FY2018 Results Presentation

Main Q&A

Q : Please explain why MUFG's expense ratio is higher than its global peers. Looking ahead, how are you going to reduce the expense ratio?

A : There are a variety of reasons behind our higher expense ratio. Our system cost constitutes one factor. We have maintained an extremely painstaking approach in system development based on a belief that even the slightest system failure can result in a significant negative impact on society. Suspecting this leads to excessive quality, however, we began reviewing our conventional approach. Similarly, if we were to accommodate each and every customer request, we would end up consuming more cost. Therefore, we need to fine-tune our prevailing culture, which has shaped our view of quality throughout the organization.

In Japan, we are also executing such reforms as streamlining staffing and operations at headquarters, as well as our procurement practices. In addition, the Retail & Commercial Banking Business Group (R&C) is striving to reduce workloads via the utilization of robotic process automation (RPA) while reorganizing its branch model and network. Although we have set fiscal 2023 as the target for branch reduction, we may consider accelerating this.

Overseas, the expense ratio recorded by MUFG Americas Holdings Corporation (MUAH) is particularly high. This is attributable to several factors, including the aging of systems used by MUAH. Currently, efforts are underway to upgrade these systems. Although such a project raises expenses in the short term, it must nevertheless be accomplished. Upgrading system infrastructure is essential as we need to satisfy increasingly stringent requirements from regulatory authorities. In addition, MUFG's U.S. workforce has been largely concentrated in New York, San Francisco and Los Angeles. With the aim of reducing cost, we are reviewing our personnel distribution and redistributing part of this workforce to Phoenix, Arizona.

Q : When you decide to increase dividends or repurchase own shares, what's your priority? Please also explain the requisites for executing share repurchases.

A : The best form of shareholder returns for fiscal 2018 has been thoroughly discussed by executive members, as well as the Board of Directors. We have thus decided to increase dividends because fiscal 2018 operating results convinced us that we are capable of maintaining stable profit above a certain level despite the extremely harsh environment.

We have concluded that, despite the payment of increased dividends and the impact of acquisition and other spending on our capital, we will be able to maintain capital adequacy necessary to secure a single A or higher rating for the foreseeable future. Based on this conclusion, we chose to devote the entirety of our allocated capital to increasing dividends since we have been seeking to improve shareholder returns, focusing on dividends.

We know that many investors are expecting us to repurchase own shares or otherwise further enhance shareholder returns. We will deliver shareholder returns in the form of share repurchases when we succeed in recording higher profit than target or securing sufficient capital surplus via, for example, disciplined and thoroughgoing control of risk-weighted assets.

Q : Please share your thoughts on the challenges you will confront and roles you are expected to fulfill as the new president & Group CEO. What challenges are you going to tackle to achieve the sustainable management of MUFG in the midst of this harsh business environment and what contribution are you going to make?

A : I assumed the position of president & Group CEO during the first year of the medium-term business plan (MTBP), halfway toward the goals of the MUFG Re-imagining Strategy. My business background includes distinctively long experience in overseas operations and project management, the latter of which includes system integration. I therefore believe that, in light of the comprehensive assessment of the current conditions surrounding MUFG, my experience was one of key factors leading to my appointment as president & Group CEO.

Today, overseas operations account for nearly 40% of MUFG's consolidated profits. Given the current structure of Japan's economy, major Japanese corporations are no longer positioned to run counter to this trend. MUFG is no exception. I believe that, because of this situation, my overseas experience in the United States, Thailand and Europe was deemed advantageous in managing MUFG going forward.

Moreover, efforts are now underway to implement the MUFG Re-Imagining Strategy, which is a massive project. We must accomplish this project while adhering to the expected deadline, prescribed budget and required quality. This is what project management is all about. I therefore think that I am expected to fully take advantage of my experience to exercise firm grip on this pivotal project.

The main challenges I have to take on include my inexperience in investor communication. This is the first time that I've directly engaged with our investors. While I have experience in overseas businesses and project management, I have hardly engaged in corporate planning and administration. Accordingly, I would like to humbly listen to and learn from your voices in the course of investor communication.

Q : We consider impairment losses recorded by Mitsubishi UFJ NICOS (NICOS) the primary factor leading to MUFG's failure to achieve its financial targets. With regard to the supervision and management of Group entities, what are your thoughts on responsibility as president & Group CEO of the holding company?

A : As president & Group CEO, I must be responsible for the less-than-robust operating results of NICOS.

There are two points. First, we recorded a significant amount of impairment losses. Second point is the timing of the decision to record impairment losses. The system integration project was launched in 2016 when NICOS was running three separate systems for three brands, an extremely inefficient practice. However, over the course of this project, we discovered a great number of shortfalls due to the complexity of credit card-related system requirements. As a result, we had to reassess the appropriateness of our initial estimation on development workload. We began this reassessment in 2018 while continuing to promote integration. However, we were not able to determine the total development workload even in March 2019. Thus, we have concluded that the current project scope is no longer rational in light of the ever-increasing volume of tasks and reached a decision to fundamentally revise the integration plan. When we engaged in reassessment in 2018, we were aware of the possibility of greater development workload, but we then believed that integration was still achievable by exercising more stringent control. Hence, our decision was made at the last minute in March 2019.

There are voices questioning the adequacy of management's supervision over the aforementioned process, however, we were not able to avoid these consequences in the end. Therefore, we have no choice but to humbly reflect on our lack of foresight. We are, of course, accountable for the outcomes of our management. With this in mind, key managerial members including Mr. Hirano and I attended a Compensation Committee to explain that we do take our responsibilities very seriously. The committee gave us a harsh evaluation in this regard. Accordingly, our compensation will be determined based on this evaluation. Nonetheless, we will strive to prevent the recurrences of similar problems by, for example, employing external specialists, strengthening check-and-balance functions, and dispatching supplementary project members from the holding company. We are thus committed to taking every necessary step going forward.

Q : Since the launch of the current MTBP, MUFG seems to be getting somewhat off track from the previous balance between investment for growth and shareholder returns. Please tell us about your stance on shareholder returns and investment for growth.

A : MUFG's policy on striking a balance between shareholder returns and investment for growth has been unchanged. As previously announced, we have not diverted, and will not divert, our basic policy of improving shareholder returns focusing on dividends. With regard to share repurchases, we will first strive to maintain the capital level necessary to secure a single A or higher rating in the future. Only then, will surplus be allocated to delivering additional shareholder returns in the form of share repurchases. This approach has not changed, either.

With regard to investment for growth, we are willing to invest in businesses with higher growth potential than our existing businesses. For example, Bank Danamon's ROE is more than 10%. Colonial First State Global Asset Management boasts robust ROE over 20%. If we fail to invest in these businesses, we will end up stagnating. We must remain vigilant not to get stuck in a diminishing equilibrium. That being said, we will of course avoid overspending to the extent that our capital adequacy ratio is affected. In sum, we are giving comprehensive consideration to these factors and paying close attention to the balance between opportunities for growth and shareholder returns.

Q : What changes have you made in assumptions used to formulate the MTBP since the time of the announcement of the plan? Also, what measures are you considering to bring about an upturn in net operating profits and meet your target under the MTBP?

A : Market conditions have evolved significantly since the formulation of the plan, and this will affect our plan for gross profits. For example, U.S. interest rate hikes expected for 2019 have been abandoned. In Japan, ultra-loose monetary policy is not likely to end until sometime in 2020, at the very earliest. As a result, the yield curve has been flattening, and turned negative in March 2019. This situation presents a difficult challenge for the Global Markets Business Group. Also, a growing trend toward a risk-off approach began affecting our investment product sales. The negative impact of these factors was not included in assumptions used to formulate the MTBP. On the other hand, we have such positive factors as the acquisition of Bank Danamon, growth in the consumer finance business and the robust performance of Krungsri. On a net basis, however, we cannot depend on gross profits arising from these factors alone. Accordingly, discussions are now underway to devise additional measures to robustly secure gross profits. Depending on circumstances, we may also have to partially revise our plan for gross profits. In this light, reviewing expenses will become ever more important, and the usage of expenses must be subject to even closer scrutiny. Through these efforts, we will do our best to achieve our target for net operating profits in fiscal 2020.

Q : MUFG collected capital from MUAH through dividends in fiscal 2017 and share repurchases in fiscal 2018. Taking the robust growth potential of the U.S. economy into account, why don't you expand business to earn greater profit and achieve higher ROE, instead of collecting capital?

A : To date, MUAH has accumulated considerable capital, an amount that has grown disproportionally large given the company's size. We are therefore returning the portion deemed excessive while maintaining the capital necessary for MUAH’s future growth. Looking at how we achieved growth in overseas operations over the past decade, it’s clear we had been overly dependent on growth in the balance sheet. This lesson must be learned. We are now shifting our business model from a balance sheet-dependent growth model to a qualitative growth model supported by such operations as origination & distribution (O&D) and originate-to-distribute (OtoD). When it comes to overseas operations, our policy of pursuing growth in a way that is not dependent on the balance sheet, will be equally applied to our U.S. operations.

Q : It was announced that NICOS intends to present the date when it complete to make the new system plan in the second half of fiscal 2019. Does this mean that MUFG is planning to initiate fresh investment in NICOS from fiscal 2020 onward? In addition, what are your views on the amount of investment?

A : Currently, I am not positioned to provide you with details. We are closely verifying development results to date. We expect to identify potential assets that can be used as part of new system going forward. If that is the case, we will consider how to utilize them. We will also adhere to “Keep it simple, stupid” (KISS), a key principle that increases the likelihood of the success of system development projects. Practicing this principle, we will refrain from incorporating excessively luxurious functions while narrowing our project scope to truly focus on developing what is essential to integrate three brands. This principle will help us ensure that our development team will no longer be forced to deal with unexpected tasks. Generally speaking, however, as we are tackling a challenge of bringing a failed project back on the track, we cannot be confident about the sufficiency of ¥50 billion leftover from the original ¥150 billion budget. This will not be an easy thing. Ultimately, we may face the need to invest more than ¥50 billion going forward.

Q : Please tell us about progress in transformation initiatives and the possibility of the acceleration of them. Although MUFG intends to increase annual dividends for fiscal 2019 by ¥3 per share compared with fiscal 2018, does this represent your confidence in the future success of your initiatives?

A : I wouldn’t say we made good progress in every aspect of our Eleven Transformation Initiatives. A variety of challenges are coming our way. Nevertheless, we can say that we are achieving expected milestones in the essential portion of the initiatives. Overall, we are making steady progress. Because of this, we are convinced that the effects of these initiatives will materialize and boost operating results. We have thus concluded that, even if we were to increase dividends, we would still be able to retain the necessary capital level to maintain robust external ratings in the future, securing a single A in accordance with our absolute rating target. In sum, although we need to address some upcoming challenges in a swift and accurate manner, we are feeling that the outcomes of the initiatives are favorable.

Q : Please tell us about the likelihood of recording impairment loss on Bank Danamon's goodwill as well as how this would impact MUFG's capital policies.

A : If Bank Danamon's stock price dropped further, we would face the risk of an impairment loss. Even should this risk materialize, however, it will not have negative impact on MUFG's regulatory capital. Accordingly, the risk of an impairment loss does not necessarily impact our future capital policies or shareholder returns.

Q : We believe that a downturn in profit and the resulting delay in capital accumulation were primary factors behind MUFG's decision not to undertake share repurchases. In this light, what measures are you going to execute to secure greater profit? Also, what are your plans for reducing risk-weighted assets?

A : Because of the continuously harsh environment, we may be no longer able to adhere to our original plan for gross profits. That's something you are well aware of. We are currently promoting O&D in markets overseas while expanding the scope of our credit profile to include non-investment grades. We will step up these initiatives going forward. In addition, MUFG Union Bank has a loan portfolio with a significant portion accounted for by jumbo loans, which are less sensitive to interest rates. Typical U.S. banks allocate 10% to 20% of their portfolio to consumer loans, so we too intend to accelerate this type of business. We are thus striving to devise various measures aimed at securing robust top-line revenues despite changes in the environment.

With regard to risk-weighted assets, we had been focused on achieving growth in the balance sheet to earn profit, especially from overseas operations. We are now shifting from this approach. More specifically, we will not only control the loan-to-deposit gap but also step up our efforts to optimize overseas assets. In light of evolving external conditions, we are always attentive to the possibility of executing additional measures.

Q : Do you think that the Global Markets Business Group is steadily on track to accomplish its targets under the MTBP?

A : Previously, the balance of the foreign bond portfolio maintained by the Global Markets Business Group peaked at ¥25 trillion, but dropped to ¥17 trillion later. Then, we increased the balance again and now it amounts to ¥21 trillion. Although this business group recorded unrealized losses in the interim period, it has achieved a turnaround and began recording unrealized gains. However, we expect U.S. interest rates to remain flat or stay within a certain range. Given this situation, we are not positioned to declare whether the business group can achieve its targets. That said, we expect the Global Markets Business Group to achieve favorable results in the course of various operations. In addition, operations handled by the business group can be roughly categorized into treasury and sales & trading (S&T). Of these, the performance of S&T underperforms as does the performance of similar operations handled by other G-SIBs. We will strive to reduce costs associated with these operations.

Q : If sovereign bond ratings were to be downgraded, MUFG's ratings could also be dragged down. What possible impact do you expect this scenario would have on funding costs?

A : If sovereign bond ratings assigned to Japan were to decline, MUFG's ratings would certainly be affected. However, we believe that this impact will not be critical. When it comes to non-JPY funding, we have shifted our general policy, seeking funding measures with medium- to long-term duration except for deposits. In the past several years, we have likewise shifted to a medium- to long-term approach in all of our currency swap transactions. We are therefore confident that our funding costs would not be seriously impacted in the short term. MUFG would be subject to a considerable impact if MUFG's credit ratings fell to BBB or below. Whatever the case, however, we remain committed to engaging in independent efforts to maintain higher credit ratings on a stand-alone basis.

END