UFJ submits business improvement plans to the FSA

UFJ Holdings, Inc. and UFJ Bank Limited settled on concrete measures to aggressively reinforce their corporate governance systems in response to the administrative actions announced by the Financial Services Agency (FSA) on June 18, 2004.

In accordance with these measures, UFJ submitted business improvement plans to the FSA, responding to the administrative actions as outlined by the FSA regarding:

- UFJ response to the FSA’s inspections
- Stance on loans to small- and medium-sized enterprises (SMEs)
- Large difference between the revised financial forecast and the financial results

1. Executive Summary

As detailed below, in terms of its response to the FSA’s inspections, UFJ came to recognize, based on the results of an investigation and evaluation conducted by a third party, that there were deeds which are considered to be evasions of inspections. UFJ deeply regrets that its investigations of these issues were inadequate and inappropriate judgment was exercised. UFJ sincerely accepts the indications given by the FSA.

In addition, UFJ apologizes that the deeds, which were deemed to be evasions of inspections, substantially hampered efficient implementation of the inspections, and obstructed the regulatory purposes such as securing trust and order, protecting depositors, and maintaining smooth finance.

UFJ regrets and sincerely apologizes for this and the concern amongst its customers and shareholders. It makes a commitment to reform its corporate governance framework and internal control systems, such as credit risk management, through the completion of the improvement plans. The top management will lead various activities to improve management, aiming at restoring confidence in UFJ as quickly as possible.

UFJ intends to submit another business improvement plan, in response to the additional administrative action, announced by the FSA, regarding “The follow-up of the capital injected bank (the so-called ‘30% rule’)”, aiming to submit this report during the first half of September 2004. UFJ needs to carefully consider the impact of (1) the outlook of business integration with Mitsubishi Tokyo Financial Group, Inc., and (2) UFJ’s aggressive actions toward the final resolution of its problem loans, in preparing this plan.
2. Concrete business improvement measures

“The problems indicated in the administrative action”, “UFJ’s current understanding of the problems”, and “the measures to prevent recurrence” for the respective business improvement plans are as follows:

[I. Business improvement plan regarding responses to the FSA’s inspections]

(1) Problems indicated in the administrative action

The administrative action indicated that, in the course of the FSA’s inspections to UFJ Bank, the bank conducted a number of inappropriate deeds as follows, including those considered to be evasions of inspections:

1) Concealment of documents
   - Documents were moved and concealed in rooms separated from regular working spaces.

2) Concealment of data
   - Important data was hidden by moving it to the server of an already-abolished section and therefore made virtually undetectable.

3) Systematic approach of (1) and (2)
   - The deeds described in (1) and (2) were systematically conducted prior to the FSA’s inspections under instructions given, including instructions given at a series of internal meetings.

4) False response to inspectors’ inquiry
   - In response to inspectors’ inquiry whether or not there existed separated rooms from regular working spaces in order to store documents, a false reply was given that such rooms did not exist.

5) Destruction of documents
   - Some documents were torn up in the presence of inspectors.

6) Submission of forged minutes of meetings to inspectors
   - The bank forged minutes of meetings in which executives evaluated large borrowers and submitted them to inspectors during the inspections as authentic minutes.

7) Submission of forged documents to inspectors
   - After receiving inspectors’ request for documents concerning a specific borrower, the bank forged related documents and submitted them to inspectors during the inspections as authentic documents.

8) Management’s involvement in (6) and (7)
   - The deeds described in (6) and (7) were conducted in a systematic manner with management involvement.

9) Concealing information and giving false explanations to inspectors
   - The bank gave inspectors false explanations on business climates and financial conditions of some borrowers, as it concealed documents and data.

(2) UFJ’s current understanding of the problems
UFJ determined that an investigation conducted by a third party was needed to take appropriate measures to prevent recurrence, since there were substantial differences between the indications shown in the administrative action and UFJ’s understanding. In order to ensure fairness, the investigation was assigned to an investigation committee headed by Mr. Kunihisa Hama (attorney at law, former Administrative Vice Minister of the Ministry of Justice, former Head of the Tokyo High Public Prosecutors Office), and a committee consisting of attorneys at law, who were not counsel for UFJ. In addition, the examination sessions were conducted excluding UFJ personnel.

Although UFJ made a statement on June 18 that “the actions could have been construed as violations of laws and ordinances, although they were not so intended”, UFJ currently has a totally different understanding, based on the investigation results, that there were deeds which were deemed to be evasions of inspections as follows:

- In terms of the “concealment of documents and data”, the “false reply”, and the “destruction of documents”, UFJ believes it is reasonable to recognize that certain sections systematically conducted deeds with the intention to evade inspections.
- In terms of the “forgery of minutes and documents”, UFJ believes it is reasonable to recognize that certain sections systematically forged minutes and documents, as pointed out in the administrative order, with the intention to evade inspections.
- In terms of the “concealment of information and false explanations to inspectors”, UFJ recognizes that false explanations on business climates and financial conditions of some borrowers were made, as pointed out in the administrative order, and that some of these responses were conducted systematically.

(3) Measures to prevent recurrence

UFJ Bank will take the following measures:

1) Reconstruction of corporate governance framework centering on external directors
   - More than one non-executive director, independent from UFJ, and possessing the necessary expertise, will be appointed as non-executive directors and will be in charge of supervising the management.
   - The board of directors will appropriately monitor management and make important decisions, including strengthening involvement in extension of credit for large borrowers.

2) Aggressive reorganization of the Audit & Compliance Committee
   - Newly appointed external directors will become the chairperson and other members of this committee.
   - In addition, in order to rigidly ensure its independence, the committee will entirely consist of external members, including the chairperson, other external directors, and the external specialists, who will be appointed by the chairperson.
   - All authority to supervise and direct the internal auditing divisions will be given to the committee.
   - The committee, independent from management, will report on the status of UFJ’s risk
management, compliance, and internal auditing to the board of directors as well as to the FSA.

3) Reinforcement of compliance system
   - The President & CEO, executive directors, and executive officers will submit “oaths”, with respect to compliance, to the Audit and Compliance Committee.
   - The President & CEO will govern the Compliance Department and lead compliance activities.
   - The bank will heighten employees’ awareness of compliance and develop its monitoring function through a “Compliance Hotline”.

4) Realignment of organization to strengthen internal control
   - The bank will establish the Internal Audit Planning Office, which will govern and supervise the Internal Audit Department as the executive office for the Audit and Compliance Committee. This department will be in charge of internal audit planning.
   - The Internal Audit Department will be reinforced, aiming to strengthen its auditing functions at the sections in the headquarters and to develop auditing systems further, centering on assessment of assets.
   - The bank has established the Financial Accounting Department and the Credit Risk Management Committee in order to reinforce its internal control framework including credit risk management.

5) Appropriate control on conduct related to inspections
   - The Compliance Department, responsible for inspections, will strengthen monitoring of conduct with regard to inspections and heighten the awareness of the appropriate stance in relation to inspections.
   - The chairman of the Audit & Compliance Committee will have a meeting with inspectors at the beginning of inspections, aiming to improve UFJ’s conduct related to inspections.

[II. Business improvement plan regarding loans to small- and medium-sized enterprises (SMEs)]

(1) Major problems indicated in the administrative action
   The administrative action indicated that, UFJ’s procedures to monitor and verify SME lending was deemed to be inadequate by the FSA, and that the FSA deemed this to be “a case where a bank is deemed not to properly comply with the plan to revitalize management”, which was stated in the “administrative treatment related to follow up of the capital injected banks”.

(2) UFJ’s current understanding of the problems
   At UFJ, the procedure to manage SME lending, an important item in the plan to revitalize management, has not adequately functioned.

   Specifically, the rules for registering customer information (industries, capital, number of employees etc.) for segmenting purposes and extraction of individual loans for businesses in accord with definitions were not adequate. Moreover, examination of accuracy in segmentation and registration was inadequate. As a result, the bank counted some loans to large
corporations as lending to SMEs, and missed some SME lending.

In addition, since there were inadequacies in the measures taken by the headquarters, the instructions given to branches, and the framework to supervise and monitor branches, the bank reported a certain amount of short-term lending at the fiscal year end, which did not necessarily fit the purpose of Law No.5 relating to Emergency Measures for Early Reconstruction of Financial Systems (Early Reconstruction Law).

The revised actual figures, which UFJ is now examining, will be announced soon after these are finalized, and will be included in the progress report on the plan to revitalize management.

(3) Measures to prevent recurrence

Based on the current understanding stated above, UFJ will develop and reinforce its framework to manage and promote SME lending, in accordance with the purpose of the Early Reconstruction Law.

1) Improvement in organizational structure

The Group Planning Department of UFJ Holdings and the Corporate Planning Department of UFJ Bank will take responsibility for reinforcing UFJ’s internal control systems related to SME lending, reconsidering the inadequate efforts in the past.

- At UFJ Bank, the Corporate Planning Department will be in charge of monitoring progress in all related sections.
- The bank aims to strengthen the secondary checking functions. The Internal Audit Department will audit headquarters and branches to examine implementation of the measures to be taken, and will require the sections to correct inappropriate behaviors.

2) Reinforcement of database management

UFJ will increase the accuracy of databases through reforming its database management, including revision of rules for registration and maintenance of customer information (industries, capital, number of employees etc.). At the same time, it will develop an appropriate reporting framework.

- UFJ Bank will improve the accuracy of databases by establishing rules for initial registration and periodic revision of customer information, and for developing computer systems.
- The bank will heighten employees’ awareness of the importance of database management through rigid application of the rules and provision of instructions about the rules for branches.
- The bank will clarify and unify the definitions and counting standards related to SME lending in order to establish systems to report accurate figures.

3) Improvement in abilities to recognize reality

At UFJ Bank, branches will promote SME lending, and the headquarters will develop strategies and give instructions to the branches in a proper manner, in accordance with the objective of the Early Reconstruction Law.

- The bank will again recognize the objective of the law: provision of sufficient funds in
response to the financing needs of healthy SMEs.
- The bank will adopt a well-balanced evaluation system for business performance, aiming at promotion of “loans which fit the objective of the law” as well as avoidance of “loans largely against the objective of the law”.
- The bank will prevent a recurrence of provision of loans, which do not fit the objective of the law, by monitoring short-term lending at the fiscal year end.

4) Promotion of SME lending
UFJ Bank will continue promoting reform in its lending business, aiming to increase loans to SMEs. This will include aggressive promotion of “UFJ Business Loan”, which is a loan product for small businesses, “Basic Mode”, which is a credit assessment method for SME lending, and the “industrial credit standard”, which is a credit assessment method for medium-sized companies. At the same time, it will increase its marketing force, specializing in the extension of lending to new SME customers.

5) Reinforcement of internal control
At UFJ Bank, in addition to the monitoring conducted by the sections in charge of business promotion or risk management, the Internal Audit Department will examine the measures to be taken to prevent recurrence through auditing the headquarters and branches.

[III. Business improvement plan regarding large difference between the revised financial forecast and the financial results]

(1) Major problems indicated in the administrative action:
The administrative action indicated that the FSA found a critical imperfection in UFJ’s internal control framework, including inadequacy regarding appropriate procedures to manage credit risk and intersectional monitoring functions. The imperfection was demonstrated by the fact that provisions were increased by ¥500 billion, when UFJ announced its financial results. This increase was deemed necessary, as UFJ did not make a management decision to revise earnings forecasts for fiscal 2003, based on an adequate review of provisions.

(2) UFJ’s current understanding of the problems
In considering measures to calculate provisions and the stance on reserves for large troubled borrowers, UFJ did not adequately take into account the uncertainty related to unexpected additional credit costs, which it might incur in the course of reducing the amount of problem loans under the Financial Reconstruction Law.

UFJ understands that such a lack of deliberate and conservative judgment was due to the problems in its “internal control systems” including the credit risk management system and the mutual monitoring functions, and its “corporate governance systems”, which should govern and supervise these systems.

(3) Measures to prevent recurrence
Based on this understanding, UFJ’s management aims to show its solid intention toward credit risk management by taking the following measures:
1) Reinforcement of the board of directors’ functions
The board of directors will strengthen its involvement in credit risk management through expanding the scope of its discussions related to write-offs, provisions, and large troubled borrowers.

2) Reinforcement of the headquarters’ functions
- UFJ Bank will ensure appropriateness in the process of credit risk management, such as the development, application, and examination of standards through the following measures:
  - It will ensure objectivity and transparency of standards by establishing the Credit Risk Management Committee, which will be composed entirely of external specialists.
  - It will ensure independence, appropriateness, and transparency of its financial results and disclosure by establishing the Financial Accounting Department, separating the accounting and tax planning team from the Corporate Planning Department.
  - It will improve accuracy in internal credit ratings and self-assessment by the establishment of an instruction team in the Credit Policy & Planning Department, which will provide instructions for branches and credit assessment departments.

3) Clarification of executive officers’ responsibilities
- UFJ Bank will improve credit risk management and monitoring functions of each executive officer by clarifying responsibilities of each officer, related to credit risk.

4) Development of mutual monitoring functions
- In terms of the establishment and revisions of standards for write-offs and provisions, internal credit ratings and self-assessment framework, and credit risk management for large troubled borrowers, UFJ will aim at developing primary checking functions performed by executive divisions in charge of credit risk management.
  - The Internal Audit Department will be under the immediate control of the Audit & Compliance Committee in order to reinforce the monitoring functions of executive sections by being independent from management.
  - UFJ Bank will appropriately understand and examine credit risks related to each large borrower by establishing a specialized team for large borrowers in the Internal Audit Department.
  - The bank will improve its auditing functions through establishing the “Internal Audit Planning Office”, which will be responsible for governing, supervising and planning of internal audits, under the Audit & Compliance Committee.
- Collaborating with the Credit Risk Management Committee and the specialized team for large borrowers, the corporate auditors will examine the establishment and revisions of the standards for write-offs and provisions and will improve the effectiveness of auditing through timely and appropriate exchange of opinions with the Internal Audit Department and accountants. In addition, the corporate auditors will examine whether the new auditing systems function well.
- From the standpoint of group management, UFJ Holdings, as the holding company, will examine the framework of corporate governance and internal controls at UFJ Bank and other subsidiaries.
3. Clarification of responsibilities

In response to the series of administrative actions, UFJ clarified responsibilities of related directors and executive officers, and employees.

Though UFJ had already punished the directors and executive officers before June 18, UFJ revised the punishment related to “UFJ’s response to the FSA’s inspections”, as stated in the attachment. This was revised because UFJ came to recognize that “there were deeds which were deemed to be evasions of inspections”, based on the investigation conducted by the third party.

In addition, UFJ punished the employees as attached, based on its current understanding about the series of the administrative orders.

Furthermore, UFJ clarified responsibilities, as stated in the attachment, in terms of its previous wrong understandings related to the administrative orders, which it announced on June 18, without conducting appropriate investigation.

4. Corporate governance in the future

We would like to reiterate that the UFJ Group takes the administrative actions by FSA very seriously and is committed to deliver its Business Improvement Plan. By doing so, the UFJ Group is committed to re-establish its corporate governance and internal controls, including credit management.
Disciplinary Punishment

<Disciplinary actions already taken for Directors and Executive Officers>
In response to the administrative orders\textsuperscript{1}, UFJ already disciplinarily punished directors and executive officers on June 18, 2004 as follows:

(1) The former top management of UFJ (the Presidents of UFJ Holdings, UFJ Bank and UFJ Trust Bank) resigned their positions, due to the net loss and suspension of dividend in the fiscal 2003 and the failure to meet the profit target regarding “follow-up of the capital injected bank (so-called ‘30% rule’)

(2) The directors and executive officers, who had supervised the areas where the FSA took administrative actions on UFJ, were disciplinarily punished as follows:

- Resignation
  - Two senior executive officers resigned due to “inspections”, “30% rule”, “SME lending”, and “revision”.
  - A representative director & deputy president, and an executive officer resigned due to “inspections” and “revision”.
  - A representative director & deputy president, a senior executive officer, and an executive officer resigned due to “inspections”.

- Reduction in monthly compensation
  - The monthly compensation of a senior executive officer has been reduced by 10% due to “30% rule” and “revision”.
  - The monthly compensation of a senior executive officer and an executive officer has been reduced by 5% due to “SME lending”.

<Revisions in disciplinary actions for some executive officers>
Based on the results of the third-party investigation, which stated there were deeds that could be deemed evasions of inspections, UFJ decided to change the disciplinary punishment for Kazumi Okazaki (representative director & deputy president), Sen Hayakawa (senior executive officer), and Masayuki Inaba (executive officer) to “dismissal”.

<Disciplinary actions for employees>
In response to the series of administrative actions, UFJ applied rigid disciplinarily punishments (demotion etc.) to 78 employees due to “inspection” and 3 employees due to “SME lending”.

<Current top management>
All directors, executive officers, and corporate auditors of UFJ Holdings and UFJ Bank have been and will receive, for the time being, a 50% reduction in their monthly compensation due to the net loss and suspension of dividend in the fiscal 2003.

UFJ will additionally cut the monthly compensation by 30% for Ryosuke Tamakoshi (President of UFJ Holdings) and Takamune Ohkihara (President of UFJ Bank), and by 20% for Toshihide Mizuno (senior executive officer of UFJ Bank), for the time being.

\textsuperscript{1} Each administrative action is abbreviated in this attachment as follows:
- UFJ’s response to the FSA’s inspections = “inspections”
- The follow-up of the capital injected banks (so-called ‘30% rule’) = “30% rule”
- Loans to small- and medium-sized enterprises = “SME lending”
- Large difference between the revised financial forecast and the financial results = “revision”
Reform of Corporate Governance Framework

### UFJ Holdings
- **Shareholders' Meeting**
  - Corporate Auditors / Board of Corporate Auditors
  - Corporate Governance / Execution
- **Board of Directors (7)**
  - **<Directors (executive)>**
    - President & Rep. Director
    - Director & Executive Officer
  - **<Directors (non-executive)>**
    - *External Directors (3)
    - Director (President of UFJ Bank)
    - Director (President of UFJ Trust)
  - Nomination Committee
  - Compensation Committee
  - Group Audit Committee
- **<Directors (executive)>**
  - President & Rep. Director
  - Director & Executive Officer
- **<Executive Officers>**
  - Group Management Committee

### UFJ Bank
- **Shareholders' Meeting**
  - Corporate Auditors / Board of Corporate Auditors
  - Corporate Governance / Execution
- **Board of Directors**
  - **<Directors (executive)>**
    - President & Rep. Director
    - Director & Executive Officer
  - **<Directors (non-executive)>**
    - *External Directors
    - Chairman & Director (President of UFJHD)
  - Nomination Committee
  - Compensation Committee
  - Group Audit Committee
- **<Directors (executive)>**
  - President & Rep. Director
  - Director & Executive Officer
- **<Executive Officers>**
  - Group Management Committee

### Corporate Governance
- **Audit & Compliance Committee**
  - Chaired by an external director
  - Consists entirely of external members
- **Disciplinary Committee**
  - Includes GM of Human Resources Dept.
  - Audit & Compliance Committee will independently deliberate Disciplinary Committee’s proposals
- **Internal Audit Planning Office**
  - Newly established
  - In charge of planning of internal audit
- **Internal Audit Department**
  - Reinforces functions under immediate control of Audit & Compliance Committee
- **Credit Risk Management Committee**
  - Discusses important rules etc.
  - Invites external specialists to ensure objectivity of third party
  - Measures to be taken this time

* As stipulated in Commercial Law Article 188-2-7-2