

Fiscal 2010 results Presentation

Main Q&A

Q: MUFG has ¥44 trillion of JGBs amounting to 20% of total assets. What do you think about the risks of JGB investment ?

A: We do have a large balance of JGBs but we are managing these in terms of the corresponding risk and our economic capital, rather than the overall amount. If a particular issue arises, we have a control framework including top management through which we would rapidly discuss the issue, and hence, we have no significant concern over risk in the short-term. Nevertheless, in the medium- to long-term we intend to manage our JGB portfolio with full consideration of attendant risks.

Q: Following the conversion of Morgan Stanley preferred shares, you will be recording equity-accounted gains and losses in place of dividends. What level of return on the Morgan Stanley investment would you consider as success ?

A: The preferred shares paid a 10% dividend, which amounted to a profit contribution to MUFG of around ¥40 billion after tax and financing costs (an ROI of around 6%). Our equity-accounted gain/loss will be more than 20% of Morgan Stanley's after tax profit, so calculated on last year's Morgan Stanley results (approx. 400 billion yen) the contribution to our profits would have been 80 billion yen. On this basis alone it was advantageous for MUFG to convert, but of course if Morgan Stanley profits decline the contribution to our profits could be less than the dividend income (or could be a loss). On the other hand, Morgan Stanley acquired Smith Barney and their profits seem to be stabilizing. In addition, we also expect our income from collaboration with Morgan Stanley to expand. Also, our original intention was to make an investment in Morgan Stanley common shares, and although this involves risk, we see Morgan Stanley as a partner that we would like to work with while shouldering that risk.

Q: Your fiscal 2010 credit costs were low, even after additional provisions such as secondary losses of Jusen account, and for this fiscal year you are targeting credit costs of less than 20 basis points (bp). Previously I assumed that your normalized credit costs was around 30bp but can I assume that now your normalized credit costs is less than 20bp ?

A: In terms of amounts, we are planning for lower credit costs in fiscal 2011 than in fiscal 2010, but last year's figure included around ¥95 billion of special factors, while in this year's plan we have assumed some effects from the earthquake. If we exclude such factors for the comparison, credit costs in fiscal 2011 are expected to be at a broadly similar level to last year. By the way, personally I don't think there is a normalized level of credit costs. According to the credit cycle there will be times when provisions will be reversed and times when large costs will be incurred. I think the only method of estimating credit costs is to consider current conditions and make plans for a one-year period.

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