to reduce our equity portfolio to limit the risks associated with holding a large equity portfolio, but also to respond to applicable regulatory requirements as well as increasing market expectation and demands for us to reduce our equity portfolio. We are required to comply with a regulatory framework that prohibits Japanese banks from holding an amount of shares in excess of their adjusted Tier 1 capital after September 2006.

We use quantitative analysis to manage the risks associated with the portfolio of equities held for strategic purposes. According to internal calculations, the market value of our strategically held (Tokyo Stock Exchange-listed) stocks (excluding foreign stock exchange-listed stocks) as of March 31, 2014 was subject to a variation of approximately ¥3.66 billion when TOPIX index moves one point in either direction.

We seek to manage and reduce strategic equity portfolio risk based on such types of simulation. The aim is to keep this risk at appropriate levels compared with Tier 1 capital while generating returns commensurate with the degree of risk exposure.

**Market Risk Management**

Market risk is the risk that the value of our assets and liabilities could be adversely affected by changes in market variables such as interest rates, securities prices, or foreign exchange rates.

Management of market risk at MUFG aims to control related risk exposure across the Group while ensuring that earnings are commensurate with levels of risk.

**Market Risk Management System**

We have adopted an integrated system to manage market risk from our trading and non-trading activities. The holding company monitors groupwide market risk, while each of the major subsidiaries manages its market risks on a consolidated and global basis.

At each of the major subsidiaries, checks and balances are maintained through a system in which back and middle offices operate independently from front offices. In addition, separate Asset-Liability Management, or ALM, Committee, ALM Council and Risk Management Meetings are held at each of the major subsidiaries every month to deliberate important matters related to market risk and control.

The holding company and the major subsidiaries allocate economic capital commensurate with levels of market risk and determined within the scope of their capital bases. The major subsidiaries have established quantitative limits relating to market risk based on their allocated economic capital. In addition, in order to keep losses within predetermined limits, the major subsidiaries have also set limits for the maximum amount of losses arising from market activities.

**Market Risk Management System of Our Major Subsidiaries**

- **Board of Directors / Executive Committee**
- **ALM Committee / ALM Council / Risk Management Meeting**
- **Delegation of authority**
- **Trading result report**
- **Quantitative risk monitoring**
- **Confirmation of contracts and agreements**
- **Middle office (Market risk management departments)**
- **Report**

Front office

Back office
Market Risk Management and Control

At the holding company and the major subsidiaries, market risk exposure is reported to the Chief Risk Management Officers on a daily basis. At the holding company, the Chief Risk Management Officer monitors market risk exposure across the Group as well as the major subsidiaries’ control over their quantitative limits for market risk and losses. Meanwhile, the Chief Risk Management Officers at the major subsidiaries monitor their own market risk exposure and their control over their quantitative limits for market risk and losses. In addition, various analyses on risk profiles, including stress testing, are conducted and reported to the Executive Committees and the Corporate Risk Management Committees on a regular basis. At the business unit levels in the major subsidiaries, the market risks on their marketable assets and liabilities, such as interest rate risk and foreign exchange rate risk, are controlled by entering into various hedging transactions using marketable securities and derivatives.

These market risk management activities are performed in accordance with the predetermined rules and procedures. The internal auditors regularly verify the appropriateness of the management controls over these activities and the risk evaluation models adopted.

Market Risk Measurement Model

Market risks consist of general risks and specific risks. General market risks result from changes in entire markets, while specific risks relate to changes in the prices of individual stocks and bonds which are independent of the overall direction of the market.

To measure market risks, MUFG uses the VaR method which estimates changes in the market value of portfolios within a certain period by statistically analyzing past market data. Since the daily variation in market risk is significantly greater than that in other types of risk, MUFG measures and manages market risk using VaR on a daily basis.

Market risk for trading and non-trading activities is measured using a uniform market risk measurement model. The principal model used for these activities is the historical simulation (HS) model (holding period, 10 business days; confidence interval, 99%, and observation period, 701 business days). The HS model calculates VaR amounts by estimating the profit and loss on the current portfolio by applying actual fluctuations in market rates and prices over a fixed period in the past. This method is designed to capture certain statistically infrequent movements, such as a fat tail, and accounts for the characteristics of financial instruments with non-linear behavior. The holding company and banking subsidiaries also use the HS model to calculate as part of the calculation of their Basel III regulatory capital adequacy ratios.

In calculating VaR using the HS method, we have implemented an integrated market risk measurement system throughout the Group. Our major subsidiaries calculate their VaR based on the risk and market data prepared by information systems of their front offices and other departments. The major subsidiaries provide this risk data to the holding company, which calculates overall VaR, taking into account the diversification effect among all portfolios of the major subsidiaries.

For the purpose of internally evaluating capital adequacy on an economic capital basis in terms of market risk, we use this market risk measurement model to calculate risk amounts based on a holding period of one year and a confidence interval of 99.9%.

Monitoring and managing our sensitivity to interest rate fluctuations is the key to managing market risk in MUFG’s non-trading activities. The major banking subsidiaries take the following approach to measuring risks concerning core deposits, loan prepayments and early deposit withdrawals.

To measure interest rate risk relating to deposits without contract-based fixed maturities, the amount of “core deposits” is calculated through a statistical analysis based on deposit balance trend data and the outlook for interest rates on deposits, business decisions, and other factors. The amount of “core deposit” is categorized into various groups of maturity terms of up to ten years (4.5 years on average) to recognize interest rate risk. The calculation assumptions and methods to determine the amount of core deposits and maturity term categorization are regularly reviewed.

Meanwhile, deposits and loans with contract-based maturities are sometimes cancelled or repaid before their maturity dates. To measure interest rate risk for these deposits and loans, we reflect these early termination events mainly by applying early termination rates calculated based on a statistical analysis of historical repayment and cancellation data together with historical market interest rate data.
Stress Testing
We have adopted an HS-VaR model, which calculates potential changes in the market value of our portfolio as a statistically possible amount of losses that could be incurred due to market fluctuations within a certain period (or holding period, of 10 business days) based on historical market volatility for a certain period (or observation period, of 701 business days, or approximately three years). Actual losses may exceed the value at risk obtained by the application of the model in the event, for example, that the market fluctuates to a degree not accounted for in the observation period, or that the correlations among various risk factors, including interest rates and foreign currency exchange rates, deviate from those assumed in the model.

In order to complement these weaknesses of the HS-VaR model and measure potential losses that the model is not designed to capture, we conduct stress testing. For example, we measure on a quarterly basis potential losses that could be incurred in our portfolio by applying various stress scenarios, including the 10-year most extreme movement in each of the risk factors as well as actual past market movement observed beyond the 10 year historical observation period. In addition, the holding company and major subsidiaries conduct stress testing, as appropriate, by applying various stress scenarios, including those which take into account estimates regarding future market volatility, in order to better identify risks and manage our portfolio in a more stable and appropriate manner. Since October 2011, the holding company and major subsidiaries have also been measuring stressed VaR relating to their trading activities based on a one-year observation period with the highest VaR at least in the immediately preceding ten years.

Liquidity Risk Management
Liquidity risk is the risk of incurring losses if a poor financial position hampers the ability to meet funding requirements, or necessitates fund procurement at interest rates markedly higher than normal.

Our major subsidiaries maintain appropriate liquidity in both Japanese yen and foreign currencies by managing their funding sources and mechanism, such as liquidity gap, liquidity-supplying products such as commitment lines, and buffer assets.

We have established a groupwide system for managing liquidity risk by categorizing the risk in the following three stages: Normal, With-Concern, and Critical. The front offices and risk management offices of the major subsidiaries and the holding company exchange information and data on liquidity risk even at the Normal stage. At higher alert stages, we centralize information about liquidity risk and discuss issues relating to groupwide liquidity control actions among group companies, if necessary. We have also established a system for liaison and consultation on funding in preparation for contingency, such as natural disasters, wars and terrorist attacks. The holding company and the major subsidiaries conduct groupwide contingency preparedness drills on a regular basis to ensure smooth implementation in the event of an emergency.
**Operational Risk Management**

Operational risk refers to the risk of loss caused by either internal control issues, such as inadequate operational processes or misconduct, system failures, or external factors such as serious political instability, major terrorist activity, health epidemics and natural disasters. The term includes a broad range of risks that could lead to losses, including operational risk, information asset risk, legal risk, reputation risk, personnel risk, and tangible asset risk. These risks that comprise operational risk are referred to as sub-category risks.

MUFG’s board of directors has approved the MUFG Operational Risk Management Policy as a groupwide policy for managing operational risk. This policy sets forth the core principles regarding operational risk management, including the definition of operational risk, and the risk management system and processes. The policy also requires the board of directors and the Executive Committee to formulate fundamental principles of operational risk management and establish and maintain an appropriate risk management system. The Chief Risk Management Officer is responsible for recognizing, evaluating, and appropriately managing operational risk in accordance with the fundamental principles formulated by the board of directors and the Executive Committee. A division in charge of operational risk management must be established that is independent of business promotion sections to manage overall operational risk in a comprehensive manner. These fundamental principles have also been approved by the boards of directors of the major subsidiaries, providing a consistent framework for operational risk management of the Group.

**Operational Risk Management System of Our Major Banking Subsidiaries**
As set forth in the following diagram, we have established a risk management framework for loss data collection, control self-assessment (CSA), and measurement of operational risk in order to appropriately identify, recognize, evaluate, measure, control, monitor and report operational risk.

We have also established groupwide reporting guidelines with respect to loss data collection and its monitoring. We focus our efforts on ensuring accurate assessment of the status of operational risk losses and the implementation of appropriate countermeasures, while maintaining databases of internal and external loss events.

Operations Risk Management

Operations risk refers to the risk of loss that is attributable to the actions of executives or employees, whether accidental or the result of neglect or deliberate misconduct. The Group companies offer a wide range of financial services, ranging from commercial banking products such as deposits, exchange services and loans to trust and related services covering pensions, securities, real estate and securitization, as well as transfer agent services. Cognizant of the potentially significant impact that operations risk-related events could have in terms of both economic losses and damage to our reputation, our banking subsidiaries continue to improve their management systems to create and apply appropriate operations risk-related controls.
Specific ongoing measures to reduce operations risk include the development of databases to manage, analyze and prevent the recurrence of related loss events; efforts to tighten controls over administrative procedures and related operating authority; while striving to improve human resources management; investments in systems to improve the efficiency of administrative operations; and programs to expand and upgrade internal auditing and operational guidance systems.

Senior management receives regular reports on the status of our businesses from an operations risk management perspective. We work to promote the sharing within the Group of information and expertise concerning any operational incidents and the measures implemented to prevent any recurrence.

Efforts to upgrade the management of operations risk continue with the aim of providing our customers with a variety of high-quality services.

Information Asset Risk Management
Information asset risk refers to the risk of loss caused by loss, alteration, falsification or leakage of information, or by destruction, disruption, errors or misuse of information systems, as well as risks similar to this risk. In order to ensure proper handling of information and prevent loss or leakage of information, our major banking subsidiaries strive to better manage and reduce such risks through the appointment of managers with specific responsibilities for information security issues, the establishment of internal procedures, training courses designed for all staff, and the implementation of measures to ensure stable IT systems control. We have also formulated the Personal Information Protection Policy as the basis for ongoing programs to protect the confidentiality of personal information.

Systems planning, development and operations include appropriate design and extensive testing phases to ensure that systems are designed to help prevent failures while providing sufficient safeguards for the security of personal information. The status of the development of any mission-critical IT systems is reported regularly to senior management. We have developed disaster countermeasures systems and have also been investing in duplication of the Group’s IT infrastructure to minimize damage in the event of any system failure. Emergency drills are conducted to help increase staff preparedness.

With the aim of preventing any recurrence, we also work to promote sharing of information within the Group related to the causes of any loss or leakage of information, or system failure.

Legal Risk Management
Legal risk refers to the risk of loss due to failure to comply with applicable laws and regulations, adequately evaluate contractual rights and obligations, or appropriately deal with disputes, as well as other similar risks. We recognize the potentially significant impact legal risk-related events can have on the management and execution of the Group’s businesses, which in turn can result in economic, reputation and other losses to, or diminished market confidence in, the Group. Accordingly, we continue to improve our risk control framework designed to appropriately manage such risk.

Specifically, in order to promote compliance, we have established our Principles of Ethics and Conduct as the basic legal compliance policy for the Group’s directors and employees. In addition, a compliance management division has been established at each of the holding company and the major subsidiaries. See the following Compliance section. Moreover, the legal division at each of the holding company and the major subsidiaries centrally and uniformly evaluates legal issues prior to entering into contracts, deals with disputes and manages other legal matters. Through these and other measures, we endeavor to effectively manage our legal risk.

Reputation Risk Management
Reputation risk refers to the risk of loss due to deterioration in reputation as a consequence of the spread of rumors among customers or in the market, or as a consequence of our inadequate response to particular situations, as well as risks similar to this risk.

We recognize the potentially significant impact reputation risk-related events can have on the management and execution of the Group’s businesses, which in turn can result in economic losses to, or diminished market confidence in, the Group. Accordingly, we continue to improve our risk control framework designed to appropriately manage such risk.

Specifically, in order to manage our reputation risk effectively on a groupwide basis, we have established a risk management system designed to ensure mutual consultation and reporting if a reputation risk-related event occurs or is anticipated and, through this system, share relevant information within the Group.

Through the risk control framework and risk management system, we seek to minimize damage to the reputation and credibility of, and the market confidence in, the Group by promptly obtaining an accurate understanding of relevant facts relating to reputation risk-related events and disclosing information concerning the events and the measures we take in response to such events in an appropriate and timely manner.
**Risk Management for Other Risks**

In addition to the risks discussed above, the MUFG Group companies define and manage sub-category risks as appropriate, including tangible asset risk and personnel risk as set forth in the “Operational Risk Management System of Our Major Banking Subsidiaries” diagram on page 51.

**Regulatory Capital Requirements for Operational Risk**

(1) Adoption of the Advanced Measurement Approach (AMA)

We have employed the AMA since March 31, 2012, in place of the Standardized Approach that we had been using previously, for calculation of the operational risk equivalent amount in connection with measuring capital adequacy ratios based on the Basel Standards. On the other hand, we use the Basic Indicator Approach, or BIA, for entities that are deemed to be less important in the calculation of the operational risk equivalent amount and for entities that are still preparing to implement the AMA.

(2) Outline of AMA

We have established a measurement model designed to account for four data elements—internal loss data, external loss data, scenario analysis, and business environment and internal control factors (BEICFs)—and calculate the operational risk equivalent amount by estimating the maximum loss using a 99.9th percentile one-tailed confidence interval and a one-year holding period.

In calculating the operational risk equivalent amount, we exclude expected losses relating to the amount of allowance for repayment of excess interest associated with the consumer finance business of a subsidiary. We do not exclude any other expected losses and do not reflect the risk mitigating impact of insurance. In addition, we take into account credit risk-related events that are not reflected in the measurement of the credit risk equivalent amount.

(3) Outline of Measurement Model

Our operational risk equivalent amount measured under the AMA is a simple sum of the amounts calculated separately for BTMU on a consolidated basis, MUTB on a consolidated basis, and the total amount for other Group companies (including the holding company, MUSHD and Mitsubishi UFJ NICOS). For each of BTMU and MUTB on consolidated basis, the operational risk equivalent amount is a simple sum of the amounts calculated based on the seven loss event types defined by the Basel Standards. For other Group companies, the operational risk equivalent amount is a simple sum of the amounts calculated based on eight loss event types consisting of the seven loss event types defined by the Basel Standards and an additional loss event type representing losses relating to repayment of excess interest associated with the consumer finance business of a subsidiary. We do not reflect the correlation effects among the loss event types in the calculation of our operational risk equivalent amount.

The risk equivalent amount for each loss event type represents the amount of maximum loss estimated with a 99.9th percentile one-tailed confidence interval and a one-year holding period based on the distribution of losses arising from all relevant risk events for a one-year period (Loss Distribution). A Loss Distribution combines a Frequency Distribution (through which the frequency of occurrence of risk events is expressed) and a Loss Severity Distribution (through which the amounts of losses resulting from risk events are expressed) through Monte Carlo simulations. The data used for this purpose include internal loss data and scenario data. Scenario data are generated through a scenario analysis. External data and BEICFs are taken into account in the scenario analysis and reflected in scenario data. The Frequency Distribution is derived from the occurrence frequency information in internal loss data and scenario data expressed through a Poisson Distribution. The Loss Severity Distribution is derived from the amount information in internal loss data and scenario data expressed in a non-parametric manner (where no underlying distribution is assumed).
With respect to the risk of losses relating to repayment of excess interest associated with the consumer finance business of a subsidiary, the risk equivalent amount represents the amount of maximum loss estimated with a 99.9th percentile one-tailed confidence interval and a one-year holding period based on a normal distribution assumed by applying data on losses that arose in a given period, excluding any related expected losses.

We confirm the appropriateness of the measurement models by periodic verification and back testing.

(4) Outline of Scenario Analysis
As an initial step of our scenario analysis, we identify potential severe loss events that we have not experienced but may potentially experience in the future. In this identification process, we seek to ensure exhaustive coverage of potential severe loss events by comprehensively examining our experience relating to loss events and legal proceedings, external loss data, the control self-assessment results and other relevant information.

In the next step, we prepare scenario data for each identified severe loss event by quantifying the values depending on its occurrence frequency and loss severity, taking into account relevant transaction amounts and restructuring costs as well as BEICFs. In preparing scenario data, we apply an analysis method we deem appropriate for the type and nature of the operational risk involved.

In order to obtain an operational risk equivalent amount that is commensurate with, and appropriate for, our risk profile, we assess the need for an additional scenario or modification to our existing scenarios semi-annually. We then reflect, as necessary, new risks arising as a result of changes in the business environment and the results of the implementation of measures to enhance our internal controls in response to newly identified risks in our scenario data.
Management Systems

Compliance

**Basic Policy**

We have clarified our mission, our vision and our values in the Corporate Vision and have expressed our commitment to meeting the expectations of customers and society as a whole. Furthermore, we have established Principles of Ethics and Conduct as the guidelines for how the Group’s directors and employees act to realize the Corporate Vision, in which we have expressed our commitment to complying with laws and regulations, to acting with honesty and integrity, and to behaving in a manner that supports and strengthens the trust and confidence of society.

In addition, as we expand the geographic scope of our business globally, we are committed to keeping abreast with developments in laws and regulations of the jurisdictions in which we operate including anti-money laundering and anti-bribery, as well as paying attention to trends in financial crimes.

**Principles of Ethics and Conduct**

**Introduction**

These Principles of Ethics and Conduct establish clear and consistent standards for all MUFG employees to guide decisions and actions. They reflect and support the MUFG Corporate Vision. The principles are organized in three sections. Chapter 1 presents the attitude that we adopt with our customers, to act with honesty and integrity and pursue their best interests, which is a core component of our business practices. Chapter 2 presents a set of standards to help us fulfill our responsibilities as a good corporate citizen. MUFG’s reputation depends upon the trust and confidence of our customers and other stakeholders, including local communities, and we are responsible to society on a global level. Chapter 3 describes the actions and mindset that will create a stimulating and supportive working environment as MUFG continues to grow. Our success depends on building and maintaining a dynamic workplace where all employees can reach their full potential in ways that support our customers and contribute to society as a whole.

**Outline / Overview**

**Chapter 1 Customer Focus**

We place our diverse customers at the center of all our activities and always act in their best interests. MUFG is able to thrive today because of the trust and confidence that customers have placed in us—the result of years of fair, transparent, and honorable dealings. Our business culture is not driven by the prospect of short-term, immediate gains. Instead, we place a premium on supporting long-term, sustainable relationships with our customers to help them meet their goals.

1-1. Acting with Honesty and Integrity

We always place our diverse customers at the center of all activities and act with honesty and integrity in all of our dealings with them. We protect customer assets, including their personal information, and strive at all times not to damage their interests.

1-2. Controlling Quality

In order to earn the lasting trust and confidence of our customers, we maintain thorough quality control of our products and services in all aspects from product design and development to delivery, and continually improve our processes to provide accurate and secure transactions.

1-3. Exceeding Customer Expectations

We strive to satisfy the diverse needs of our customers worldwide and to exceed their expectations through the highest standards of professionalism and by effectively leveraging our global network and consolidated strength.

**Chapter 2 Responsibility as a Corporate Citizen**

As a member of MUFG with global operations, we act honorably, with honesty and integrity, and comply at all times with laws, regulations, rules, and internal policies globally. We strive to maintain stability and confidence in the global financial system and to contribute to the sound growth and development of society. We behave in a manner that supports and strengthens the trust and confidence that MUFG has built up over the years.

2-1. Adherence to Laws and Regulations

We always judge and act with honesty and integrity, do what is right, and comply with both the letter and the spirit of the laws, regulations, and rules that apply to us. We avoid insider trading, do not engage in anti-competitive conduct or any form of corrupt activity, and publicly disclose corporate information in an appropriate manner.
2-2. Combating Criminal Activity
We do not conduct business with criminal elements. We do not allow our financial products and services to be used for illegal or improper activities such as money laundering, fraud, or financing terrorist activities.

2-3. Commitment to Social Sustainability
We respect the history, culture, and customs of local communities and strive to contribute to their development and the protection of the environment through our corporate activities and employee volunteer efforts.

Chapter 3 Ethical and Dynamic Workplace
We are committed to creating a working environment that fosters mutual respect among MUFG employees, supports the full expression of our individuality as professionals, promotes the power of teamwork, honors diversity, transcends differences, and embraces new challenges.

3-1. Stimulating Workplace
We strive to enhance our knowledge and expertise, focus on maximizing the value of teamwork, and view changes in the business environment as opportunities to launch new initiatives.

3-2. Ethical Workplace
We respect the diversity and human rights of all MUFG employees. We do not engage in or tolerate discrimination, harassment, intimidation, or any other behavior or activity that is inconsistent with these core beliefs. We report any violations of laws and rules, and we manage corporate assets appropriately.

Compliance Framework
Management and coordination of compliance-related matters are the responsibility of separate compliance management divisions established at the holding company and the major subsidiaries. Each compliance management division formulates compliance programs and organizes training courses to promote compliance, and regularly reports to each company’s board of directors and Executive Committee on the status of compliance activities.

The holding company and each major subsidiary have also established voluntary committees, such as an Internal Audit and Compliance Committee, where members with no prior employment relationship with the Group account for a majority, and a Group Compliance Committee. Through these measures, we have established a structure for deliberating key issues related to compliance. Additionally, the holding company has the Group Chief Compliance Officer (CCO) Committee which deliberates important matters related to compliance and compliance-related issues for which the Group should share a common understanding.

Compliance Framework
Management Systems

CCO of Holding Company
Directors responsible for compliance at the holding company and the major subsidiaries have been named the CCOs of their respective companies. The CCOs of the major subsidiaries have also been appointed as the deputy CCOs of the holding company to assist the CCO of the holding company. This system promotes the prompt reporting of groupwide compliance-related information to the holding company and also allows the CCO of the holding company to effectively provide compliance-related guidance, advice, and instructions to MUFG Group companies.

Group CCO Committee
The Group CCO Committee consists of the CCO of the holding company as the committee chairman and the CCOs of the major subsidiaries.

By timely holding meetings, the Group CCO Committee seeks to promote greater sharing of compliance-related information among the MUFG Group companies and works to strengthen the Group’s incident prevention controls and to help the Group companies respond to unforeseen problems. The Committee also continues to strive to improve compliance systems throughout the Group.

Internal Reporting System and Accounting Auditing Hotline
The major subsidiaries have established internal reporting systems that aim to identify compliance issues early so that any problems can be quickly rectified. This system includes an independent external compliance hotline. Furthermore, the holding company has set up an MUFG Group Compliance Helpline that acts in parallel with group-company internal reporting systems and provides a reporting channel for directors and employees of group companies.

In addition to these internal reporting systems, the holding company has also established an accounting auditing hotline that provides a means to report any problems related to MUFG accounting.

MUFG Accounting Auditing Hotline
MUFG has set up an accounting auditing hotline to be used to make reports related to instances of improper practices (violations of laws and regulations) and inappropriate practices, or of practices raising questions about such impropriety or inappropriateness, regarding accounting and internal control or audits related to accounting in Group companies. The reporting process works as follows, and may be carried out via letter or e-mail.

Hokusei Law Office, P.C.
Address: 4-3-4, Kojimachi, Chiyoda-ku, Tokyo
E-mail: MUFG-accounting-audit-hotline@hokusei-law.com

When reporting information, please pay attention to the following:
• Matters subject to reporting are limited to instances regarding MUFG Group companies.
• Please provide detailed information with respect to the matter. Without detailed factual information there is a limit to how much our investigations can achieve.
• Anonymous information will be accepted.
• No information regarding the identity of the informant will be passed on to third parties without the approval of the informant him- or herself. However, this excludes instances where disclosure is legally mandated, or to the extent that the information is necessary for surveys or reports, when data may be passed on following the removal of the informant’s name.
• Please submit reports in either Japanese or English.
• If the informant wishes, we will endeavor to report back to the informant on the response taken within a reasonable period of time following the receipt of specific information, but cannot promise to do so in all instances.
Internal Audit

Role of Internal Audit
Internal audit functions within MUFG seek to provide independent verification of the adequacy and effectiveness of internal control systems. This includes monitoring the status of risk management and compliance systems, which are critical to the maintenance of sound and appropriate business operations. Internal audit results are reported to senior management. An additional role of internal audit is to make suggestions to help improve or rectify any issues or specific problems that are identified.

Group Internal Audit Framework
The board of directors at the holding company level has instituted MUFG’s internal audit policy to define the policy, function, and organizational position of internal audits. Separate internal audit divisions have been created within the holding company and certain subsidiaries. Through close cooperation and collaboration among the internal audit divisions in each of these subsidiaries, these internal audit divisions provide coverage for the Group and also support the board of directors in monitoring and overseeing all MUFG operations.

In addition to having primary responsibility for initiating and preparing plans and proposals related to internal audits of the Group, the Internal Audit Division at the holding company monitors and, as necessary, guides, advises, and administers the internal audit divisions of subsidiaries and affiliated companies. The internal audit divisions within the major subsidiaries conduct audits of the respective head office and branch operations of these companies. In addition, each of these internal audit divisions undertakes direct audits of their respective subsidiaries, and monitors and oversees the separate internal audit functions established within them. This helps to evaluate and verify the adequacy and effectiveness of internal controls within MUFG on a consolidated basis.

Implementing Effective and Efficient Internal Audits
To ensure that internal audit processes use available resources with optimal effectiveness and efficiency, the internal audit divisions implement risk-focused internal audits in which the nature and magnitude of the associated risks are considered in determining audit priorities and the frequency and depth of internal audit activities. The internal audit divisions ensure that audit personnel attend key meetings, collect important internal control documents and access databases to facilitate efficient off-site monitoring.

Reports to and from Internal Audit and Compliance Committees
To strengthen the respective boards of directors’ monitoring and supervision of operational execution status and to ensure the independence of the internal audit divisions, the holding company and the major subsidiaries have voluntarily established internal audit and compliance committees. These committees receive reports from the internal audit divisions on important matters, including the results of the internal audits and basic policies for planning internal audits. The deliberations of the internal audit and compliance committees concerning such matters are then reported to the respective boards of directors.