Investor Presentation for FY2023H1

Main Q&As

Q. What is the background to your decision on the share repurchases worth up to ¥400 billion?

A. Due to the uncertain external environment, we have managed our capital prudently since FY2022H1, with the CET1 ratio exceeding the target range of 9.5-10%. When we announced FY2022 financial results in May 2023, we passed over share repurchases due to the growing anxiety about financial systems overseas, in addition to the already existing sense of uncertainty. This time, we made the decision to execute share repurchases under disciplined capital management given that the resilience of financial systems has been confirmed and that there is only a limited risk of anxiety spreading further.

Q. What initiatives do you think are necessary to further improve ROE? Please also tell us how you will balance growth investments and capital management under the next Medium-Term Business Plan (MTBP)?

A. When I was appointed as President & Group CEO, I said that my focus would be raising the resilience of our domestic business, rebuilding our overseas business, and reforming our corporate culture. For our domestic business, we have been working on cutting costs, controlling RWA, improving lending spreads, and strengthening fees and commissions. Overseas, we have introduced an evaluation system that would encourage RMs to act appropriately to improve our risk-return. As these efforts began taking root, our ROE has been improving. I believe that we can continue improving our ROE by continuing these efforts into the future.

Under the next MTBP, we will continue enhancing base income and work on both corporate infrastructure enhancement and growth investments to materialize sustainable growth. We are having discussions to take steady steps toward achieving our medium- and long-term ROE target, factoring in the possibility that investments for future growth could temporarily lower our ROE.

Q. What is the level of ROE you consider necessary to reach a PBR of 1x and what is the growth driver to achieve this? Do you think it possible to reach a PBR of 1x under the next MTBP?

A. To raise PBR, we need to improve ROE which is strongly linked to PBR. Although we initially set the target ROE of 7.5% under the current MTBP as an ambitious target, it is now well within our reach. If we can raise ROE further, we expect PBR to grow to 1x or more. Medium- and long-term improvement to ROE requires both the resilience building of base income and the capturing of growth. We consider the growth drivers will be Asia, the U.S., asset management (AM), and investment services (IS), as well as the commercialization of green transformation and new business development.

Q. What is the scale of future IT investments, equity investments, and alliances that you think you will need to monetize your initiatives as a financial and digital platformer?

A. In the domestic mass-market business, the concept of Life-time Value (LTV) will become important. We place bank accounts as a core of our business and aim to provide services which is suitable for the life stage of each customer through linking the services provided by the broader MUFG Group companies. Because it is difficult to generate profit only from new areas, we aim to improve LTV as the entire MUFG Group combining them with the existing services.
While we have already made significant IT investments, we will continue them to realize this vision.

Q. Will you change your current capital management policy if your PBR exceeds 1x?

A. We will not change our capital management policy only based on PBR exceeding 1x. When making investment decisions, we closely and rigorously examine future profitability and growth potential and compare investments with share repurchases. This approach will not change.

Q. What exactly is the *growth* under the next MTBP?

A. Profit attributable to owners of parent will grow approximately ¥520.0 billion from the final year of the previous MTBP if we reach this fiscal year's target, ¥1.3 trillion. We consider that this is largely attributable to the improved risk-return achieved mainly through better lending spreads and the impact of cost reduction.
Growth investments include risk-taking initiatives in the existing businesses that each business group is already working on. Under the next MTBP, we intend to capture growth to create a more sustainable earnings base, instead of simply replacing assets. To this end, we are discussing the types of risks we can assume in different areas dividing businesses

based on the four quadrants of existing products, existing channels, new products, and new channels. For instance, "new products x new channels" means a completely new area. We therefore do not expect anything large scale in this area and will likely choose investment as our option.

Q. What is your current thought on the follow rates of deposit interest rates when the normalization of interest rates occurs?

A. Due to the progress in digitalization, our environment such as customer touchpoints has changed considerably from the past. We consider that this requires an analysis. In preparing the next MTBP, we do not assume that the government's monetary policy will change significantly. Instead, we are examining what we can do ourselves to improve our ROE.

Q. What is your view on the outlook of U.S. interest rates and your policy on owning foreign bonds?

A. We basically expect U.S. interest rates to peak out and then start falling, but long-term interest rates are likely to move in the current range for a while as inflation remains persistent.

With respect to our policy on owning foreign bonds, according to the status of our non-JPY balance sheet, we have been strategically increasing or reducing our bond balance and adjusting our hedging strategies taking advantage of market movements. We appreciate that we have been controlling the deterioration in unrealized P/L through these efforts. As we succeeded in accumulating capital gains in FY2023H1, we plan to devote these gains to portfolio improvement in FY2023H2.

Q. Your ROE in FY2023H1 exceeded the target. What is your view on ROE based on actual capabilities? Also, when do you think you can achieve the medium- and long-term ROE target of 9-10%?

A. Our ROE in FY2023H1 reflects the advance posting of income in Treasury and the positive impact on profit of the greater-than-expected depreciation of the yen compared with the assumption we made at the beginning of the period. We are considering using part of these to improve our foreign bond portfolio.

In our view, our real ROE capability is currently equivalent to 7.5%, which is the target ROE under the current MTBP. When we were discussing the current MTBP, we thought it would not be easy to even achieve an ROE of 7%. Considering our capital cost, however, we set the 7.5% target. We positively evaluate the fact that the 7.5% target is now within reach.

While we do not consider that we are yet capable of achieving an ROE of 9%, we aim to raise ROE to 9-10% as we go through the next and subsequent MTBPs, with the 7.5% ROE as a launching pad.

Q. What is the background to an increase in fees and commissions under the current MTBP? Does it reflect any one-off factors?

A. The main factors contributing to an increase in fees and commissions include an increase in AM/IS income mainly through the acquisition of First Sentier Investors (FSI) and an increase in loan-related fees such as fees from project finance in Japanese Corporate & Investment Banking (JCIB) and Global Corporate & Investment Banking (GCIB) Business Groups. Other than fees and commissions, income related to FX and derivatives is growing. While the increase in fees and commissions partly reflects the impact of FX, we consider our capabilities are also growing.

Q. Given the changes in the business environment in Japan such as the rising JPY interest rates, do you consider it possible for MUFG's valuation to exceed that of its global peers?

A. When considering the next MTBP, we have discussions about raising ROE through self-effort, instead of relying on the rise in domestic interest rates. If, however, JPY interest rates rise, this will become a factor to further raise our ROE. We understand that this expectation has led to the re-valuation of bank shares in the stock market.

Q. Your current CET1 ratio exceeds the target range. Comparing it with the CET1 ratio in May this year, has there been any change to your approach to capital management?

A. There is no change to our approach to capital management. We have made the recent decision on share repurchases to demonstrate our commitment to disciplined capital management. We expect the current CET1 ratio, which is 10.5%, to decline in FY2023H2 due to factors such as dividend payment, share repurchases, and FX. Meanwhile, we intend to review our capital management target range as we develop the next MTBP.

Q. What is your management policy of RWA under the next MTBP?

A. Under the current MTBP, we could significantly improve profitability without increasing

RWA by replacing low-profit assets with high-profit assets. Under the next MTBP, we will maintain rigorous RWA management and continue the shift to high-profit assets, while taking risks in areas that make greater contribution to ROE.

Q. What is your future policy on profitability improvement on the JPY balance sheet?

A. While it may be unavoidable that a certain amount of funds gets allocated to instruments such as the BOJ's current account or Japanese government bonds, profitability of domestic loans has improved significantly due to an increase in highly profitable loans, while loans with low profitability have decreased. We consider that it reflects the improved risk-return awareness spreading to the ground level.
In particular, the higher profitability is supported by the provision of high value-added solutions mainly in transactions with large companies. There have been increasing opportunities to have in-extensive dialogues on our customers' strategies, through for instance the preparation of MUFG Transition White Paper. This approach of proposing solutions to customer's issues has begun having an impact on our business.

Q. What is the reason for a slight fall in loans to large companies in comparison with the balance as of March 31, 2023?

A. We use the BOJ's criteria when classifying large-sized companies or small- and medium-sized companies. As a result, our finance to the holding companies of large companies, LBO finance, and finance to SPCs are all classified as finance to small- and medium-sized companies. The average loan balance of JCIB Business Group is increasing.

Q. Can you explain the growth rate that constitutes the denominator of PBR by breaking it up into the growth of base income and the profit growth through investments?

A. We consider it more important to improve PBR through the steady enhancement of ROE than dissecting and analyzing the growth rate in detail.

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