FY2013 Results Presentation

Main Q&A

Q: The balance of JGB has decreased and the JGB duration has shortened. What is your investment strategy for JGBs if interest rates rise sharply or if the shrinking in JGB market materializes?

A: As you rightly point out, the balance of JGB fell by around 8 trillion yen in FY2013 and the duration shortened by roughly 0.7 years. This has reduced our JGB interest rate risk by approximately 30%. In the FY2013 Interim Results Presentation, we said we would fulfill our responsibility as a key player in the JGB market by basically working in step with the BOJ’s monetary policy of expanding the monetary base, and that is what we have done in FY2013. At the moment, we keep this approach and we will continue to support the BOJ’s policy of monetary easing through JGB purchases. Also, we are aware that we have to take care of interest rates hikes.

However, given the need to hold a certain level of JGBs for liquidity and collateral reasons, our JGB holdings are unlikely to decline as much as they did in FY2013.

Q: In the FY2013 Interim Results Presentation, you said in order to improve the market valuation you have to show results. The Group reported solid results in FY2013 and you are forecasting net income of 950 billion yen in FY2014. Why do you think MUFG's share price remains weak, despite this progress?

A: I believe that share prices reflect the corporate value of a company. I think MUFG’s share price is still too low, considering our solid track record over the last year.

We have discussed this within our company, and my view is that the basis for share price formation changes with environmental conditions. After the Lehman Brothers shock, the main priority was stable management, which became the key benchmark for stock valuations. At the time, MUFG's share was relatively strong. After a while, as the shock dissipated, investors' focus shifted to capital efficiency. Although we have no intention of changing our stance fundamentally, we are mindful of this shift in investor attitudes. For example, we increased the dividend by 3.00 yen per share in a single fiscal year. This large increase in the dividend reflects our confidence in the Group's performance and it was the result of our recognition of investors' focus on capital efficiency.

Q: Some investors have expressed concern that MUFG's financial leverage could continue to decline. Also, ROE (based on TSE criteria) has not risen for some time, edging up from 8.0% at the end of FY2012 to 8.1% at the end of FY2013. What is your view on these points?

A: Under our next medium-term business plan, our policy is to boost efficiency in three key areas—people, assets, and funds. That means we aim to increase the Group's profitability on a per capita basis, secure better returns from investments in IT systems and other assets, and enhance capital efficiency. We have to work on increasing profits in a smart, efficient way, rather than just rapidly expanding the loan balance. Focusing on ROE, we have to implement measures that improve returns versus risk and carefully reassess our capital policies.

Q: You have talked before about an M&A approach with high criteria in terms of uses of capital. With MUFG's PBR ratio well below book value, would PBR ratio levels play a part in your decision to acquire a company with a price higher than its book value? Would you not first consider buying back shares instead of investing in a company with a high PBR ratio?

A: You seem to be suggesting that it would be a better option to conduct a share buyback than invest in a company with a high PBR ratio, given MUFG's current share price. At the moment, I think you are probably right. However, when looking at all the options, it is important for us not to enter the situation of balanced contraction. Consequently, considerations about our PBR ratio would not affect our decision making on M&A targets if the deal can contribute for increasing ROE and pursuing sustained growth in corporate value. Additional points for acquisitions would be the uniqueness of the company in question and its potential to drive growth in the future. If these conditions are met, we plan to apply higher M&A criteria than in the past for our decision.

Q: You paid an interim dividend of 7 yen and a year-end dividend of 9 yen for FY2013. For FY2014, you are forecasting an interim dividend of 8 yen and a year-end dividend of 8 yen. You are therefore planning to cut the dividend from 9 yen at the end of FY2013 to 8 yen for interim FY2014. Also, based on your earnings forecasts for FY2014, the dividend payout ratio is 23.9%. Moreover, we think a full-year dividend of 18 yen would be more appropriate when net income is over 900 billion yen. What are the prospects for a full-year dividend of 18 yen if your profit targets look increasingly achievable?

A: Our goal is to pay a stable dividend and continuously increase it in line with earnings. I think a further hike to the dividend is possible, provided the Group can regularly generate profits of 900 billion yen without the aid of special factors. Profits in FY2013 benefited from various tentative factors and our targets for FY2014 are ambitious. There was some discussion in the Company about the reduction in the dividend from 9 yen at the end of FY2013 to 8 yen in interim FY2014, but we hope investors will focus on the full-year dividend rather than on the interim dividend, which is a provisional payment. We would like to consider raising the dividend if the Group can achieve its profit targets with the sustainable strength of its underlying operations.