Sale of MUFG Union Bank and Investment in Shares of U.S. Bancorp Main Q&A

Q : Will MUFG's acquisition of a 2.9% equity stake in U.S. Bancorp (USB) be sufficient to ensure its indirect, yet ongoing involvement in retail and commercial banking businesses in the United States?

A : The 2.9% equity stake will make us one of USB's top five shareholders in terms of shareholding ratio. In addition, MUFG will be the only strategic investor among the five shareholders, all of whom are institutional investors. Although the details of the business alliance with USB are to be discussed in the near future, our policy is to pursue collaboration in the digital field and to explore opportunities for joint endeavors based on a mutual relationship. We expect that, in the course of negotiations regarding this alliance, we will be able to develop mutual trust between individuals at various ranks, including between the CEOs of both companies.

Q : Deposits and loans related to the GCIB business now held by MUFG Union Bank (MUB) are expected to be transferred to MUFG Bank. Might not this transfer prove problematic for MUFG in the area of non-JPY funding?

A : MUFG Bank has seen the shrink of non-JPY loan-to-deposit gap and secure a sufficient volume of non-JPY medium- to long-term market funding. Given these factors, the transfer of deposits and loans from MUB will not result in any problems in terms of non-JPY funding.

Q : Has this transaction been reflected into the medium-term business plan (MTBP) launched in April 2021? If not, please explain its impact on MUFG's capital policy and financial targets.

A : We have not reflected this transaction into the MTBP. With regard to the capital policy, we will consider updating our initial plans which includes strategic investments and additional shareholder returns to leverage the surplus to be created by the divestment of MUB operations. On the other hand, our financial targets remain unchanged. Although we might have to reexamine our roadmap toward achieving net operating profits target of

¥1.4 trillion, our commitment to raising profits attributable to owners of parent to ¥1 trillion or more, is definitive.

Q : Can we expect the majority of capital surplus created by this transaction to be allocated to shareholder returns via the form of share repurchases, if MUFG's future investments in digital and AM/IS fields does not require a significant volume of funds?

A : We intend to take a balanced approach to the utilization of additional capital created by this transaction, with an eye on both strategic investments which include digital and AM/IS fields and shareholder returns.

Q : Could you break down the one-off expenses to be recorded in connection with this transaction?

A : In addition to advisory fees and other expenses, we expect to incur various costs in the course of transferring a portion of MUB operations to MUFG Bank.

Q : Could you spell out the approximate timing of the recognition of the profit from the sale of MUB?

A : We are planning to complete the share transfer during the period from January to June 2022 and we intend to record such proceeds by the end of fiscal 2022 as part of consolidated operating results. We also expect an impact on capital to emerge along the same timeline as a result of a reduction in risk-weighted assets.

Q : Please elaborate on the background of MUFG's decision on this transaction.

A : MUB possesses an excellent brand, high-quality branch network and robust customer base. It has been a stable contributor to our operating results by a prudent management approach. In recent years, MUB has also earned solid outcomes from the planning and implementation of "Back to Basic" strategy. However, in the face of a constantly evolving environment, the banking industry is facing a growing need to carry out investment in, for example, IT infrastructure, and to otherwise promote digitalization. In order to efficiently execute these and other measures to maintain and raise their competitiveness, banks are under pressure to expand their organizational scale. That is why we have been engaged in ongoing discussion to determine possible strategic options for MUB. As a result of such discussion, we have concluded that entrusting USB, one of the largest banks in the United States, with the management of MUB will be the best option in terms of enhancing its franchise value. We are also convinced that this move will better position MUFG to maximize its shareholder value.

Q : The transactional price of the operations to be transferred is set at 1.28 times Tangible Book Value (TBV). Isn’t this price lower than the average market price?

A : The transactional price is, we believe, appropriate when compared with pricing precedents applied to similar transactions or similar companies. In comparison with profits from these operations, the price is 13.5 times earnings for fiscal 2020 (managerial accounting basis). This comparison, too, indicates that the price is set at a favorable level. We consider this pricing was properly assessed in consideration of MUB’s brand value, customer base, branch network and other assets.

Q : Are you currently considering undertaking strategic investments to compensate for the loss of profits as a result of this transaction?

A : We consider strategic investments to be an effective option from the perspective of developing our business portfolio and achieving growth. In addition to implementing our capital plans as set forth under the MTBP, we will engage in discussion regarding how to best leverage the additional capital surplus created by this transaction to compensate the loss of profits, giving comprehensive consideration to the execution of shareholder returns and other capital management measures. When it comes to the capital policy, in addition to achieving higher ROE and EPS, improving our overall corporate value is important.

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