

# Strategic Investment in Bank Danamon

## Main Q&A

Q : You've said share purchase prices for Steps 2 and 3 have yet to be determined. Can you share with us the logic you're going to apply to determine pricing?

A : As stated in the section titled "Transaction Overview and Deal Structure" on page 5 of the presentation material, the purchase prices for Steps 2 and 3 will be based on a similar approach as Step 1 purchase price, with certain adjustments.

Q : Your announcement indicates that MUFG is looking to eventually acquire a majority stake in Bank Danamon. Do you think the Indonesian authorities are likely to approve MUFG's acquisition of a 40% or greater equity stake in Bank Danamon?

A : We've been engaged in extensive discussions with these authorities on a fairly regular basis over quite a long period. Moreover, we remain committed to maintaining our engagement with them and defer to their guidance. We are cautiously optimistic that we will get approval to increase our stake beyond 40%, but this will obviously be subject to their approvals.

Q : How does this move affect the positioning of Bank Nusantara Parahyangan, which MUFG acquired in tandem with ACOM CO., LTD. in 2007?

A : In Indonesia, a set of shareholding regulations called the "single presence policy" governs the ownership by foreign banks. However, these regulations are not applicable to our Step 1 share purchase aimed at acquiring 19.9% equity stake. These regulations will be applicable only if we are able to increase our equity stake to 40% via Step 2. That's when we need to obtain specific approvals from the authorities. Accordingly, we will make further announcements about this matter once we have acquired the 40% equity stake.

Q : How would you assess the impact of this share purchase on MUFG's capital adequacy ratio? Please also tell us about the capital policies MUFG will adopt going forward.

A : Once we complete Step 1 and acquire the 19.9% equity stake, our Common

Equity Tier 1 Capital ratio is, when equity method accounting is applied, expected to decrease roughly 11 basis points. Furthermore, as we are looking to acquire a majority stake, we forecast that our RWA might increase 1.3 trillion yen once we have succeeded in acquiring that stake. As for capital policies, we will stay committed to striking a balance between three factors – maintaining solid equity capital, investing strategically for sustainable growth and further enhancing shareholder returns. With this approach as a basic policy, we will adjust our capital policies to take into account possible returns from this investment; estimated overall profit under the upcoming medium-term business plan; the capital base necessary to maintain a rating of “A” or above; and level of the Common Equity Tier 1 Capital ratio of other G-SIBs. In sum, we will engage in prudent capital management while striving to return as much profit as possible to our shareholders.

Q :If MUFG acquires a 100% equity stake in Bank Danamon, total investment will amount to approximately 700 billion yen. Although this would decrease MUFG’s capital base, do you think you would maintain your current policies on shareholder returns?

A :Believing that solidifying our capital base is a matter of importance, we will focus on maintaining the stable payment of cash dividends. Whenever we are able to secure greater profitability, we will also look to increase cash dividend per share. In addition, we will closely examine our strategic investment pipeline and consider how to best utilize said pipeline. If we still have surplus, we will then execute share buybacks to enhance returns to our shareholders. These are long-standing, well-publicized MUFG shareholder return policies. Recently, we executed a share repurchase totaling 100 billion yen for the seventh consecutive semi-annual period. Once again, however, let me stress that our policies are unchanged; our priority remains the stable payment of cash dividend per share, and, if we have surplus at hand, we will then consider a share buyback. Going forward, we will optimize shareholder returns on a case-by-case basis while carefully assessing our profit levels. In these ways, MUFG will comprehensively return its profits to shareholders.

Q :You’ve told us that Bank Danamon’s profit for fiscal 2016 and the first through third quarters of fiscal 2017 has fluctuated due to specific factors. Hypothetically, what is your estimation of Bank Danamon’s current profitability if these factors were not taken into account?

A :We understand that the cost of restructuring microfinance operations was

significant. Microfinance assets had previously accounted for approximately 20% of total assets, but this proportion has decreased to approximately 6%. Reflecting this decline, losses attributable to these operations have decreased. We believe that Bank Danamon will no longer be weighed down by these rather considerable expenses going forward. Overall, Bank Danamon has successfully restructured its microfinance operations while stably enhancing its SME-related operations and others. We expect that Bank Danamon's upcoming financial announcements will involve no big surprises for our shareholders.

Q : Bank Danamon's loan balance has been declining over the past several years. Could you tell us your expectations regarding the loan balance? In addition, the loan-deposit ratio exceeds 100%. What can you say about that?

A : We understand that the loan balance decreased due to the aforementioned microfinance restructuring. As for the loan-deposit ratio, Bank Danamon's auto finance subsidiary is a major contributor to that high ratio on a consolidated basis. And, when we spoke with Bank Danamon's management team, we found them acutely aware of the importance of transaction banking. In fact, they have hired top-notch transaction banking specialists from external companies. As a result among other initiatives, their deposit balance has been steady, while the quality of deposits improving. This has, in turn, helped Bank Danamon improve its net interest margin.

Q : MUFG has previous experience from integrating the operations of the Bank of Ayudhya and the BTMU Bangkok branch. Do you intend to take a similar approach this time? Is Bank Danamon going to take over MUFG's transactions with Japanese corporate customers from the BTMU Jakarta branch so that it can help expand transactions with such customers by taking advantage of its strength in funding operations denominated in Indonesian Rupiah?

A : This time, unlike in the previous cases you mentioned, we are not considering integrating Bank Danamon with our branch operation. However, we are determined to promote collaborations between the BTMU Jakarta branch and Bank Danamon to provide both of our customers in Japan and Indonesia with an even broader range of services.

Q : Please tell us about possible synergies. What's your timeframe for transferring MUFG's business know-how to Bank Danamon? Is the timeframe similar to that used in the case of the Bank of Ayudhya? Also, could you tell us how MUFG

plans to improve Bank Danamon's profitability by, for example, sharing its know-how?

A : In general, we expect that our collaboration with Bank Danamon would result in synergies similar to those created in the collaboration with the Bank of Ayudhya in Thailand. Looking at existing best practices, although the Bank of Ayudhya provides funding services for suppliers and dealers serving automakers, it is also positioned to utilize MUFG's intelligence and relationships with the auto manufacturers, which, in turn, helps the bank carry out in-depth analyses of customer needs, and optimize and enhance its auto finance services as well. Thanks to these efforts, the Bank of Ayudhya is capable of providing funding for customers throughout Thailand's entire automotive supply chain. This helps raise the number of vehicles that automakers sell while benefiting the Bank of Ayudhya in the form of burgeoning financing opportunities. In fact, because its financial services enable Thai people to purchase automobiles, we have realized a "win-win-win" business model in Thailand in which benefits accrue to automakers, the Bank of Ayudhya itself, and general consumers. As such, we have practical experience in successful collaboration and know what needs to be done to create synergies. Since we can draw on these experiences, we are confident that it would not take long for our investment in Bank Danamon to generate synergies. In addition, specialists at the Bank of Ayudhya performed due diligence on Bank Danamon's auto finance operations. These specialists found Bank Danamon's automotive-related finance operations to be very sophisticated. They actually think that there are many things the Bank of Ayudhya can learn from Bank Danamon and vice versa. Moreover, the scope of promising business fields extends well beyond automotive-related financing. The Bank of Ayudhya has succeeded in creating synergies by providing financial assistance to Thai corporations that are expanding overseas. We are also promoting so called "Business Matching Meetings" helping create business opportunities among local companies and Japanese ones which are interested to do business together. Although we are not yet able to detail the potential numerical impact of the acquisition on profitability, we are optimistic and committed to working swiftly to create the greatest possible synergies.

Q : Other than a high net interest margin and growing ROE, what intangible assets, such as brand capabilities, caught your attention when you were deciding to invest?

A : As I mentioned previously, the auto finance specialists at the Bank of Ayudhya who performed the due diligence on Bank Danamon praised the latter's auto finance strength. They also commended Bank Danamon's brand capabilities.

According to them, Adira Finance's brand and sales capabilities are well regarded in Indonesia. Moreover, its SME-related operations have enjoyed steady growth, becoming a powerful business driver. Moreover, Mr. Sng, CEO of Bank Danamon, is fully utilizing the expertise he has earned in his former position as CEO of a Malaysian bank. In addition to enjoying steady growth in auto finance and SME operations, Bank Danamon maintains a firm grip on expenses.

Q :What is your future relationship with managerial personnel dispatched from Temasek?

A :After meeting with Mr. Sng on many occasions, we've concluded that he is an outstanding CEO. He is capable of decisively executing a "selection and concentration" approach to achieve reforms. We have also found that he has similar concepts on risk management, HR management and long-term strategies. We are confident that Mr. Sng would be an excellent business partner.

We've also met multiple times with other members of Bank Danamon's management team. We think that they constitute a very robust and efficient team. We strongly hope that all the current members remain in their office and continuously engage in the management of Bank Danamon. When we invested in the Bank of Ayudhya, we took virtually the same approach. The lineup of senior management members at the Bank of Ayudhya is largely unchanged from that prior to the acquisition. Our basic concept for such investments is that we select partners by focusing on points of compatibility in both parties' corporate cultures and the possibilities of positive chemistries resulting from collaboration. Generally, we expect the partners' management members to remain in place after investment. At the same time, we will promote collaborations with them and conduct knowledge transfer if necessary. That's how MUFG forges successful and trustful relationships with partners over the long term.

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