Investor Presentation for FY2022

Main Q&A

Q : What are your thoughts on PBR being below 1?

A : I have recognized since becoming Group CEO that PBR being below 1 is a major management issue. PBR is highly correlated with ROE, so we have been focusing our management on ROE under the current Medium-Term Business Plan (“MTBP”). The ROE target of 7.5% under the current MTBP will not be sufficient to achieve a PBR of 1. In addition to aiming for our medium- to long-term ROE target of 9-10%, we will also place importance on demonstrating growth potential.

Q : Please explain the background behind the decision not to make share repurchases.

A : We do not believe that there are potential risks unique to our company, but we have decided to assess the situation for a while given the uncertainties such as bankruptcies in the overseas financial sector.
As 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 10.3% at the end of March 2023, we had enough capital buffer to make ¥200.0-300.0 billion of share repurchases if the external environment was steady. We have decided to keep more abundant capital for a while to keep our financial intermediary functions robustly.
Even if without share repurchases, we believe to be able to achieve our ROE target by increasing profit as the numerator.

Q : What are your thoughts on the balance between growth investments and shareholder returns in order to improve ROE?

A : We are disciplined in our use of capital, and when considering new investments, we compare them with share repurchases as well as the level of ROI. So far, we have made large-scale acquisitions of commercial banks, but going forward, we will also focus on the areas of Asia, asset management and investor services (AM/IS), and digital. Investment in AM/IS may be on a considerable scale, but other than that, we expect investments to be ¥50.0-100.0 billion and will be disciplined when making considerations.
The decision not to pursue share repurchases this time was not to make growth investments, but based on the idea that we should have sufficient capital for now.

Q : The stock price has been robust given positive reaction to the large dividend increase. Please share your assessment on this. Also, will you consider raising the dividend payout ratio target in the future?

A : We have raised our dividend forecast per share this time by about 30% from ¥32 to ¥41, which is an increase of about 60% compared to three years ago. The reason why we were able to increase the dividend by such a large amount is that in addition to the ¥450.0 billion share repurchase in fiscal 2022, we have strengthened our earnings power. At the beginning of the MTBP, we set a goal of becoming a company that can stably earn ¥1 trillion profits attributable to owners of parent in three years, and we were able to exceed this level from the first year. In fiscal 2023, we are aiming for a record profit of ¥1.3 trillion, and needed to increase the dividend accordingly. In addition to aiming for a dividend payout ratio of 40%, it is important to steadily increase the dividend each year through profit growth. The ¥9 increase in the dividend shows our confidence, which we believe has been evaluated. We will discuss our policy for the dividend payout ratio going forward toward the next MTBP.

Q : Your earnings power is steadily increasing. What are the main factors behind this?

A : We have been raising awareness for risk-return over several years now and this has spread to the ground on a global basis, resulting in a structure that allows us to generate profits without increasing assets by much. Although there is a possibility that net interest income will decline slightly due to the impact of the yen's appreciation and the narrowing of the overseas deposit / lending spread, commission income is growing steadily and we are thinking of how to compensate for the decline in net interest income.

Q : Under the current MTBP, you have managed to keep expenses and RWA under control. In the next MTBP, will you consider increasing expenses and RWA, shifting more towards growth in order to strengthen and leverage your "connecting" functions as an unparalleled financial and digital platform operator?

A : We are in the process of replacing assets from low-profitability ones to high-profitability ones, and there is a possibility that we will increase RWA to some extent in the future. Our earnings base has taken shape and its resilience is increasing both in Japan and overseas. On the other hand, some issues are becoming apparent, so we would like to achieve earnings growth while assessing our priorities and utilizing investments.

Q : When you announced your interim financial results, you said that excess capital for a CET1 ratio in the higher half of the 10% range was not needed. Is this still the case, even as we see signs of financial instability overseas?

A : Uncertainty has increased absolutely compared to when we announced our interim financial results, and we need to carefully assess the situation. It is not as simple as just considering a share repurchase depending on whether if the CET1 ratio is in the higher half of the 10% range or not. Still, if the CET1 ratio at least reaches that level, we will reconsider to make share repurchases based on conditions at that time.

Q : Domestic expenses are expected to rise due to inflation and wage increases, but due to the nature of the business of banks, it is difficult to pass on costs to customers. Will this negatively affect the expense ratio?

A : We have strengthened our discipline on expenses, and they are firmly under control. Although the expense ratio has improved to 64.5%, we believe there is still room for cost cuts, and we will continue to work toward reducing costs. We will also keep an eye on the impact of inflation.

Q : Please explain the impact of wage increases on fiscal 2023 performance.

A : As people raise their hopes for a virtuous cycle of wage increases and economic growth, we think the trend will be for wages to continue rising as a whole. On the other hand, we are working to cut costs as part of our structural reforms. We hope to make up for the increase in personnel costs from wage increases by cutting other expenses.

Q : You explained that you would make up for the decline in net interest income with commission income, but in which specific areas do you expect growth?

A : As for net interest income from the yen, interest rates on the yen have not changed significantly but if they rise in the future, we expect the impact on annual earnings to be over ¥50.0 billion. Net interest income from foreign currencies, on the other hand, is not expected to grow much in the future, although they rose significantly in fiscal 2022 because the pass-through rate of deposit interest rates was held down even as interest rates rose.

In contrast, commission income is expected to grow more than ever through the integrated management of GCIB operations in EMEA and the Americas, as well as through structured finance. In Japan, we believe that we can increase commission income in areas such as wealth management, asset management, and consumer finance. In Asia, we will strengthen profitability through the inorganic strategy of KS and the enhancement of BDI's consumer finance through integrated group management.

Q : Please explain your assessment and future strategies for business in Asia, which is one of your growth strategies. Additionally, what is your strategy for India?

A : KS is showing steady earnings growth and is making progress with its inorganic strategy, but BDI is not growing as expected due to the prolonged impact of COVID-19. MUFG is working as one to strengthen consumer finance, and we believe that this will be the key to strengthening BDI's profitability in the future.
Additionally, in order to capture economic growth in Asia, it is important to secure customer contact points not only in commercial banks but also in the unbanked segment (customers who do not have bank accounts) and other areas. We are currently implementing a strategy of expanding customer contact points through on-demand transport and food delivery services in collaboration with Grab, offline stores through the acquisition of Home Credit's Indonesian and Philippine businesses, and e-commerce through investment in Akulaku.
As for India, we are conducting wholesale business through MUFG Bank branches, and have announced an investment in DMI Finance, which is engaged in digital lending. We will also consider other areas in the future.

Q : How much do you think MUFG's cost of capital is, and what have you discussed on this at the Board of Directors?

A : We have not clearly indicated the cost of capital, but we surmise it is between the ROE target of 7.5% under the MTBP and our medium- to long-term ROE target of 9-10%. However, regardless of the cost of capital, we believe it is important to raise ROE in order to improve shareholders' value and we are committed to increasing gross profit and reducing expenses (as the numerator), while firmly controlling risk assets (as the denominator). We will manage to control the capital as a whole.
At the Board of Directors, we have discussed that it is also important to improve ROE and to closely monitor the conditions for risk-return and investment profitability.

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