

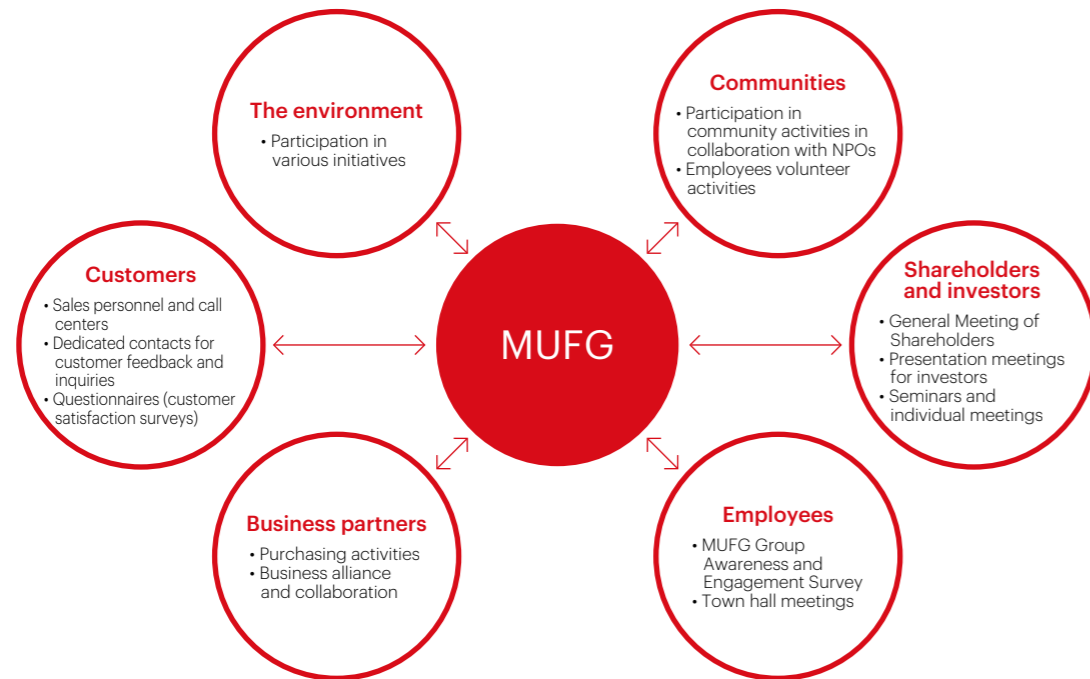


# Foundations of Value

# Enhancing Our Corporate Value through Committed Engagement with Stakeholders

MUFG believes that winning the support of its various stakeholders is essential to securing sustainable growth in its business activities and thus its corporate value. In line with this belief, we engage with stakeholders via a variety of channels and take heed of their expectations and requests to make improvements in our business management.

MUFG's Channels for Communication with Stakeholders



## Dialogue with Employees

MUFG holds town hall meetings and round-table conferences aimed at enhancing mutual understanding between top management and employees and ensuring that MUFG's visions and policies are shared by all. Furthermore, MUFG's executives often visit branches and interact with the frontline employees who directly engage with customers, exchanging insights about how to enhance MUFG's onsite capabilities. This interaction is an example of their efforts to create a better workplace in which employees' opinions are reflected in business operations and every employee finds their job rewarding.

## Engagement with Communities, Local Societies and the Environment

As members of the communities they serve, MUFG employees proactively participate in volunteer and other locally rooted activities to nurture ties with other community members.



At the same time, MUFG engages with NGOs and NPOs, incorporating the insights and advice such bodies provide into its environmental, social and governance (ESG) initiatives in an effort to maintain the trust and confidence of local societies at home and abroad.

## Dialogue with Customers

We are endeavoring to improve our operations and service quality by incorporating customer feedback. Moreover, we are striving to enhance employee skills so that all customers can rest assured about our services. Setting our sights well above the mere protection of customer trust, we are thus striving to build new trust for the future.

## Concepts behind MUFG's Customer Relations

Ensuring the consideration of customer's perspectives and being fair and sincere in our undertakings are basic to our business operations.

In line with the Corporate Vision, MUFG has published its Principles of Ethics and Conduct, a set of standards each officer and employee should apply to their day-to-day business conduct and decisions. The Principles open with a chapter entitled "Customer Focus," and we are engaging in exhaustive initiatives to be the embodiment of this tenet.

In addition, MUFG announced the MUFG Basic Policy for Fiduciary Duties to provide unified guiding principles aimed at ensuring that a customer-centric approach is thoroughly embraced by all Group entities.

## Monitoring System

For MUFG, comments and requests from customers constitute valuable assets. Each Group company\* is continually collecting, analyzing and sharing the "Voice of Customers," in order to improve its services. Based on this input, in fiscal 2018 we made a total of 345 improvements.

\* The Bank, the Trust Bank, MUMSS, NICOS and ACOM

## Introducing Universal Design

To ensure that every customer can use its services with confidence, MUFG is pushing ahead with ongoing efforts from two angles: 1) enhancing employees' customer engagement skills to meet diverse customer needs (hospitality) and 2) developing barrier-free branches capable of

accommodating all customers no matter their age, physical condition or disability (facility). As such, we are abiding by the spirit of universal design in various ways.

## • A Trust Product with Proxy Withdrawal Functions Released

With the rapid aging of society, a growing number of people are expected to develop dementia; a Cabinet Office survey revealed that in 2025 one out of five of those aged 65 or older will be affected by this disease. To address issues arising from this phenomenon, the Trust Bank is offering products and services with asset management functions employing digital technologies.

For example, the Trust Bank released a trust product with proxy withdrawal functions, in March 2019. This product enables family members or other individuals registered as proxies for elderly customers (beneficiaries) to carry out withdrawals on their behalf. Employing a dedicated smartphone app, both the beneficiaries and proxies are allowed to withdraw funds, while notice of any withdrawal request being filed is immediately sent to these individuals as well as to registered non-proxy family members. The app also provides the details of such requests while giving access to account statements.

Other functions include an optional setting for a waiting period that allows the beneficiary, the proxy and family members to confirm or deny any withdrawal request filed.

## • Sign Language Service Using a Teleconferencing System

The Bank and NICOS are equipped with call center functions that offer access to a teleconferencing system to customers with hearing disabilities or conversational handicaps so that they may connect them with operators who use sign language or communicate via text.

In Addition, the Bank began offering these services at bank counters from January 2019 onward.



# Risk Management

## Basic Policy

Since the 2008 financial crisis, financial institutions have been compelled to adopt more comprehensive and sophisticated risk management systems. This risk management function has also grown in importance for MUFG as a global bank with subsidiaries spanning the commercial, trust and investment banking sectors.

MUFG aims to strengthen its Group risk management through the diffusion of a risk culture that strengthens the structure of Group business management as well as integrated risk management. Our goal is effective risk governance that is consistent across regions, subsidiaries and the holding company.

Furthermore, the Risk Appetite Framework provides guidelines for effective risk management that backs our business strategy and financial plan while supporting efforts to avoid unexpected losses and enhance risk return management.

## Risk Appetite Framework

The Risk Appetite Framework aims to clarify MUFG's risk appetite (types and amount of risk that it is willing to accept) as it works to achieve its business strategy and financial plan. The framework is designed to increase management transparency and generate more profit opportunities in an environment where risk is properly controlled.

## Risk Appetite Framework Management Process

In the formulation and execution of its business strategy and financial plan, MUFG will set the appropriate level of risk appetite and proceed to monitor and analyze risk volume.

The process of setting and managing risk appetite is outlined on the next page. In order to effectively implement the Risk Appetite Framework, risk evaluation and verification procedures (Top Risk management, stress tests, capital allocation system) will be applied at every stage of the management planning process.

Furthermore, even after the plan is formulated, we are ready to take immediate action in emergency situations through monitoring of the set risk appetite.

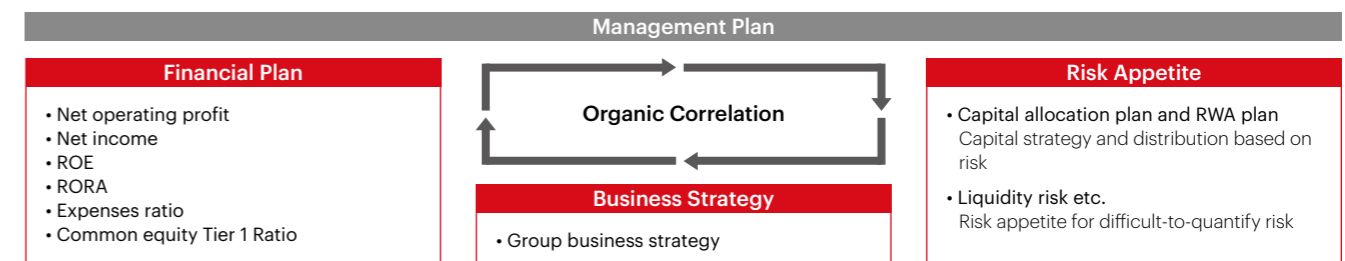
## Risk Appetite Statement

The Risk Appetite Statement elucidates the Risk Appetite Framework, which embodies MUFG's attempts to achieve an integrated group strategy along with effective risk management. The Risk Appetite Statement contains an overview of the Risk Appetite Framework (basic policy and management process) as well as specific business strategies, financial plans and risk appetite details.

A summary of the Risk Appetite Statement is distributed throughout the Group in an effort to spread the basic philosophy behind the Risk Appetite Framework.

Through the penetration of risk culture and risk appetite framework, we will take action in anticipation of environmental changes both inside and outside of the Group, while the environment continues to be uncertain.

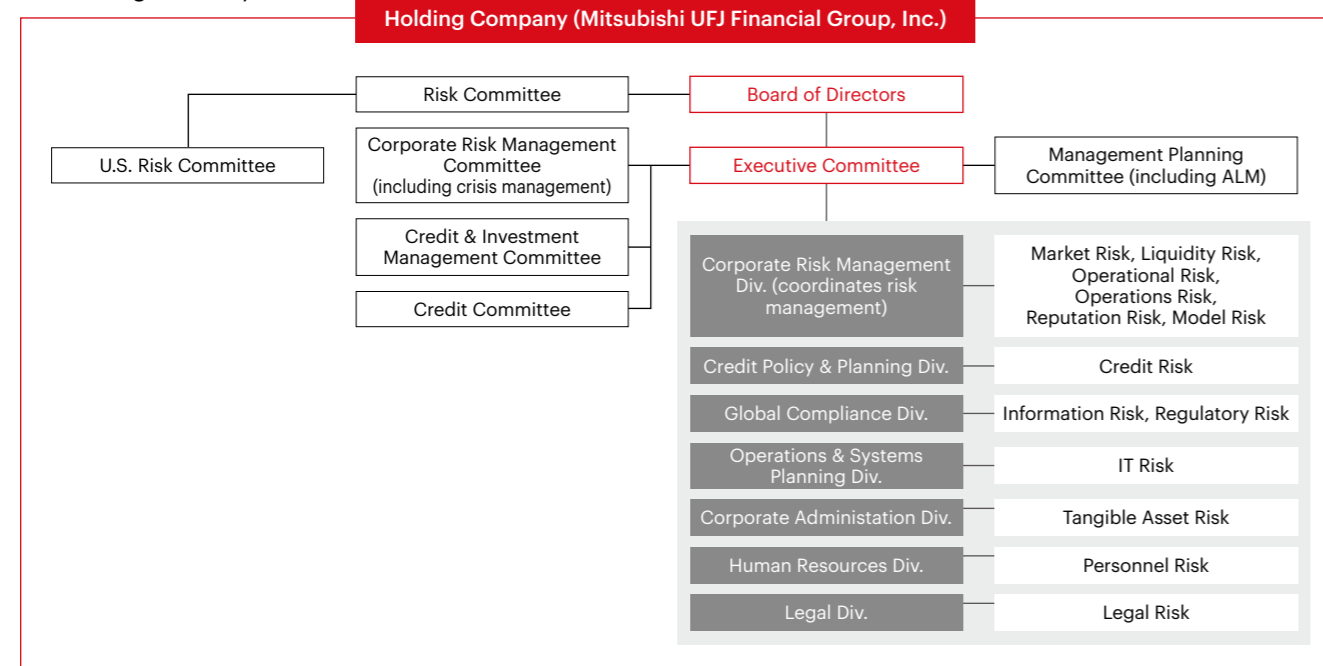
### Risk Appetite Framework



### Risk Appetite Setting and Management Process



### Risk Management System



### Enterprise Risk Management

MUFG makes every effort to recognize the risks that emerges in the course of business execution, assessing it according to uniform criteria. Enterprise risk management is then conducted while maintaining business stability and striving to maximize shareholder value. Enterprise risk management is a dynamic approach, promoting stable profits commensurate with risk as well as the appropriate allocation of resources.

Enterprise risk management is composed of three main strands: Top Risk management, stress tests and the capital allocation system.

#### Top Risk Management

The potential losses that emerge from scenario analysis are classified as risks and then their relative importance is weighed according to degree of impact and probability. The risks that need to be watched most closely over the next year are classified as Top Risks and a risk map is created, thereby ensuring a forward-looking approach to risk management. Moreover, this approach also addresses medium- to long-term risks, including those associated with digitalization and ESG issues, with robust measures being prepared to ensure our responsiveness to emergencies.

At MUFG and its core subsidiaries, management is regularly engaged in discussions aimed at

addressing Top Risks to ensure that the understanding of these risks is shared throughout their organizations. By doing so, management is implementing effective risk control measures. In addition, conclusions reached via these discussions are reflected in stress test scenarios as necessary to accurately verify our capital adequacy and our business and financial plans. (Major Top Risks identified by MUFG are as listed below.)

#### Stress Tests

• **Stress tests for capital adequacy assessment**  
In formulating its business strategy, MUFG regularly assesses its internal capital adequacy through stress tests based on Basel III capital adequacy regulations.

Stress tests analyze the prevailing economic environment at home and abroad as well as the future outlook while giving due consideration to the MUFG Group’s business structure. The three-year-period scenarios are thus created and utilized to calculate and assess the impact on our capital ratio arising from the materialization of risks. This also helps us verify the propriety of our business strategy.

• **Liquidity stress tests**  
In liquidity stress tests, the impact of MUFG-specific or overall market stress on the balance sheet is assessed so as to implement MUFG’s business strategy and financial plan. Various options are examined to respond to short-term fund outflows or

long-term structural changes in the balance sheet with a view to ensuring there is no funding shortage.

#### Capital Allocation System

In this framework, latent losses associated with risk are converted to a required capital amount, and capital is then allocated across Group companies and between different risk categories according to business strategy and the profit plan. The framework is intended to allow the appropriate distribution of capital throughout the Group as MUFG monitors to preserve financial soundness, evaluate capital adequacy versus risk and judge impact on overall capital strategy.

#### Enhancing the Effectiveness of Risk Management

Effective risk management and a strong Risk Appetite Framework depend on a Risk Culture that enables meaningful discussion and clear communication throughout the Group.

#### Developing and Diffusing a Risk Culture

MUFG defines a Risk Culture as the basic approach that specifies how to take risks and risk management for MUFG’s organizational and individual behaviors. Our Risk Culture is incorporated into the MUFG Group Code of Conduct, a set of standards aimed at guiding judgments and actions undertaken by Group officers and employees in the course of their daily operations. In accordance with our aim to further enhance the Group’s risk governance structure, we are disseminating this Risk Culture throughout the Group so that it is embraced by every employee.

To learn about our MUFG Group Code of Conduct, please refer to page 98.

#### Major Top Risks

| Risk incidents*  | Risk scenarios   |
|--|--|
| A decline in profitability (including a decline in profitability of net interest income) | <ul style="list-style-type: none"> <li>Decline in profitability of net interest income due to negative interest rate policy.</li> <li>Decline in overall profitability due to constraints on balance sheet size caused by regulatory factors.</li> </ul>   |
| Foreign currency liquidity risk  | <ul style="list-style-type: none"> <li>Depletion of foreign currency liquidity or significant increase in costs due to deterioration of market conditions.</li> </ul>  |
| An increase in credit costs  | <ul style="list-style-type: none"> <li>Rises in credit costs in specific sectors and regions with potential credit concentration risk because of the slowdown of real economies around the world due to the U.S. and European central banks’ exit strategies from monetary easing and the heightening tensions in the Korean peninsula, Middle East and other regions with geopolitical risk.</li> </ul> |
| IT risk  | <ul style="list-style-type: none"> <li>Customer information leakage and reputational damage due to cyberattacks.</li> <li>Payment of compensation costs and reputational damage due to system failure.</li> </ul>  |
| Risk associated with money laundering and economic sanctions                             | <ul style="list-style-type: none"> <li>Regulatory issues such as the infringement of anti-money laundering regulations or applicable regulations related to economic sanctions could lead to legal actions such as business suspension or civil fines, and reputational damage.</li> </ul>   |

\* The aforementioned risk scenarios are examples of scenarios reported to MUFG’s Board of Directors after being discussed at a Risk Committee meeting held in March 2019. These scenarios include types of incidents that are not necessarily specific to MUFG and can happen to business corporations in general.

### Cyber Security

MUFG is well aware of its social responsibilities for securing the assets entrusted by its customers and its obligation to provide secure and stable financial services. With this in mind, MUFG has positioned threats posed by cyberattacks and other relevant events as Top Risks. Accordingly, we have appointed a Group Chief Information Security Officer (CISO), and are promoting cyber security measures under management’s leadership.

By having announced the Cyber Security Management Declaration, the summary of initiatives undertaken by MUFG, we have enhanced existing risk identification and prevention activities utilizing the MUFG-CERT; a dedicated team in charge of detecting and responding to cyber threats and subsequent restoration. Furthermore, efforts are under way to raise our incident-response capabilities by establishing and updating procedures/manuals, conducting periodic drills/training and updating our contingency plans.

In April 2019, we established the MUFG Cyber Security Fusion Center, a cyber security specialized task force that is in charge of threat intelligence analysis and security monitoring. This task force provides an

efficient and effective cyber centric security function for the group globally.

For customers who use digital banking and other services, we ensure the safety and soundness by distributing onetime passwords, smartphone apps and by strengthening security functions etc. in system development.



# Compliance

## Basic Policy

We have clarified our Group mission, long-term vision and shared values in the Corporate Vision and expressed our commitment to meeting the expectations of customers and society as a whole. Furthermore, we have established the MUFG Group Code of Conduct as the guidelines for how the Group's directors and employees should act to realize the Corporate Vision. This expresses our commitment to complying with laws and regulations globally, 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 our business globally, we are committed to keeping abreast with developments in the laws and regulations of the jurisdictions in which we operate, including those targeting money laundering and bribery, as well as competition laws, while paying attention to trends in financial crimes.

## Compliance Framework

Compliance management divisions have been established at the holding company and the major subsidiaries, namely, the Bank, the Trust Bank and Mitsubishi UFJ Securities Holdings (hereinafter, "three 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 has the Group Compliance Committee while the three subsidiaries have Compliance Committees operating under their executive committees with the aim of deliberating important compliance matters. Additionally, the holding company has the Group Chief Compliance Officer ("CCO") Committee composed of the CCO of the holding company and the CCOs of the three subsidiaries. This committee deliberates important matters related to compliance and compliance-related issues for which the Group should share a common understanding.

## Initiatives to Enhance Global Financial Crimes Compliance Framework

In November, 2017, MUFG Bank established the Global Financial Crimes Division ("GFCD"), which is in charge of Anti-Money Laundering ("AML"), Sanctions Compliance, and Anti-Bribery and Corruption (collectively, "Global Financial Crimes Compliance"). GFCD is headquartered in New York, where the excellence for Global Financial Crimes Compliance is centralized. The aim is to enhance the Bank's global program to prevent and detect Global Financial Crimes, against the backdrop of the heightened regulatory expectations in that area. At the same time, Regional Financial Crimes Offices under GFCD, which are responsible for the implementation of Financial Crimes Compliance in the region, were established in the Americas, Japan, EMEA and Asia, respectively.

Following the establishment of GFCD in 2017, MUFG GFCD was also established in New York in August, 2018 to ensure a consistent Global Financial Crimes Compliance program across the Group.

GFCD is establishing policies that define the governance and oversight structure for the

management of the Financial Crimes Compliance framework across MUFG and provide the foundation for the implementation of the Financial Crimes Compliance program in a manner that is commensurate with the strategies, business activities, and risk profiles of each Group Company as well as standards that define more detailed requirements.

Under GFCD's leadership, MUFG will implement the Financial Crimes Compliance policies and standards across all of MUFG, ensuring a consistent and integrated approach. Furthermore, GFCD will develop a program framework to maintain the effectiveness of the program throughout the Group globally.

In addition, toward the upcoming 4th FATF Mutual Evaluation in Japan in fiscal 2019, we recognize the paramount importance and urgency of enhancing Global Financial Crimes Compliance functions in Japan, as a financial institution that takes important part in Japanese financial system. We are currently working on the tightening of procedures related to verification at the time of transaction, etc, in line with regulatory requirements and expectations.

## Revising the MUFG Group Code of Conduct to Encourage "Doing the Right Thing"

Today, businesses at home and abroad are exposed to a growing risk of a decline in corporate value resulting from the violation of legal regulations or ethical standards. With an eye to securing responsiveness to this risk, in April 2019 we revised the MUFG Group Code of Conduct (hereinafter, the "Code of Conduct"), which provides guidelines to be referred to by each officer and employee to encourage them to "Do the Right Thing" in the course of business activities.

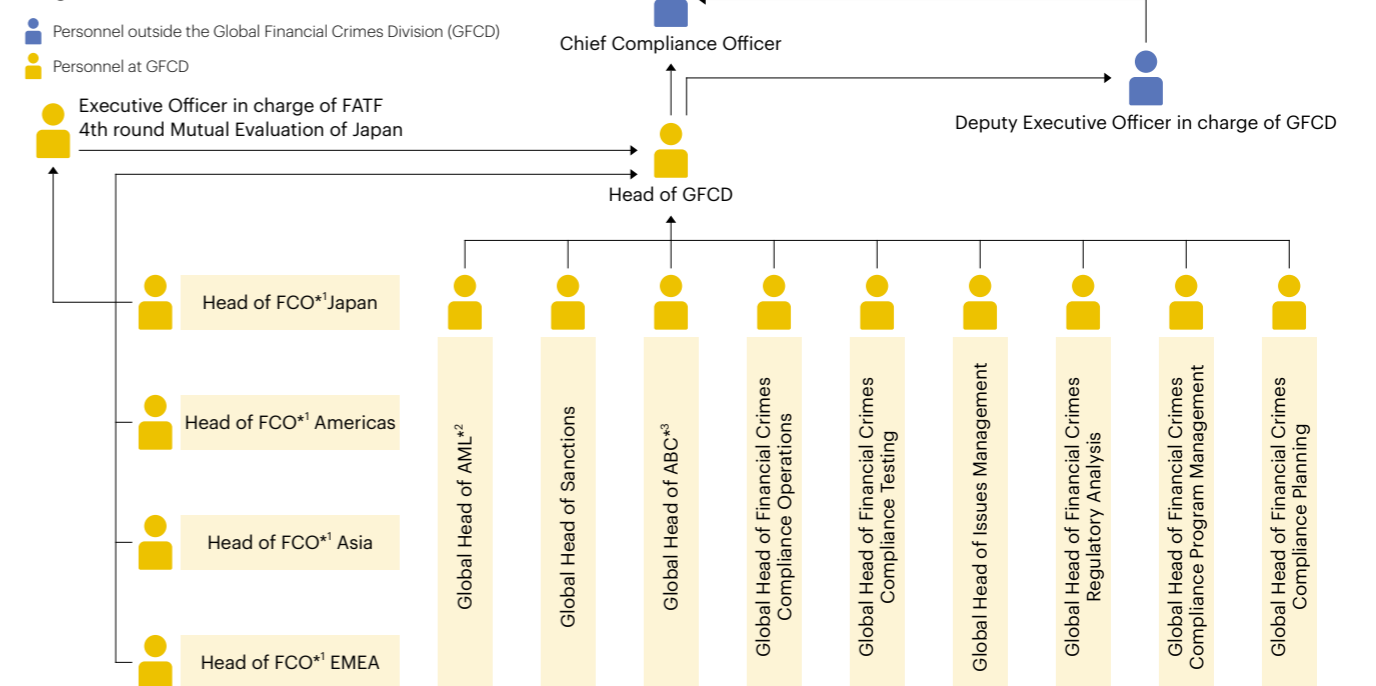
Specifically, the revised Code of Conduct is equipped with a checklist available to Group employees for their reference whenever they have concerns or are unsure of their judgment. The revision also clearly defined the roles and responsibilities of managers, who are expected to serve as a role model of their staff.

In addition, the Code of Conduct now includes illustrative narratives that help employees to clearly understand what it takes to act in accordance with the principles of the Code of Conduct. These narratives show specific cases on, among others, the importance of learning from mistakes and quality management as well as the promotion of whistle-blowing system.

Going forward, we will continue to strive to ensure that the Code of Conduct is embraced and practiced by all Group members. To this end, we will periodically communicate messages from top management to encourage all employees to "Do the Right Thing" while providing various training programs including DVD-based learning as well as incentive programs, such as evaluation system.

For the full text of the Code of Conduct, please also visit our corporate website.  
URL: [https://www.mufg.jp/dam/profile/governance/ethics/pdf/codeofconduct\\_en.pdf](https://www.mufg.jp/dam/profile/governance/ethics/pdf/codeofconduct_en.pdf)

Organization Chart (GFCD of MUFG Bank)



\*1 Financial Crimes Office \*2 Anti-Money Laundering \*3 Anti-Bribery and Corruption



## Internal Audit

### Role of the Internal Audit

Internal audit functions verify the adequacy and effectiveness of internal control systems from a standpoint independent of operating functions. 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 the internal audit is to make suggestions to help improve or rectify any issues or specific problems that are identified.

### Group Internal Audit Framework

The MUFG Group has internal audit functions at the holding company level as well as at the subsidiary level that are designed to enable the Group to provide coverage for all operations and support the Board of Directors of the holding company in the exercise of its supervisory functions.

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.

### Implementing Effective and Efficient Internal Auditing

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. In addition, internal auditors attend key meetings, collect important internal control documents and implement other necessary measures to facilitate efficient off-site monitoring.

### Reports to the Audit Committee

The holding company has an audit committee within its Board of Directors as required by the Companies Act of Japan.

The internal audit division reports to the committee on important matters, including governing principles for internal audit plans and the results of internal audits.

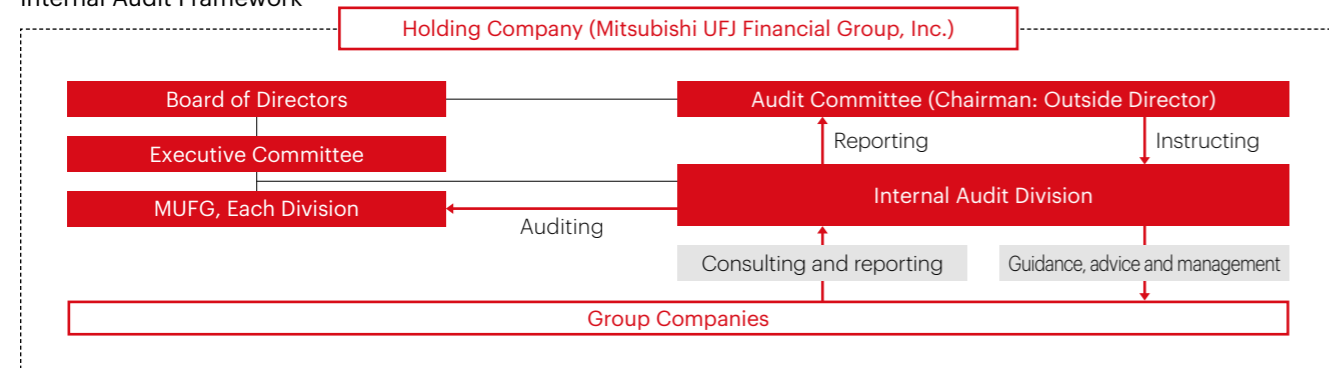
### MUFG Internal Audit Activity Charter

In April 2019, the MUFG Group adopted the “MUFG Internal Audit Activity Charter,” which defines its basic policies for internal auditors, including their mission, purposes, responsibilities, and roles. This charter encourages internal auditors to conduct internal audits in accordance with the global standards set by the Institute of Internal Auditors, thereby contributing to the enhancement of the corporate value of the Group and to the achievement of the Group’s corporate vision. This charter is thus designed to raise the acuity of internal auditors.

\*An international association headquartered in the United States, the IIA formulates practical standards for internal audits, issues accreditation for certified internal auditors (CIA) and engages in other activities aimed at providing leadership for the global profession of internal auditing.

For the full text of the charter, please also visit our corporate website. <https://www.mufg.jp/english/profile/governance/audit/index.html>

#### Internal Audit Framework



## Responding to Global Financial Regulations

Since the global financial crisis of 2008, financial institutions have been required to uphold higher standards of financial soundness and management discipline, with a number of new regulations having been developed and implemented. In this section, we explain our response to these regulations and challenges that we will face in the future.

### The Status of Our Compliance with Prudential Regulations

As of March 31, 2019, the following Basel III requirements are applied, and MUFG has been compliant, meeting the required level for each item.

|                                    | Required level*1          | Results as of March 31, 2019 |
|------------------------------------|---------------------------|------------------------------|
| Common Equity Tier 1 Capital Ratio | 8.54%                     | 12.23%                       |
| Tier 1 Capital Ratio               | 10.04%                    | 13.90%                       |
| Total Capital Ratio                | 12.04%                    | 16.03%                       |
| Leverage Ratio                     | 3.0%                      | 4.94%                        |
| External TLAC*2 Ratio              | Risk-weighted asset basis | 16.0%                        |
|                                    | Total exposure basis      | 6.0%                         |
| Liquidity Coverage Ratio           | 100.0%                    | 141.2%                       |

\*1 Figures calculated taking into account a capital conservation buffer of 2.5%, a G-SIB surcharge of 1.5%, and a counter-cyclical buffer of 0.04%.  
\*2 Total Loss-Absorbing Capacity: This obliges G-SIBs, whose failure would have a major impact on the financial market, to acquire additional capital and liabilities.  
\*3 Excluding a capital buffer.

### Upcoming Regulations MUFG Must Comply with in the Future

#### Implementation of Agreed-Upon Global Standards

With the December 2017 finalization of revised Basel III framework, international regulatory reforms aimed at securing preparedness to the global financial crisis are deemed generally completed. Looking ahead, MUFG is called to maintain compliance with the following international standards that will be applicable to domestic banks.

| Internationally agreed-upon deadline for implementation | Main items  |
|---|---|
| 2018  | ● Net Stable Funding Ratio (NSFR)   |
| 2022  | ● Upwardly revised External TLAC Ratio requirements<br>Risk-weighted asset basis (18.0%)<br>Total exposure basis (6.75%)<br>● Upwardly revised Leverage Ratio requirements (3.75%)*<br>● Revisions to various risk-weighted asset measurement methodologies<br>Standard credit risk measurement methods<br>Internal rating methods for credit risks<br>Credit assessment adjustment risks<br>Fundamental Review of Trading Book (FRTB)<br>Operational risks<br>Output floor |

\* Premised on the sum of the ratio of 3.0% and half of the G-SIB buffer of 1.5%.

### Addressing the TBTF Problem

All G-SIBs,\* including MUFG, are required to prepare recovery plans aimed at reducing the possibility of failure and secure ability to take practical steps to ensure orderly resolution. As one of the G-SIBs facing growing calls for a definitive solution for the so-called TBTF (too-big-to-fail) problem, MUFG is steadily upgrading countermeasures in place to satisfy the aforementioned requirements.

\* G-SIBs refer to Global Systemically Important Banks, institutions whose failure would have a major impact on the global financial system according to the Financial Stability Board (FSB).

### Outlook

For the international standards to take full effect, it is quite important to ensure their timely and consistent implementation in each jurisdiction. However, there are deviations in some jurisdictions, prompting growing concerns about market fragmentation in countries around the globe.

Moreover, the global economy may be hit by a major crisis caused by unexpected factors. We must also be vigilant against newly emerging risks arising from technological advancements or climate change.

With this in mind, MUFG will strive to realize an optimal global financial regulatory framework so that it will contribute to global economic growth, which is the fundamental role of financial institutions.