

Small Meeting with Directors Hirofumi Nomoto and Keiko Honda

Main Q&A

Q: Given the significant impact of the COVID-19 pandemic on full-year results for fiscal 2020, how would you evaluate the leadership of Group CEO Kamezawa and the management?

A: Director Nomoto: Hironori Kamezawa became Group CEO in April 2020 and has had an almost flawless start with the domestic businesses. For overseas businesses, we are looking forward to initiatives aimed at reshaping them going forward. Hands-on experience and the ability to get things done are important for reform, and, commendably, CEO Kamezawa has an ample amount of both qualities. Management, including the CEO, values dialogue with employees in Japan and overseas and holds many town hall meetings. This effort to convey management's ideas to more employees is expected to have a transformational effect on corporate culture going forward.

Director Honda: CEO Kamezawa has a deep understanding of capital markets, collects his own data and takes a clear-eyed approach. In addition, I applaud him for having identified challenges and ranked priorities based on evidence and fact. I was especially impressed by CEO Kamezawa's initiatives for engagement. As essential workers, bank employees needed to maintain deposits, lending, settlement, and other services even amid the pandemic. I think that fostering deeper engagement with employees, including young hires, likely helped motivate employees to work harder.

Q: What is your view of MUFG's challenges, including the expense ratio and ROE? Also, can you tell me how, as outside directors, you may be involved in the formulation of the next medium-term business plan?

A: Director Honda: The current business environment is extremely difficult for financial institutions due to such factors as low interest rates around the world, the increasing importance of digital transformation amid the pandemic and the need to address climate change.

Under the next medium-term business plan, ROE will be one of the most important key performance indicators (KPIs). Immediately after I became a director, to enhance ROE, I

requested staff to make detailed analyses (including the expense ratio, lending spread, and risk asset situation of each business group, which are components of ROE) and compile the results.

In addition, during debates on the plan's formulation, I talked about how MUFG's large deposit balance compared with the other Japanese megabanks is a sign of its "Integrity and Responsibility" and underlies the strength of the Global Market Business Group's treasury profit. Regarding MUFG's profit structure, some people point out the high degree of contribution of equity-method investment gains from Morgan Stanley and the Global Markets Business Group's treasury profit. Equity-method investment gains from Morgan Stanley are the result of investment during the Global Financial Crisis and treasury profits are the results of MUFG's deposit balance, or, in other words, its "Integrity and Responsibility" and the strength of its Global Markets business. The plan is currently being formulated in line with these points, and I am very much looking forward to the next medium-term management plan.

Director Nomoto: I think MUFG's high expense ratio poses a challenge. We need to analyze the reduction in business expenses in fiscal 2020 because, in addition to self-imposed cost controls, expenses fell due to the pandemic. In addition, it has been more than 15 years since the merger of the Mitsubishi Tokyo Financial Group and UFJ Holdings. MUFG needs to thoroughly investigate the fundamental factors behind the high expense ratio, including whether differences in corporate culture or mutual reluctance have hindered efforts to enhance efficiency.

To improve ROE, MUFG will need to both strengthen its earnings power and control costs. Everyone will need to push forward each measure with a sense of ownership, switch from defense to offence in their sales approach, work to increase the added value of operations and strive to raise individual productivity.

In its approach to the formulation of the medium-term business plan this time, the company is not simply accumulating initiatives; rather, top management has begun by sharing their vision of what MUFG is supposed to be and communicating a powerful message targeting each business group. At the same time, outside directors are engaging in discussions on reforming corporate culture, affirming the company's vision and formulating strategies. We will continue working hard to help enhance corporate value in order to ensure that MUFG can "be the world's most trusted financial group".

Q: I would like to ask about the effectiveness of governance. Do you think the Board of Directors has a system for appropriate oversight and ingenuity to stimulate discussions in pre-briefings and educational sessions, which are sufficient enough? And please tell me

about any challenges that there might be.

A: Director Nomoto: MUFG's governance system is solid. It works to enhance effectiveness and advance the system even further year on year. While there is room for improvement when it comes to narrowing the points of discussion at Board of Directors meetings and clarifying the importance of agenda items, the educational sessions and pre-briefings are very thorough and enable deep discussions in the limited amount of time available. As a "company with three committees," excellent outside directors account for the majority of members on the Board of Directors and there is a lively exchange of opinions leveraging each person's insights and experience. In this and other ways, the Board is properly and sufficiently functioning as an oversight body.

Director Honda: The company has an inclusive Board of Directors, where even I as a new director can offer my frank opinions. Of MUFG's 16 directors, 4 are women and 2 are foreign nationals. Compared with the other Japanese megabanks, the framework of MUFG's board has the most diversity.

In addition, there are training sessions available to new outside directors, helping stimulate debate at Board of Directors meetings.

Q: Under the next medium-term business plan, I understand that the policy is to promote the integration of the initiatives for helping resolve environmental and social issues and business strategies. What is your assessment of the internal discussions regarding that policy?

A: Director Honda: Integrating the initiatives for helping resolve those issues and strategies will not be at all easy and I respect management for setting out this ambitious policy. As for environmental initiatives, European banks may be leading the way, but MUFG, as a Japanese bank, has been a true trailblazer, being the first to issue sustainability bonds and offer sustainability-linked loans. However, as I told management, striving to get higher ranks on the League Table for bonds and loans is less important than securing profitability while producing impact on the environment and society and implementing creative measures for the environment and society. Going forward, I am looking forward to MUFG taking a leadership role in asset pricing and setting standards for underwriting and finance in the ESG field.

Q: With 16 members on MUFG's Board of Directors, I think that is too many people. Is there no problem in terms of governance effectiveness?

A: Director Nomoto: In 2015, the company switched to the “company with three committees” structure and outside directors currently account for the majority of the Board of Directors. In addition, of the 9 outside directors, 2 are foreign nationals and 4 are women, demonstrating progress toward diversity. Each committee, including the Nominating and Governance Committee, Compensation Committee and Audit Committee, comprises five to six members, and I myself am on two committees. The committees convene at least once and up to two or three times per month almost every month. The various committees engage in active debate, and I do not think that 16 members on the Board of Directors is too many.

Q: Director Nomoto, you are a director at four companies, including MUFG. Would you say that you are able to ensure enough time as an outside director at MUFG?

A: Director Nomoto: Two of the four companies are the group companies of Tokyuu Corporation and are within the scope of my regular duty. As an outside director of MUFG, I am able to ensure enough time, including time for pre-meeting research.

Q: I would like to hear about any instances where, with regard to an agenda item on the executive side, the debate was enhanced when you as an outside director objected, rescinded, or offered an opinion.

A: Director Nomoto: For important items, such as Mitsubishi UFJ NICOS’s system integration plan and MUFG Union Bank’s revision of strategies, I engaged in debate in a way evocative of a cross-examination, looking at even the background of the issues. In addition, I did not stop at getting answers to questions from outside directors, I requested that they offer solutions. Such an approach supports active debate that utilizes the insight and experience of each outside director, and, I am glad to say, fosters an awareness that enhances discussions of important challenges.

Director Honda: Outside directors asking questions and offering advice on improving ROE, often enhance the quality of debate.

Q: I think that MUFG has top-level planning capabilities, management executive capabilities, and the organizational capabilities needed to make reforms, but these strengths are not always reflected in business results. What are your thoughts on this gap between the company’s capabilities and its results?

A: Director Honda: I am also aware of this problem and am looking forward to two main points under the next medium-term business plan. The first point is a process for formulating plans. This will not be a bottom-up approach, instead senior management will establish their outlook and vision for the future, then those strong intentions will be reflected in the plans being formulated. The second point is focusing on ROE as a KPI in line with shareholder perspectives. I expect these two points will show up in the results. Regarding your specific concerns, I will continue to think about my duty as an outside director going forward.

Q: I was very touched as an investor when Director Nomoto said in the integrated report that your role as an outside director is to express opinions as a spokesperson for shareholders, investors and customers. Against a background of MUFG's low valuation on the stock market, how are you finding out about market opinions?

A: Director Nomoto: I always try to be mindful of meeting stakeholder expectations. Although the expectations of MUFG will be different depending on the shareholder, there is a need to raise share prices. In addition, I think it is hugely important to raise corporate value, including via options for dividends and share repurchase. And, although raising profit levels and ROE are vital, personally, I think it is also crucial to clearly communicate to shareholders the company's future direction and vision, including its plans for business development moving forward, as well as its contributions to society. Financial institutions contribute to society indirectly in many ways by supporting their customers' businesses. But, because this is difficult to visualize, I give my opinion that the company should demonstrate how they are working closely with certain businesses. Especially in a challenging environment with such low interest rates and thus a limit to the growth potential of interest income, it is also important to ensure employees understand the added value and future potential of the company. I do not have opportunities to engage in direct dialogue with market representatives, but I look at the records of the IR meetings held by CEO Kamezawa and other documents to research questions and opinions from the stock market.

Q: Director Nomoto, as you work as a director for other companies, can you tell me what points you are being especially careful of with regard to potential conflicts of interest?

A: Director Nomoto: Since joining MUFG as an outside director, there have not been any cases related to conflicts of interest. If, however, there were an instance with the potential for a conflict of interest, Board of Directors meetings are poised to remove myself from

the passing of the resolution. Furthermore, although this may be obvious, I engage in my work with the idea of discussing how MUFG should be and leveraging my expertise as an entrepreneur. In addition, even outside of Board of Directors meetings, I engage in conversation with various MUFG employees to make the most of my expertise.

Q: Can you tell me about management's selection process and evaluation standards?

A: Director Nomoto: There is a certain standard for selecting candidates of management including outside directors and upper management. They are elected by utilizing outside consultants and going through various selection processes, including a 360-degree feedback. Afterward, candidates are interviewed by the Nominating and Governance Committee and nominated based on the opinions of its five members. One standard used in the selection of outside director candidates is whether they have experience in corporate management and their expertise in finance, accounting and other fields. They are also comprehensively evaluated from various perspectives, including in terms of diversity. The executive candidate selection process emphasizes finding the most appropriate person for the role, not the person with a good sense of balance. Also evaluated are their experience and track record.

Q: What kind of discussions are being held at Board of Directors meetings regarding priority issues of ESG?

A: Director Honda: MUFG has decisively moved toward integrating its business strategies and ESG issues, but a difficult challenge will be how to increase profit and ROE through helping resolve environmental and other social issues. Because asset pricing could change going forward, we are researching how to build a loan portfolio related to climate change. There are currently many uncertainties, such as how carbon pricing will be implemented amid discussions related to carbon border taxes and other topics. There are already ideas coming in about ESG exclusions and some factors that could change pricing policies related to climate change and social issues, so we are carefully monitoring the situation while considering measures internally. Regarding this field, we are also holding discussions with members of MUFG's Global Advisory Board.

Q: I am concerned that MUFG's profit from its main businesses, excluding equity method gains on investment from Morgan Stanley, is getting relatively weaker. I would like to request appropriate monitoring is in place when the next medium-term business plan is

being formulated to ensure that the plan is effective at improving ROE.

A: Director Honda: I am very aware of concerns about the profitability of customer businesses, especially with regard to the effects on the retail business in Japan, the Global Corporate & Investment Banking Business Group (GCIB) business field and the Global Commercial Banking Business Group (GCB) business in the United States. With reference to dialogues with institutional investors, analyst reports and other materials, I communicate what I think are challenges to senior management at Board of Directors meetings, and they listen to me with a positive attitude.

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