FY2015 Results Presentation

Main Q&A

Q : The balance of JGB with maturities of less than one year was 10.7 trillion. Upon maturity you get paid in cash. What do you intend to do with the cash received?

A : Capturing the large trend of the interest rate policy and of the markets and creating a balanced portfolio, I believe these are the basics. And another thing is that our JGB holdings, this is basically based on banking ALM. Of course we have made some flexible moves in the past. In a declining interest rate environment we recorded gains on sales of bonds, but I don't think it's healthy just to rely on such gains. As net interest income declines going forward, we need them to serve as a certain cushion, so they have the function of being a revenue source.

I cannot rule out a certain shift to foreign bonds. The duration is getting longer. We will be rebalancing to get a certain level of yield, but when we make investments in foreign bonds these are not open positions. Obviously, as increasing foreign currency-denominated investments, funding costs also go up by that much because supply and demand is reflected directly and funding costs increase. We watch the equilibrium point. Foreign currency liquidity and foreign currency costs are closely monitored as we shift to foreign currency bonds.

Q : Regarding the share buy-back, there are greater uncertainties in domestic and overseas economies. Against that backdrop you have decided own share buyback. I expect that there was much discussion in-house. As you've examined share buyback, what was discussed internally? And despite such discussion, you've come to the decision of repurchase of own shares. What was the message you wanted to convey to the equity market through the repurchase of own shares?

A : We discuss that every time. Based on the framework of the triangular policy of capital (“Enhance further shareholder returns”, ”Maintain solid equity capital”, “Strategic investments for sustainable growth”), we have discussions and we have outside directors engaged in that discussion from early on.

In particular, this time, there were mainly two discussion points. First is, although we were forecasting a decline in profit, what should we do? There were adverse winds and a change in the tides, and to what extent can we meet the expectations of the shareholders?

And secondly, we have to think about regulations. At each juncture we have to make our utmost efforts in collecting intelligence. And based on that intelligence, we have a view as to the range within which things might fall. As an example, recently we have been struggling with the simplification issue and whether the standardized approach should be used as a floor to result variability in risk-weighted assets.

What is the percentage of the floor? I think probably 60 percent would be too optimistic a view. However, we also do not expect it to go as large as 90 percent, so I will not say what exact percentage it is, but we have a certain range and apply that in a stress test, and we also apply a certain timeframe, so it is not whether conditions are satisfied in any given instance, but over a certain timeframe, how long do we have time-wise in terms of transition? Is it three years or five years? So we also think about the timeframe, and then a certain revenue outlook and certain risk-weighted asset outlook will also be taken into consideration.

And we have a forecast regarding at what level we can withstand the regulations. Based on that level, we conduct a simulation and determine the appropriate level. And it is tight management of capital, although we are not putting ourselves into a precarious position. But when it comes to policy on capital, recently we have been managing capital in quite a tight manner.

Q : What are the structural issues that you are aware of and what will be discussed internally with respect to structural issues? Could you share with us the background of the awareness of the structural issues and the direction of the discussions going forward?

A : The current extremely low level of interest rate and negative interest rate unfortunately will not pass in just one or two years. And we also have to respond to international financial regulations, and as a backdrop to that, we see across the world a lower potential rate of growth. That is the overall background. Therefore, we have to face these situations. That is the basic assumption.

At MUFG, what are the structural issues? There may be a number of them. For one thing, within the medium-term plan I have raised the issue of developing a model that enables sustainable growth at MUFG.

We have to be able to offer products and services that are competitive to customers. We have to create products and services that are truly competitive so that we can receive consideration in return, and that is related to structural reform.

There is organizational structural reform as well. Especially overseas we have a higher expense ratio. To be blunt, MUFG Union Bank has a higher expense ratio, and I have been saying the solution to that is integration, and we are implementing that integration. And we also implemented human resources measures, and now it is stabilizing and moving according to what we have expected, and it is now on track. And in Europe we will consolidate to one location in the Netherlands.

And in Japan we will be reforming the HR structure, including a reduction in career track personnel. We have to think about the demographic change in Japan, the use of ICT, and other technological renovation; therefore, there will be a reduction in the headcount. Although by a small margin we decrease the number of new recruits for this fiscal year.

We also have to reduce duplication and competition and silos within the group in the markets operations. We are integrating commercial banking and securities and sales and trading, and in New York and London the dealing room is integrated between commercial banking and securities.

It might take time before we see achievements, but there are business structural reforms as well as organizational structural reforms.

Q : About the current change in the environment, the environment is much tougher than when that you developed the Mid-Term Business. Are these targets no longer suitable for this environment? Do you think it is inevitable that these targets may be missed? For share buybacks, you say that you are continually considering the possibility of a share buyback. Similarly, given the current environment, is your position unchanged?

A : This is the question I ask myself every day. Currently we have not lowered the banner that we hoisted just last year. At this point we will strive to approach our targets. We will continue to improve our ROE and EPS, and this position remains unchanged. To do so, we have to work on both the numerator as well as the denominator, and we are seriously working on that.

Q : In your financial targets for FY16, your credit costs will be going down compared to FY15. Could you tell me your view on credit costs in FY16?

A : Now credit costs, as you pointed out, last year there was a surge in credit costs. This is because in addition to the oil and gas sector, the specific borrower factor in the domestic market. As for the first one, the oil and gas, last year was 75 billion yen and the plan is to keep it flat at 75 billion yen this year, but as I said before, we are applying 35 dollars for WTI, so if the current price level continues, there could be an upside and credit costs may be reduced. The sensitivity is that if the oil price is higher by 5 dollars it will be lowered by ¥20 billion; if it is lower by 5 dollars, then the credit costs will go up by 30 billion yen.

In January of this year, about the domestic credit cycle, we had concerns that there could be a large deterioration. We are checking that again now but there are not conspicuous signs of deterioration yet, so far. The numbers shown here I believe are not too off.

Q : The commodity-related area. Oil and gas and mining, the quality of the credit portfolio as well as the current allowances made, compared to other mega banks and other large US banks, what is your level of awareness?

A : We believe that this is a relatively high level of exposure even amongst global peers, I'm proud to say. On asset quality, net NPLs is only 14 billion and this is fine, but of course this is a dynamic number; it's not like this is going to be the end, and end-of-story. We're prepared for that. A big chunk of this is Union Bank's reserve-based lending. Resource reserves as well as prices are being monitored constantly, and the lending base will go up and down with it. That's the mechanism, so we thought that we wouldn't be tripped, but the monitoring takes place only once in six months. There could be some unexpected declining oil prices in the interim, and the money you lent would not be paid back, and that is why credit costs are incurred.

Generally speaking, in this resources energy sector, we are proud to be the largest lender. We have certain pride in this status. But the lesson learned this time is that for a relatively higher volatility sector the exposure may have been a bit high, so this is a matter of credit concentration. And another thing is when resource prices drop, whether we can do something more proactive in taking measures, people say macro hedging is difficult in the industry, but I tell my people to be more creative. In any case, this is strength so we make use of the lessons learned. We want to build an even stronger model. But for the moment we will reduce our exposure to the sector.

Q : About M&A in the United States, so far, recently MUFG has not engaged in large-scale acquisitions. For one thing, there was the regulatory environment. There was uncertainty about the capital regulations and I also understand that there was also the issue of governance in the United States, but as you have presented, the governance issue is now more or less resolved and the regulatory environment will become more clear towards the end of the year. Then, will the mergers and acquisitions in the United States be a high priority item on the management agenda?

A : Regarding mergers and acquisitions in the United States. Areas with the potential for mergers and acquisition might include commercial banking, but it also includes asset management business. That is the premise based on which I will discuss this.

So far, for some time we have not engaged in mergers and acquisitions in the United States for several reasons. Firstly, there was the issue of governance, as you mentioned. And there was also our overall capital situation. I believe that these two issues will continue for some time. In particular, governance is a very important issue. I'm not sure if I mentioned this at this time of the year last year, but last year global governance strengthening was the biggest issue as I saw it and we have implemented measures, and as I expected it is now moving on track but we cannot remain complacent.

Regarding capital, we are managing capital tightly. If an acquisition is meaningful we would like to seek the understanding of shareholders.

The business of the financial institution in essence is balancing of the portfolio. At one time, some Japanese companies shifted to the Asia market but we did not follow suit. We maintained our firm footing in Japan, and we have also expanded our footprint in the world's biggest market, in the United States, and we have also taken in growth from Asia. Currently Asian growth is slowing down. On the other hand, relatively America remains strong and this is in a way anticipated. Within our strategy the importance of the United

States market remains unchanged. Furthermore, regarding the regional banks, we also have to respond to regulatory costs, and therefore we have to ensure a certain level of revenue, and as one means of doing this, acquisition may be a possibility.

Q : Regarding equity holding and regulation. The risk weight of equity holding may be up to 250 percent. Based on that assumption, is the current target of reduction of equity holding sufficient? How much room do you see in further reduction of the equity holding?

A : We have to anticipate the regulatory developments and we made the decision last year. Over five years the target was to reduce this to about 10 percent of Tier 1. In the first year – this is not a full year, it is effectively about six months –we were able to reduce about 120 billion yen of equity holding, and I believe the strategy was very successful. But whether we are able to accelerate the pace or not, it may not be the case, but customers who agreed with us initially are frontrunners and they may be changing the behavior of other companies. I believe that we are starting to see a cycle of that starting.

I should not make any overstatement, but at least the initial targets are to be achieved within the initial set timeframe. On this point, I feel I have to take responsibility and I also feel confident.

Q : What is your countermeasures to negative interest rate in terms of customer business?

A : For us the way to set the theme is about appropriate risk and return. That will be the basis. Simply put, it's an enhancement of RORA. Even in this environment we need to work on this. There is a number of approaches that can be taken. First is fees. Until now there were cases where we were getting profits from our customers that could substitute fees, but with the negative interest rate policy, it's no longer possible. But when we make a justifiable value-added proposal and to have it adopted, we work hard – some may work through the night. We have cases, in particular corporates, paying us appropriate fees, and at the risk of being misunderstood, because we have their deposits we tend to have the thinking that we don't have to charge them fees. This is a mindset that needs to be changed. This is a matter of principle. If we're not careful we could be accused of being a public enemy. We have to be careful. Fifty yen per transaction may be the charge for other payment methods, but if it is a bank it is only one-tenth. It must be addressed. So the fees are one thing.

And the second thing is the way we take risk. It's about risk and return. This is obviously a big theme in this Mid-Term Business Plan. For example, there is a hit product, hybrids. They want to review their capital structures. Of course these are not senior loans and more risky and the risk is to be taken within the range possible. This is a new banking industry trend and we are proud to have created this trend. We want to do more of it. And in the negative interest environment, regional banks and institutional investors, there is a change in their risk appetite and in their interest rate preferences. Through origination and distribution that captures that shift, without using our balance sheet we can earn fees. We talk about O&D abroad but domestic O&D is the main area. And from a different perspective there is business domain expansion. We often talk about asset management and wealth management. We have been strengthening these businesses and we will strengthen them further, but on top of that, our investment in Hitachi's leasing business, it was not a decision we made because of the negative interest rate environment. We had been working on it for some time. We had been designing this for some time. This is also part of the whole trend; this is to carve out a new domain for us. Of course at the same time we will be cutting costs.