

Small Meeting with Outside Directors

Main Q&A

Q. Regarding the administrative actions relating to the violation of the firewall regulations concerning the banking-securities collaborative business, what are the outside directors' roles in analyzing the root cause and establishing the improvement measures, and what were your impressions?

A. Director Tsuji: This incident occurred just as MUFG promoted banking-securities collaboration to provide more advanced financial services to the customers as a group. As an outside director and the chair of the Audit Committee, I take it very seriously and feel very disappointed. Analyzing the root cause and implementing the improvement measures are critical in addressing this incident. Of the six measures, establishing a deep understanding through training is critical, especially among the first line, second line, and management. As part of my role as the chair of the Audit Committee, I have confirmed whether a preventative measure has been established based on the root cause analysis leading towards the right direction as a financial institution and the top management has solid insight. I will also monitor the progress of the improvement measures.

Director Kuwabara: I take the incident very seriously. The incident occurred despite the existence of specific frameworks and procedures, and my understanding is that the level of knowledge of the rules and procedures among the first and second lines was the key issue. The opinions of the outside directors were incorporated to establish the improvement measures and to build a framework that penetrates the front offices to instill deep understanding rather than merely having rules and procedures. The Board of Directors will also monitor the progress.

The Compensation Committee deliberated on reducing executive compensation, which the Board adopted. The deliberation started with understanding the incident and then considered the appropriate level compared to past incidents and incidents at other companies. Outside directors commented that it is very important to ensure all officers and employees of the group reflect on the reduction of executive compensation to guide our future actions.

CSO Takase: After the incident was identified, we discussed the root cause analysis and improvement measures, including with the outside directors. There are two key points: The first is the review of the positioning and promotion of the banking-securities collaboration. Although an accurate understanding of laws is the prerequisite for promoting collaboration, the accelerator and the brakes were poorly balanced. On this point, we shared the

understanding with the outside directors, and the management is implementing measures, including the framework, monitoring, and training. The second point is instilling the framework among front offices. As the incident involved a violation by an executive officer, we are promoting measures to ensure the same level of understanding among officers and employees. We will continue to report the progress to the Board.

Q. What is your assessment of the current initiatives on improvement measures?

A: Director Kuwabara: The Board of Directors is receiving regular reports on the status of initiatives on improvement measures. However, confirming the level of penetration in front offices is not easy. We will determine the results based on employees' opinions at town hall meetings and the results of the employee survey to be conducted.

Director Tsuji: I appreciate that the top management has acknowledged the fault and is communicating the responsibilities of the whole group regarding the incident, including at the town hall meetings, and actively engaging in dialogues with employees. On the other hand, we are waiting for a detailed explanation by the executives on how to measure the penetration level of improvement measures. It is unrealistic to check all items regarding the level of employees' understanding and compliance with the rules including the details at an internal audit. Thus, we must quickly confirm which parts have been thoroughly instilled and which parts have remaining issues, using surveys and opinions received by the consultation desk.

CSO Takase: Measurement of the penetration level of the improvement measures is an issue to be addressed, and we are starting to implement various measures. More specifically, we are analyzing the results of employee tests and surveys and the number and change in the contents of inquiries received by the consultation desk. Steadily capturing the concerns and observations of front office employees is essential. We have started building a framework to return the issues identified to front offices.

Q: What were the discussion topics on the policy of reducing equity holdings?

A: CSO Takase: We are discussing the significance of equity holdings for each company to achieve "zero" holdings. Sales exceeded JPY500 billion during the previous Medium-Term Business Plan (MTBP) against the initial target of JPY300 billion. The JPY350 billion target was set when the current MTBP was announced, but the investors and outside directors commented that it was insufficient. It was intended as the minimum target, with the expectation to achieve further sales. However, based on discussions considering the change in the external environment and the progress of negotiations with the customers, a decision was made to double the initial target to JPY700 billion. The timing for achieving a ratio of less than 20% of consolidated net assets will also be accelerated to within the current MTBP. That will not be all, and we will keep working on how to proceed with

further reductions as executive management.

Director Kuwabara: Outside directors commented that the target of JPY350 billion seemed low when the current MTBP was being prepared. However, it was set at JPY350 billion based on opinions by executives preferring that the target be set as the minimum threshold and to achieve results beyond the target to prevent confusion in front offices. Subsequently, we raised the target in response to the change in the public's understanding of equity holdings, among other things. I feel it could have been raised a bit sooner. On the other hand, I do appreciate that the target was raised flexibly, and the approach has been revised from accumulating results to presenting the management's commitment.

Director Tsuji: Setting the reduction target and promoting the sale based on clear objectives for equity holdings and sales is critical. I have been saying that the management should clearly state its vision rather than selling due to external pressure or holding to defend against takeovers. A future portfolio with economic rationale must be clearly envisioned rather than simply promoting the reduction of holdings. Otherwise, we will only accumulate cash, which is not what corporate management is about.

The raised reduction target should not result in one-sided sales taking advantage of the position as a financial institution. Specific procedures should be followed with a customer-oriented perspective; I will focus my attention on this.

Q: What was your impression of MUFG when you were appointed outside director, and what are the recent changes?

A: Director Tsuji: I was appointed when MUFG was considering the sale of MUB, and the large-scale project was being discussed. Back then, the executive side sometimes did not provide sufficient explanation and outside directors asked for a detailed explanation. Now, we have extensive discussions corresponding to the projects. There have been improvements in the operating process to ensure that factual confirmation does not take up all the time at the Board of Directors meetings. However, we still have room for improvement, such as the volume of materials. The Board of Directors deliberates many agendas, and we will use time on discussions rather than factual confirmation.

Director Kuwabara: As an attorney specializing in corporate legal affairs, I have contact with various entities. I have been impressed with MUFG's level of governance. On the other hand, the method of discussions and allocation of time were issues raised during the evaluation of the effectiveness of the Board of Directors. The executive side has implemented solid measures on operational issues, and improvements have been made. The business performance is strong as we return to the normalized interest rate environment. However, there is no finish line for improving governance. We shall solemnly reflect on the incidents and endeavor to inspect and improve the whole rather than merely addressing

individual symptoms.

Q. In enhancing the effectiveness of the Board of Directors, do you see issues with the composition and operation of the MUFG Board of Directors or the number of internal directors?

A: CSO Takase: The current Board has a good balance of directors with expertise in areas such as legal affairs, accounting, and corporate management. It enables insightful deliberation of individual agendas from broad perspectives. I do not think that having 16 members on the Board is too many.

Director Tsuji: The operation is smooth, with questions from individual directors answered at the pre-briefing sessions to focus on sufficient discussions of the agendas at the Board meeting. Furthermore, there are meetings other than the Board of Directors, such as a meeting among the outside directors and between the chairperson, president, and the outside directors, enhancing the communication between the supervisors and executives.

Director Kuwabara: The composition of the Board of Directors should be balanced to secure diverse knowledge while ensuring that the quality of the discussion is not compromised due to the large number of members. The current Board engages in quality discussions based on diverse opinions. In addition, the questions raised at individual pre-briefing sessions are reflected on the materials for the Board meetings, enabling the directors to attend the meeting with shared understanding. Efforts have been made so that the benefits of having a large Board of Directors are realized

CSO Takase: The CEO of each entity is held accountable at the holding company's Board of Directors meeting. The entities and the holding company have an integrated operation of the Board of Directors.

Q. What do you think is the background for the series of incidents in the financial services industry, including at MUFG?

A: Director Kuwabara: Incidents vary from those caused by individuals to those taking advantage of lenient governance. Response to an incident should not be about treating the symptom. It must be taken as a significant opportunity to build an improvement measure through lateral deployment and repeated inspections.

Director Tsuji: It is difficult to narrow down to a single cause. MUFG engages in financial services business as a group that includes various entities. Compliance must be established, but as the top management needs to pay attention to diverse entities, the risk of exploitation of gaps is increasing. Furthermore, an incident also occurred involving traditional banking business, so the existing internal control, inspection, and audit procedures were insufficient.

The cause of this incident was not the diversification of operations, so the foundation of the organization must be revisited and corrections must be made, one at a time.

Q. I am concerned that the improvement measures will result in stricter rules and increase operational burdens. Can you create a framework that can prevent incidents while maintaining efficiency?

A: Director Kuwabara: There is a need to raise awareness on rules for implementing banking-securities collaboration. However, a delicate balance must be struck on complying with rules and maintaining efficiency, such as by establishing a consultation desk to prevent cumbersome procedures.

Director Tsuji: There is a possibility that efficiency may be compromised with a more complex framework. There is also the risk of human errors caused by long work hours for the employees in charge of the multi-layered frameworks created to prevent incidents. The pursuit of efficiency requires an effort to create a flat rather than a multi-layered structure, such as by minimizing human errors with DX.

Q. What is the policy after achieving the target reduction of equity holdings of JPY700 billion? Will you review the purpose of holdings and prospective sale, and indicate the direction?

A: CSO Takase: Firstly, we must achieve the challenging target of JPY700 billion and the ratio of less than 20% of consolidated net assets, which reflects the management's vision. Then, we will continue to review the significance of holdings for all names including the economic rationale and negotiate the sale. The reduction target under the current MTBP is merely a milestone. The next reduction target amount and the timing will be reviewed, based on the progress.

Q. What was the background for setting the initial target reduction of equity holdings at JPY350 billion?

A: Director Kuwabara: The Board of Directors held multiple discussions on the establishment of the MTBP. Outside directors commented that the reduction target seems low during the discussions. Executives provided detailed explanations of the agreed amount with the customers at the time and concerns over unilaterally announcing a significant reduction target without their consent. As a result of much discussion, the Board approved the initial target of JPY350 billion.

Q. Is there an example of cooperation and exchange of opinions among outside directors of the holding company and the entities in considering the improvement measures in response to the administrative actions?

A: Director Tsuji: The Audit Committee of the holding company has close communication

with the Audit and Supervisory Committees of each entity. In response to the administrative actions, the Audit and Supervisory Committee of each entity monitors the individual process for resolving governance issues. The holding company's Audit Committee confirms that the processes are aligned with the objectives and whether there are no governance issues. This includes attending the Audit and Supervisory Committee meetings at the entities.

Director Kuwabara: MUFG has a structure to ensure an effective multi-layered governance. In addition to the organizational design at the holding company, the outside directors of each entity engage in supervision. Each entity is primarily responsible for addressing its issues, but the holding company will also monitor significant matters.

Q. What are the specific initiatives and issues regarding the development of compliance awareness?

A: CSO Takase: Accurately understanding the events occurring in the front offices is the top priority. It requires the development of a structure that encourages the employees to speak up and allows front office management and the head office to capture the issues raised by the employees. In addition, front office and headquarters should feel closer with the implementation of a dialogue-based training method, among other things. The measures will be promoted with strong awareness to prevent incidents.

Director Tsuji: The violation of banking-securities firewall regulations occurred in the cross-entity collaboration business, a relatively new business operation. Recurrence must be prevented by instilling regulatory compliance and thoroughly reviewing the rules and procedures. On the other hand, safe deposit boxes are a long-standing business, and there may have been a belief that an incident could not happen. There is no room for complacency even in areas of traditional operations that have full internal control systems and have not experienced incidents before. As the improvement measures are implemented, there is a possibility that cases requiring inspection may be identified in existing business areas.

Director Kuwabara: I visited a branch office, which was a good opportunity to renew my understanding of the importance of the front offices. Creating an environment that includes a better structure to reflect the voice of the front line on management is critical to ensure that aspiring front office employees can promote businesses that correspond to customers' needs appropriately and confidently. In addition, a solid framework must be built to prevent criminal conduct such as safe deposit box theft.

Q. Do the Nominating and Governance Committee and the Compensation Committee reference the approval rate at the shareholders' meeting during the evaluation and nomination of directors?

A: Director Kuwabara: The Nominating and Governance Committee has discussions and identifies issues from the perspective of the “fit and proper principle.” The executives report on the result of the exercise of votes and approval rates at the shareholders’ meeting. It is important to report MUFG’s initiatives to the investors while fulfilling the duty of monitoring the solid establishment of improvement measures based on the root cause analysis.

Q. The bank and trust bank have pension assets exceeding the retirement benefit obligations. Excessive reserves lower the CET1 ratio. Shouldn’t the capital be used more efficiently?

A: Director Tsuji: The priorities will be determined to further improve capital efficiency, including the retirement benefit trust.

CFO Togawa: Under the current MTBP, equity holdings will be reduced to less than 20% of consolidated net assets on a market value basis, including deemed holdings of equity securities. Retirement benefit trust belongs to the employees, and the company does not necessarily have 100% control over it, but the matter will be reviewed, including the impact on the CET1 ratio.

Q. Will the incidents affect the initiatives to transform the corporate culture?

A: CSO Takase: “Accelerating transformation and innovation” is one of the three pillars of the current MTBP, building on the initiatives from the previous MTBP on corporate culture transformation. The aim is to become an agile, transparent, and autonomous organization where the management listens to employees’ voices and provides feedback. Regarding the incidents, significant issues with the organizational culture were not identified. However, the violation of the banking-securities firewall regulation highlighted the insufficiency of the framework for capturing the confusion at the front office. The improvement measures will be implemented to overcome these issues.

Director Tsuji: The administrative actions did not point out issues with the overall organizational culture. However, improvement is necessary in the compliance culture, where some employees had insufficient understanding of regulatory compliance. High transparency on the part of executives in solidly implementing measures will improve the corporate culture. This is consistent with the transformation of the corporate culture stated in the MTBP, and the supervisory side will implement steady monitoring.

Director Kuwabara: Realization of the transformation of corporate culture stated in the MTBP will serve as an effective base to enforce improvement measures. Promoting both the cultural transformation and penetration of improvement measures is essential.

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