Investor Presentation for FY2022H1

Main Q&A

Q: MUFG has seen robust results in terms of customer-segment profits. Could you describe the Group's future growth potential in this field and challenges that must be overcome?

A: In wealth management business, collaboration among the Bank, the Trust Bank and the Securities is progressing. We consider this collaboration to be a source of further growth potential. On the other hand, we have been facing some challenges in the Asia business as it is failing to meet profit growth estimates due in part to the COVID-19 pandemic. However, once we succeed in seizing opportunities arising from Asia's economic growth, we would be able to enjoy further growth in profit in this region going forward.

Q: Please share your views on the current business environment and describe MUFG's response in terms of risk management, capital management and other undertakings.

A: We expect the domestic economy to remain on a modest recovery track backed by factors such as improvement in personal consumption. Also, Asian economies, especially those in the ASEAN region, have been robust due to the relaxation of pandemic-related movement restrictions. Regarding the U.S. economy, we expect it to enjoy constant, albeit slow, recovery. On the other hand, we remain vigilant against inflation-related risks in regions such as Europe and the United States. Recently, looking to utilize a part of the capital release effect arising from the sale of MUFG Union Bank (MUB), our Board of Directors resolved to expend ¥150.0 billion on share repurchases. At the same time, however, we have decided not to pursue our regular share repurchases adopting a prudent approach that takes into account circumstances such as inflation. As we move forward, we will consider undertaking additional shareholder return measures even as we pay close attention to the external environment.

Q: In terms of full-year financial targets for fiscal 2022, please elaborate on factors behind the differences between first-half operating results and second-half targets. Also, please share your assessment of MUFG's real earnings power, excluding the impact of extraordinary factors such as the sale of MUB.

A: Differences between first-half operating results and second-half targets are primarily attributable to two factors. The first factor is net operating profits from the Global Markets Business Group. In treasury operations, this business group currently takes a business approach centered on risk aversion. In sales & trading (S&T) operations, the business group expects a slowdown in the second half. The second factor is credit costs. Although credit costs remained at a low level in the first half due in part to extraordinary factors, we anticipate the recording of credit costs totaling about ¥250.0 billion in the second half, excluding valuation losses associated with MUB. Regarding MUFG's real earnings power, results in terms of net operating profits reflect our real earnings power as they do not include the impact of extraordinary factors arising from the sale of MUB. Our target for profits attributable to owners of parent, which is set at ¥1 trillion, takes into account the impact of valuation losses to be recorded on MUB's holdings of bonds and other instruments of approximately ¥200.0 billion. This means that the real level of profit will be somewhere around ¥1,200.0 billion. That being said, this amount includes the expected effect of foreign exchange rates, which will contribute to an increase of ¥100.0 billion in profit. Therefore, we expect our real earnings to be approximately ¥1,100.0 billion, excluding foreign exchange fluctuation.

Q: Do you intend to maintain a prudent approach for the time being considering the unclear external environment? What are your thoughts on the decline in unrealized gains on securities?

A: The U.S. long-term interest rates may radically decline or increase depending on how the United States handles inflation. We will take a flexible approach by assuming both scenarios. As of June 30, 2022, unrealized gains on available-for-sale securities were more than ¥1 trillion. However, the volume of these gains declined subsequently to approximately ¥770.0 billion as of September 30. In addition, unrealized losses on foreign bonds amount to approximately ¥1.8 trillion. However, when hedging positions and other factors are taken into account, unrealized losses amount to approximately ¥1 trillion. Accordingly, we think that we still exercise appropriate control on these factors.

Q: Please describe the level of capital you aim to maintain amid this unclear external environment.

A: As of September 30, 2022, our Common Equity Tier 1 (CET1) capital ratio (on the finalized Basel III reforms basis, excluding net unrealized gains on available-for-sale securities) was

9.9%. However, the CET1 capital ratio effectively comes to around 10.2% when proceeds which will be recorded as extraordinary gains upon MUB's transfer are taken into account. We also need to consider strategic investments for sustainable growth. Therefore, we have yet to clearly determine quantitative standards regarding the level of the capital buffer we currently need. However, we wouldn't deem it necessary to secure a CET1 capital ratio in the higher half of the 10% range except in a case where the environment has become even more uncertain.

Q: Please elaborate on the strategies MUFG will execute in overseas markets given the looming concern over the risk of global economic recession.

A: We consider Europe to be exposed to a particularly high risk of economic recession. However, our operations in this region account for only a relatively small portion of our business portfolio. Accordingly, we are not very much concerned about our risk exposure. In Asia, meanwhile, Krungsri (KS) has been steadily promoting business expansion strategies. Furthermore, in Indonesia, we have seen progress in close collaboration among the Bank's Jakarta branch, Adira Finance and Bank Danamon (BDI). In the United States, we intend to step up collaboration with Morgan Stanley (MS) and strengthen areas such as structured finance, where MUFG has strong presence.

Q: MUFG seems to be focused on strengthening its business through investment and alliances. Do you intend to continue with these initiatives going forward?

A: Although commercial banking currently accounts for a large portion of our business portfolio, we are now in the process of shifting toward a collaborative business model involving the Bank, the Trust Bank and the Securities. With regard to asset management and investor services (AM/IS), we aim to increase the proportion of profits accounted for by these operations to around two times the current level. We are, of course, taking on challenges in new business fields through investment and alliances, but the scale of these endeavors is still less than robust. Accordingly, we are considering implementing further risk-taking endeavors.

Q: We consider the role of MUFG in the pursuit of carbon neutrality to be quite important in the context of enhancing the presence of Japanese banks in the Glasgow Financial Alliance for Net Zero (GFANZ). Please share your opinions in this regard.

A: In addition to being a member of GFANZ working groups, we also participate in Net-Zero Banking Alliance (NZBA), which is the banking element of GFANZ. In NZBA, we have been chairing the Financing & Engagement working group and published the NZBA Transition Finance Guide in October 2022. We believe that engagement and transition are key, particularly in the Asian jurisdiction. We also issued the MUFG Transition Whitepaper in October and shared our endeavor to tackle climate change at COP 27. Our presentation at COP27 attracted a number of attendees whom we had good communication with, and we envisage to continue such activities going forward.

Q: Unrealized losses on MUFG's foreign bond holdings amount to approximately ¥1 trillion even after considering hedging positions and other factors. Do you have a plan for the massive loss-cut transactions?

A: In the first half, we recorded approximately ¥500.0 billion capital gains by, for example, the cancellation of bear funds. At the same time, we reduced losses on foreign bonds by around the same amount. In these and other ways, we are steadily reshuffling our portfolio. We currently have no plan for massive loss-cut transactions.

Q: MUFG has previously announced its policy of allocating more than ¥1 trillion in capital to share repurchases and investment for growth during the fiscal 2022 through fiscal 2023 period. Does this policy still stand? Also, MUFG seems not to be considering any major investments amounting to several hundreds of billion yen. Is my understanding correct?

A: Our policy for capital allocation remains unchanged. As for investment for growth, we have no major investment plans aimed at acquiring a commercial bank. However, as we are constantly looking for investment candidates in Asia as well as in the digital and global AM/IS fields, we will consider, if necessary, executing larger investments within a certain size. Also, we have already invested several tens of billion yen each in Mars Growth Capital and MUFG Ganesha Fund.

Q: Given the current environment, wouldn't it be prudent for MUFG to focus more on securing a robust level of capital in order to prepare itself for possible recessions or investment opportunities, even if doing so may cause its capital efficiency to deteriorate?

A: In light of the current external environment, we have prioritized securing our preparedness for various risks and opportunities and thus decided not to implement our regular shareholder returns at the timing of interim results announcement. This decision is based on our belief that the current level of capital must be maintained. On the other hand, as we have stated earlier, we have allocated a part of the capital release effect arising from the sale of MUB to shareholder returns. Going forward, we will make a fresh judgment regarding the desirable level of capital when our nine-month operating results are announced, taking into account the external environment and our capital status.

Q: Does MUFG remain committed to achieving an ROE target of 7.5%? Also, please describe the level of profit you are expecting to accomplish over the medium to long term.

A: We are striving to definitely achieve our ROE target, which remains unchanged. Should our profit target for fiscal 2022 be met, we can expect to record ¥1.1 trillion to ¥1.2 trillion in profit for the second consecutive year since fiscal 2021. These figures will be on an actual basis that excludes the effect of foreign exchange rates and the sale of MUB, suggesting that our goal for the final year of the Medium-Term Business Plan (MTBP) of becoming a company which constantly earns ¥1 trillion or more in profit, is being met. Although our targets for fiscal 2023 and beyond are still under discussion, we consider it necessary to aim for ever higher goals.

Q: Please describe the current status of RWA control.

A: Each business group is now fully conscious of risks and returns when they engage in their day-to-day operations and pass judgment on individual projects. Therefore, we have been able to raise profit through, for example, improvement in spreads without increasing the balance of risk-weighted assets. Going forward, we will maintain a disciplined approach to the management of RWAs.

Q: On a global basis, the wholesale banking business has seen a shift from investment banking to commercial banking. In this light, what are MUFG's advantages over its global competitors?

A: We expect the current shift from investment banking to commercial banking continues for a while. However, we do not believe that this trend will end with moving completely on one side. In this regard, MUFG maintains a good position, operating a balanced portfolio of both investment banking and commercial banking. We are able to deliver solutions fit to various financing needs of our clients, and we can also capture deals in collaboration with MS. As a result, investment banking revenue of Global Corporate & Investment Banking (GCIB) Business Group has steadily grown.

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