

Small Meeting with Outside Directors

Main Q&A

- Q. Could you provide your perspective on MUFG's governance?
- A. Director Honda: MUFG is serious about improving its governance. As a company with nominating committee, etc., it has established a Risk Committee in addition to the Nominating and Governance Committee, Compensation Committee, and Audit Committee. I am on the Audit Committee and have spent more than 200 hours annually on the committee's meetings alone. MUFG's governance is characterized by the establishment of a board of directors and committees under it not only in the holding company but also in each of its business units, including the bank, the trust bank, and the securities, forming a system to maintain governance for both the holding company and each business unit. The holding company's audit committee has the opportunity to discuss twice a year with members of the audit committees of the main subsidiaries for a few hours each. I think MUFG has a structure that reflects its desire to be precise and careful in addressing governance as the company whose market capitalization is the second largest in Japan.

Director Sneider: Until I was appointed as an outside director of MUFG over a year and a half ago, I had the impression that MUFG was a very conservative organization. In fact, MUFG's corporate governance has made great progress over the past few years. For example, MUFG has adopted innovative ways for communicating information to outside directors and methods for having discussions so that Directors can concentrate on discussing critical issues. The company has also introduced meetings only of the CEO and outside directors and meetings where only outside directors discuss issues. In addition, participation in the Morgan Stanley (MS)'s board of directors has provided a great stimulus to MUFG to incorporate corporate governance under global standards.

The incidents were very regrettable. Compliance with laws and regulations is a top priority and I believe it is my responsibility as an outside director to ensure that management analyzes the root causes and adopts appropriate remedial measures. I believe that the governance in response to the incident was effective. Management reported the situation to the directors promptly and with transparency, conducted thorough analysis of the root causes and introduced countermeasures. In doing so, it listened to the opinions of outside directors in a sincere manner. For example, in the safe deposit box case, outside directors raised concerns about the possible vulnerability of areas of operations, other than safe deposit boxes, where weak internal controls might allow fraud by employees to occur. The executives took the comment sincerely and responded to it.

- Q. The external environment has been changing dramatically recently. With that in mind, what is your view of MUFG's efforts on sustainability?
- A. Director Sneider: First of all, in the current political climate, we need to distinguish between rhetoric on the one hand and action on the other hand. The actions that MUFG has announced, including the goal of carbon neutrality and sustainability initiatives, remain unchanged. In the sustainability report released in November last year, we updated the progress on the efforts to help realize a carbon neutral society as a priority issue included in "Drive social & Environmental Progress", which constitutes one of the three pillars of the current Medium-Term Business Plan (MTBP). It is my understanding that MUFG will

examine the business, credit, and reputational risks associated with changes in the external environment in a comprehensive manner but will not change its core commitments.

Director Honda: I believe MUFG's efforts are sincere, and that it considers wide-ranging factors and discloses decisions in a transparent manner from a long-term perspective. To elaborate on the "wide-ranging factors", the company considers momentous events that can have a significant impact on corporate value, including cybersecurity issues, which can affect society, governance areas such as proper taxation and accounting standards, not only climate change. The Board of Directors takes a long-term viewpoint and discusses solutions to issues, human resource development, investment plans, among others.

CSO Takase: Our commitment remains unchanged. We aim to increase customer engagement in Japan, Asia, and the world to realize transitions and work on MUFG's mission to build a sustainable society. On the other hand, our policy as executives is to discuss with the outside directors to decide how we should present our messages.

Q. What do you think are management issues in working to increase our corporate value?

A. Director Honda: When I became a director in 2020, I analyzed the component of MUFG's corporate value and found that its capital efficiency was low. Since that time, I have pointed out the low PBR and asserted the company should improve ROE. The executives took my view seriously and discussed specific measures to raise ROE. For example, from the viewpoint of appropriately managing loan and deposit pricing at levels commensurate with the value provided to customers, there has been significant improvement through various discussions. As for equity holdings, the outside directors and the executive share the same intentions to decrease them. The discussions have begun on ways to clarify the risk appetite of major businesses and how to allocate capital.

Director Sneider: In Japan, historically the typical management thinking regarding "corporate value" was, "A company has various stakeholders other than shareholders, so we cannot think only about the share price." This mindset was an obstacle to improvement in corporate value. However, over the past few years, this type of thinking has undergone a notable change, and executives now consider the core of corporate value improvement. When I was appointed to Director, I was impressed by the sincere attitude of senior management in their pursuit of both corporate and shareholder value. At Board of Directors meetings, indicators such as PBR and ROE and market valuations are shared and analyzed thoroughly, and then strategies are discussed. I expect corporate value can improve further as NIM improves due to changes in the domestic interest rate environment and capital efficiency increases through reduction in equity holdings.

More recently, discussions have been repeatedly conducted on the definition of ROE. In my view, MUFG should align with the TSE-defined ROE for comparability going forward. It is also important to consider which companies MUFG should compare itself with. As foreign banks have been operating in different interest rate environments, simple comparison with them is not possible, but comparison with global peers is a necessary process in considering growth strategies to achieve bold ROE targets. The investment in MS was a remarkable success, but I think that the value of MUFG's core business has not received the appreciation that it deserves. I think the company can realize upside in its corporate value by

demonstrating the strength of the core business.

Director Honda: I believe that MUFG's large strength of CIB business has been enforced after gaining MS as a partner. MS is growing significantly after MUFG's investment thanks to the success of a strategy centered on WM. While there is value the company can gain by working with MS, the company also contributes to MS' value with collaboration. On the other hand, even if we multiply MS's market capitalization by the stake and convert it into yen, you can see that it is not linked to our market capitalization. I hope that the market will take note of this fact.

Q. How outside directors share their knowledge and contribute to the operation of the Board and committees?

A. Director Honda: Each of the outside directors has diverse backgrounds and bring together their knowledge and experience. The executive side conduct discussions while sorting out the pros and cons of business strategy and discuss various points with seeking optimum solutions at the Board of directors meetings.

CSO Takase: As Director Honda explained, we appreciate the opinions of outside directors from various perspectives, such as global, U.S., Asian, and corporate management perspectives.

Q. Isn't there any concern about the large number of directors? There are an increasing number of companies in Japan that reducing the number of directors. Do you think the current number is appropriate?

A. Director Sneider: I note that MS has 12 outside directors and MUFG has nine independent outside directors. Each director participates in discussions using their various high skills and experience, and I don't have the impression that there are too many directors involved in making management decisions. It is good that outside directors have the opportunity to ask questions to Chairman Mike and President Kamezawa, who have detailed knowledge about the business of each of the MUFG Group subsidiaries, and then all members including CEOs of the principal business entities can discuss together. We are going to continue to discuss specifically what number of people would be appropriate, but I don't think there are too many directors at this point.

Q. What do you think are the areas inferior to global peers in terms of swiftness of decision making and organizational transformation?

A. Director Honda: To take the reduction of equity holdings as an example, there are three steps of decision-making, execution, and obtaining of customer consent. The third step takes long. This is an issue that arises precisely because MUFG is committed to being attentive to customers. However, I know investors have pointed out that the pace is slow. My understanding is that it is necessary to repeatedly approach customers.

Q. I think transformation of corporate culture is a vague theme and has difficult aspects to be involved in. How do you monitor it?

A. Director Sneider: I believe it is a challenge to monitor cultural transformation of a huge organization like

MUFG's. One way of monitoring it is the group awareness survey conducted once every year and we recently reviewed the results. We have checked progress from the perspectives of employee engagement, agility, etc.

In addition, during the past year when we visited the Shibuya branch and Nakano Central Park, MUFG created an opportunity for us outside directors to talk with employees, including from young ones to middle level ones. This gave me a great opportunity to learn about how employees on the ground feel about cultural transformation and are working on them. In addition, the company has rapidly increased midcareer hires since a few years ago and they have been bringing in new perspectives based on their experience at other companies. My expectation is that this will speed up the transformation.

One issue highlighted by the survey's outcomes is the simplification of rules and procedures. I think further improvement is needed to accelerate agility in daily operations.

Director Honda: More than half of MUFG's employees are foreign nationals, forming a culture that mixes diverse cultures. It is significantly different from the image of MUFG people outside the company may have. In addition to board meetings and various committee meetings, outside directors speak at or participate in new director training sessions in Japan and overseas and DEI events, and thus have opportunities to interact with various employees.

Q. The announcement of MTBP in last May was conservative and the targets including the reduction of equity holdings were below market expectations. What did the Board of Directors discuss?

A. Director Honda: The Board of Directors had intense discussions on the reduction of equity holdings. The key issue in the discussion was how much could be reduced on the premise that we should avoid a damage in MUFG's corporate value though the importance of the reduction of equity holdings. I don't deny that some had the feeling the market would not appreciate the initial reduction target. The result was a severe response from the market, and this led both the outside directors and executives to realize the market's expectations once again, and the company has corrected its course in a sound manner.

Q. Regarding the MUFG's PBR excluding MS being evaluated lower compared to other mega banks, what do you feel is not being properly evaluated specifically?

A. Director Sneider: I believe PBR excluding MS should be valued higher in comparison to other megabanks. If you look at the retail business, although there is room for improvement in the credit card business, the individual accounts totaling 34 million is a strength of MUFG. As Mitsubishi UFJ Direct improves, we can expect it to have an effect of defending this customer base and creating new transactions. Corporate banking business is also a strength, and I expect improvement in NIM in a world with interest rates. In addition, the company has a strong presence in areas such as AM and project finance, and it is important for MUFG to communicate these strengths clearly.

Q. Both of you also serve as outside directors of companies other than MUFG. Compared to other companies, how do you regard the diversity of MUFG's board composition and the quality of discussions?

A. Director Sneider: The other company I concurrently serve is in a different industry than MUFG's and its size is also different, which makes simple comparison difficult. I appreciate the diversity of MUFG's board composition and the way it conducts discussions without wasting time.

Director Honda: I serve concurrently as outside director at three companies, including MUFG, and my impression is that participants clearly express opinions and the number of comments made is large. As many directors from diverse backgrounds participate in the meetings, there are often conflicts of opinion, but we carefully discuss each comment.

Q. I'd like to hear the views of outside directors about the significance of maintaining relationships with counterparties that do not agree to sell equity holdings.

A. Director Honda: Since before I was appointed to its outside director, MUFG has continued voluntarily efforts to review its relationships with business partners that it comprehensively judged not to have positive impact on its corporate value, including equity holdings and other transactions. This fiscal year, we shared among the Board of Directors the severe way the market was regarding the company after we announced the initial reduction target for equity holdings. The Board of Directors again debated the issue repeatedly, and we had RMs of JCIB and CWM spend considerable time on reduction negotiation. The balance has decreased, but I understand that the company should continue these efforts.

Q. From the viewpoint of outside director, how do you regard the role of Senior Advisors and their contribution to MUFG? Also, is there any issue from the perspective of governance?

A. CSO Takase: The Senior Advisors support our activities in business groups, such as Keidanren, and external activities foundations for social contribution. None of the Senior Advisors participate in any of the normal executive decisions, and they work with us for a fixed term of office.

Director Sneider: I understand that in Japan, historically, senior management members have at times exerted influence on companies even after retirement and this has caused governance concerns. Through my involvement to date with management, I believe the Senior Advisors have had no impact on daily operations of the company. I believe that MUFG's governance is working without a problem.

Q. Discuss what aspects do you think, as outside directors, are challenges in order for MUFG to grow its global business from the perspective of transformation and human capital?

A. Director Honda: For example, MUFG is at top level in JCIB and GCIB areas such as acquisition finance including private equities and project finance. When I was with the Multilateral Investment Guarantee Agency (MIGA), I was in a position of overseeing deal flows. That experience tells me that the company is overwhelmingly strong not only in Japan but also in Europe, Asia and the U.S. In Europe and the U.S., from the perspective of human resources, strong execution teams of experienced senior bankers have been formed led by Kevin Cronin, a strong management.

On the other hand, as an issue to be addressed going forward, I see a significant room for improvement in the IT area, including cybersecurity. The Board has already taken up the issue on its agenda, and the executives have also recognized it as an issue and are discussing a plan to boost spending.

Q. Is there an evaluation process to measure the effectiveness of the Board of Directors? How do you approach management issues as outside directors through such a process?

A. Director Sneider: The company enlists once every year an independent external consultant to conduct a

Board evaluation through questionnaires and interviews, and all Directors are subject to it. The interviews are conducted individually with the outside directors, and I have had one. I provided advice and suggestions about areas where we need to improve, including corporate governance and board composition, which makes it an incredibly good opportunity.

Q. Are there any examples where MUFG learned from MS' initiatives in an effort to upgrade governance?

A. Director Sneider: We have executive sessions where the outside directors and the CEO exchange views, and they are modeled after MS's initiatives.

Q. Are there any situations in which you feel MUFG's conservative mindset is changing?

A. Director Honda: Midcareer hires now account for more than half of all hires in Japan, and it has become common for the company to rehire people who left MUFG. There has been a case in which a rehired person was appointed to Managing Director. In overseas offices, the number of cases in which Japanese nationals serve on the top posts has been decreasing. The change is certainly underway.

On the other hand, a seniority-based culture remains, and female Board members remain few, and these remain challenges. When I recently attended GCIB's DEI event, women represented 30% of the participants who joined physically. Even though the event was held in Tokyo, a few foreign employees attended, including a woman in a Director-level position. So, it is not like there is no change at all in these issues, but I want to see changes occur at an accelerated pace.

Q. In the decision-making process regarding the disciplinary actions for executives involved in the incidents, have there been cases where outside directors on the supervisory side, rather than the executive side, have led the discussions?

A. CSO Takase: In the case of disciplinary actions on officers involved in the safe-deposit box incident, the Compensation Committee and the Nominating and Governance Committee under the Board of Directors had deliberations, taking into consideration examples of other companies and the degree of seriousness of this case. There is one person from the executive side that participates in both Committees, Kamezawa, and the other four committee members, including the chairperson, are composed of outside directors, and the committee functions as an independent body in making its decisions.

Discussions on the cause analysis of the series of incidents and measures to prevent recurrence were conducted with the Audit Committee, and the progress of measures to prevent recurrence is reported from the executives monthly and is monitored.

Director Honda: In the case of FW regulation violation, there were cases that information was shared between the banking and securities while receipt of letters of consent on information sharing from customers was not complete. The Audit Committee spent a large amount of time on discussions and works to ensure employees understand related laws thoroughly, clarify rules, and monitor implementation of training.

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