Investor Presentation for FY2019H1

Main Q&A

Q : Please explain the background of MUFG's decision to undertake share repurchases and its future outlook for risk-weighted asset (RWA) control.

A : When we make a decision of this kind, we aim to strike a balance among maintaining solid equity capital, strategically investing for sustainable growth, and further enhancing shareholder returns. We consider dividends a primary vehicle for shareholder returns, and aim to achieve a dividend payout ratio of 40% as early as the end of fiscal 2023. In addition, we have positioned share repurchases as a key measure for ensuring shareholder returns. To date, we have openly maintained a policy of flexibly repurchasing own shares when our capital surplus is sufficient—due to factors such additional profits or further reductions in RWA consumption. The rationale behind our latest decision on share repurchases is, however, not based on the additional profits, which would have otherwise prompted an upward revision in our fiscal 2019 full-year target for profits attributable to owners of parent of ¥900.0 billion. It is instead based on a projection that we will be able to secure sufficient capital surplus through disciplined RWA control.

Currently, MUFG's Common Equity Tier 1 Capital (CET1) ratio would amount to 12.1% —even on a finalized Basel III reforms basis —thanks in part to the upgrading risk measurement method and a favorable foreign exchange rates. In addition, our voluntary measures aimed at enhancing RWA control by, for example, strengthening non-JPY lending balance control, also contributed to the fall in RWA consumption. Our policy of undertaking such measures will remain unchanged. Although the business environment could evolve going forward, we are confident about the progress of our RWA control. Thus, we have concluded that ¥50 billion in share repurchases can be undertaken.

Q : Could you explain details of the upgraded risk measurement method MUFG has recently adopted?

A : Since finalization of Basel III regulations in December 2017, we have been tracking RWAs on the basis of the finalized regulations while examining the possibilities for improvement. We have thus updated our method based on findings from this examination.

Q : With regard to capital allocation described on page 43 of the presentation material, in the fiscal second half do you expect MUFG to be able to continue reducing RWAs and upgrading the risk measurement method as it did in the first half?

A : We continue to enhance our RWA control ; our current efforts will continue in the second half and into fiscal 2020. As described on page 32 of the presentation material, we will introduce a framework for motivating business groups to autonomously push ahead with RWA control. We are also optimizing strategic investment, while remaining open to adopting any other measures that can help us reduce RWAs from the standpoint of capital efficiency. To this end, the corporate center will take the initiative in the review. We will simultaneously upgrade the risk measurement method. In sum, MUFG's management is strongly determined to continue enhancing the RWA control.

Q : MUFG's CET1 ratio, when unrealized gains on available-for-sale securities are excluded, amounts to 9.8% on the basis of finalized Basel III regulations. Please share your opinions on this figure. In addition, MUFG's total shareholder return ratio is effectively declining. Please give your thoughts on the desirable CET1 ratio MUFG has to aim for in order to raise its shareholder return ratio back to the prior level.

A : We previously announced our intention of maintaining the CET1 ratio, excluding unrealized gains on available-for-sale securities, at 9.5% or more on the basis of current regulations. This has been a milestone for capital management. This milestone, of course, does not coincide with our target for CET1 ratio excluding unrealized gains on available-for-sale securities under the finalized regulations. Nevertheless, we are determined to maintain our CET1 ratio at the current level.

In addition, we have not set a target for the total shareholder return ratio. Instead, we have announced a dividend payout ratio of 40% as our target for shareholder returns. While pursuing this target, we will undertake share repurchases when capital surplus is sufficient. This is our policy. Accordingly, we are not specifically conscious of setting a target for the CET1 ratio in connection with the total shareholder return ratio.

Q : Moody's has announced its placing the baseline credit assessment (BCA) on review for downgrade. Please share your views on whether MUFG has adequate equity capital.

A : Recently, Moody's downwardly revised its Macro Profile for the Japanese banking sector while lowering its forecasts on MUFG's profitability. These factors led to the review of our BCA. We believe that this situation does not necessarily suggest a problem in our equity capital level. Moreover, we are not in full agreement with Moody's regarding the forecast for our profitability. Currently, we are engaged in dialogue with Moody's to communicate on two points. First, MUFG has maintained profits attributable to owners of the parent at around ¥900 billion over the last eight years despite radical changes in the operating environment and amid the harshest conditions. That is, MUFG has been able to secure stable profits despite an evolving external environment. Secondly, our profit sources have been diversified along with the expansion of overseas businesses. Taking these factors into account, our own forecasts suggest stable profitability as well as growth potential. Our commitment to maintaining disciplined RWA control is not in any way a response to the Moody's announcement.

In any case, the final rating would not change even if Moody's revised down our BCA. Neither would funding costs grow significantly due to Moody's announcement.

Q : In terms of initiatives aimed at achieving financial targets, MUFG management seems to have radically shifted its focus from simply securing greater top-line revenues to enhancing profitability and efficiency. What are the factors leading up to this shift? Also, could you explain top management's intentions with regard to this shift and its commitment into promoting it?

A : Shareholders and investors have repeatedly expressed opinions suggesting that MUFG's emphasis on improving operational and capital efficiency and profitability has not been sufficient. With this in mind, the Board of Directors has been intensively discussing how to improve the expense ratio and enhance RWA control and capital efficiency. The position I have taken in this discussion is that the conventional approach of securing growth through simple balance sheet expansion, is no longer sustainable. We have thus concluded and announced that we will step up our commitment to improving the expense ratio and enhancing capital efficiency.

On the other hand, we understand that some are doubtful about MUFG's ability to achieve its ¥900 billion full-year target for profits attributable to owners of parent amid the current harsh operating environment. In this regard, we have been focusing on achieving this target through the implementation of the Eleven Transformation Initiatives. As part of these initiatives, we have launched a number of concrete measures, including the selection and concentration of operations facing challenges. At the same time, we will steadily undertake operational integration at Bank Danamon and First Sentier Investors (FSI), both of which have recently become our subsidiaries. In these ways, we will push ahead with cost structure reforms, thereby achieving the aforementioned targets.

Q : Please explain the current progress in terms of cost reduction initiatives under the Medium-Term Business Plan (MTBP).

A : At the time of the announcement of the MTBP, we had not determined the full details of items to be addressed by cost reduction initiatives. We have therefore been striving to identify these items and taking concrete measures. At the same time, we launched initiatives for reducing facility expenses related to headquarters and procurement costs as additional measures.

Q : Given that net operating profits reversed for the first time in the last four fiscal years, how do you view the performance of customer segments other than the Global Markets Business Group? Also, if profits from the customer segment for fiscal 2020 were to fall short of the original target, do you think that such a shortfall could be offset by realizing gains on the securities portfolio managed by Global Markets Business Group?

A : Currently, the Retail & Commercial Banking Business Group (R&C) is focused on wealth management as it works to meet milestones on its way to achieving targets set under the MTBP. Meanwhile, we have become increasingly confident about the full-year performances of the Japanese Corporate & Investment Banking Business Group (JCIB) and the Global Corporate & Investment Banking Business Group (GCIB) as they achieved year-on-year profit growth (excluding foreign exchange rate fluctuation impacts). With regard to the Global Commercial Banking Business Group (GCB), although Krungsri (Thailand) is enjoying steady results, MUAH (the United States) is facing harsh conditions. GCB is thus operating with a sense of urgency. In addition, Bank Danamon (Indonesia) is striving to outstrip competitors by rolling out Krungsri's successful business models. The Asset Management & Investor Services Business Group (AM/IS) has just finished the acquisition of FSI and expects it to serve as a profit contributor from fiscal 2020. Along with these initiatives, we are stepping up our ongoing cost reduction efforts. By doing so, we aim to achieve our fiscal 2020 targets for ROE, expense ratio and CET1 ratio.

Whenever MUFG has been affected by declining interest rates, the Global Markets Business Group has offset the shortfall arising from a decline in customer segment profits. We anticipate that, should MUFG face a similar situation going forward, such a downturn would be more or less countered by the Global Markets Business Group.

Q : MUAH maintains a lending portfolio centered on residential mortgage loans and therefore is not well-positioned to benefit from changes in interest rates. Looking ahead, what are your plans for MUAH in terms of improving profitability?

A : To date, MUAH has periodically performed fair-value-based assessments of each operation to determine whether or not to record an impairment loss. Breaking with the usual schedule, MUAH undertook an extraordinary assessment due in part to recommendations from its Audit Committee. There were based on suggestions that a downward trend in U.S. interest rates, which began dropping sharply in July, may continue for the time being. Factors leading to the decision on impairment also included a much higher proportion of holdings accounted for by residential mortgage loans compared with competitor banks.

In step with a decline in U.S. interest rates, a growing number of borrowers opted for refinancing or prepayment. Due to this situation, MUAH's residential mortgage loan business is facing stagnation. Moreover, MUAH's liquid deposit base is not as strong as that of its competitors. These two factors have caused MUAH to face a rapid deterioration in net interest margin (NIM). To counter these problems, MUAH is currently striving to expand transactions with local SMEs while building up its unsecured consumer loan business, a field in which it lags other banks. MUAH is thus endeavoring to expand these portfolios in order to transform its balance-sheet structure. However, there is also the danger that implementing hasty changes in transaction and lending portfolios will lead to quality deterioration. As the ratio of non-performing loans (NPLs) held by MUAH to its residential mortgage loan balance is less than 1%—well below that of its competitors, this subsidiary is resilient to economic downturns. We don't want MUAH to compromise its strength in this area even as it pushes ahead with the above mentioned initiatives. In addition, MUAH has been facing issues associated with higher expense ratios. MUAH will reduce costs by reviewing facility expense, strengthening control of staff expenses and overhauling operational workflows in ways similar to what we have been doing to curb costs associated with our domestic operations.

Q : Did you incorporate the potential impact of goodwill impairment losses related with MUAH and Bank Danamon into full-year operating results forecasts?

A : Although MUAH recorded impairment losses totaling US$1.6 billion, there are differences between J-GAAP and U.S.-GAAP. J-GAAP, for example, asking corporations to periodically amortize goodwill. Taking this factor into account, the impact of these impairment losses on MUFG should not be the same. Technically, these losses will be reflected in MUFG's consolidated operating results for the third quarter, and therefore, we are currently not positioned to finalize the total amount. In any case, we believe that, on a consolidated basis under the J-GAAP, the final amount of these impairment losses will be significantly smaller than impairment loss amount recorded by MUAH under U.S.-GAAP. Based on this projection, we have maintained our full-year target for profits attributable to owners of parent at ¥900.0 billion.

As for Bank Danamon, it will be decided whether or not to record impairment losses based on its stock price as of March 31 2020. Accordingly, we have not incorporated any such impairment losses into our full-year operating results forecasts.

Q : Given that MUFG's subsidiaries recorded impairment losses, do you intend to review the current investment criteria or strengthen monitoring?

A : We believe that their boards of directors must be capable of exercising oversight functions. This is a basic requirement. For its part, there are three points with regard to what MUFG should do in terms of subsidiary management. First, it should carefully look into the selection of director candidates and the composition of the subsidiaries' boards of directors. Second, MUFG should confirm whether the subsidiaries' senior management members are equipped with robust expertise in relevant areas. For example, MUAH appointed Mr. Stephen Cummings as CEO four years ago, with the aim of pushing ahead with an overall review of its businesses. Third, MUFG should help its subsidiaries strengthen governance, clarifying accountability and responsibilities in terms of operating results. Looking ahead, we will focus on these three aspects.

Q : Please share your thoughts on the possibility of charging depositors with account maintenance fees.

A : MUFG has never decided to introduce any fees of that kind. First and foremost, we aim to deliver services that are valuable to customers. Then, we set fees at a level commensurate with the value customers are enjoying. That's our basic concept when it comes to charging fees.

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