

FY2014 Interim Results Presentation

Main Q&A

Q: The media is divided in its view of bank earnings. Some articles have written the main business is in a slump, while others have noted strong business results. What is your view of the situation?

A: Media opinions appear to be divided. If one defines the main business of banks as consisting of retail and domestic corporate business, it's understandable that he would say that banks are in a slump. By contrast, MUFG is developing business globally and seeking for growth opportunities in overseas. In this regard, our strategy probably overlaps with other growing companies in Japan. If the overseas component is included to the view of overall situation, I would not be convinced that we are in a slump. One other point I want to raise is that some pundits are inclined to exclude credit costs when discussing bank earnings on the grounds that those credit costs are beyond the control of banks. While there is some truth to that, I think credit costs have to be taken into account when looking at the trend in lending spreads. There is a correlation between lending spreads and credit costs in which lending spreads inversely decline as credit costs decrease. However, there is also a tendency for credit costs to move ahead of lending spreads. Therefore, we do need to be on the lookout when credit costs begin to increase.

Q: What are your views on how to make use of capital? While the presentation materials indicate hardly any change in MUFG's capital policies, MUFG not only announced an increase in dividends but also a share buyback at the interim. I got the impression there has been a change and want to know what lies in the background.

A: There has been no change in our basic stance on capital policy, but if I were to point out a few changes in the situation inside and outside our company, I suppose they would be the following. First, it's fair to say

that management's sensitivity to ROE and capital efficiency has been enhanced. I am now leading discussions of our next medium-term business plan by talking about raising the "productivity of people, property, and money", of which "the productivity of money" amounts to improving capital efficiency. Second, we have another change in the balance among basic 3 concepts of our capital policy. In our basic capital policy, the three objectives of "Enhance further shareholder returns," "Maintain solid equity capital," and "Strategic investments for sustainable growth" form opposing ends to a triangle. We aren't about to change this triple approach among three objectives. However, the concept to be emphasized can change from time to time, depending on the situation. For example, if presented with a good M&A opportunity, MUFG would prioritize "Strategic investments for sustainable growth" as a matter of course. And if we were faced with the need to adapt to further regulations, our priority would naturally shift to "Maintain solid equity capital." When we announced our FY2013 results in May, there was in uncertainties on the regulatory outlook, and this led us then against deciding on a share buyback. What's changed since then is that the prospective guideline on total loss-absorbing capacity (TLAC) has been clarified to some extent, and it has become apparent that regulations concerning interest rate risk in the banking book (IRRBB) will take some time to be settled. That is the background that led to our decision.

Q: Why has Japan's voice begun to carry more weight in the discussion of international financial regulations? Can we also expect this voice to have weight in the IRRBB talks?

A: I think the world has begun to recognize that Japan is taking the lead in adapting to regulatory trends. There was a time when Japan was derided as the leading country in number of problems, but I prefer now to think that we moved first to resolve those problems, at least within the banking industry. Starting with the collapse of the economic bubble from the late 1980s, Japan went through the Asian currency crisis and other problems by developing safety nets such as the Deposit Insurance

Corporation of Japan. Apart from that, not many countries can rival Japan in terms of the constructive relationship with open communication between the private sector and the regulatory authorities. In the end, ensuring regulatory authority is critical, I think people overseas have finally begun to understand the rising importance of this relationship in general. Management of investment banks had been in the spotlight when the bankruptcy of Lehman Brothers sparked a global financial crisis. I think the U.S. and European regulatory authorities are beginning to recognize that the funding capabilities of commercial banks have an important role to play if the global economy is to grow sustainably.

Q: The dividend payout ratio has remained just under 30%. What will make it reach the ratio above 30%?

A: We will basically aim to keep the stable dividends. Individual investors tend to view financial sector shares as dividend stocks and the focus particularly among long-term institutional investors overseas has been on dividends as well. MUFG has always kept in mind a 30% dividend payout ratio. What this means is that we consider the 30% zone as a median dividend payout ratio in long term. We are striving to manage dividend so that we can pay dividend steadily, even when faced with a shift downward in earnings performance.

Q: Can MUFG continue improving ROE? If so, how?

A: I think it's imperative that we continue to improve ROE. And I think there's scope for all sorts of reforms from the standpoint of prioritizing capital productivity. There has got to be more efficient ways, for example, in making use of risk assets, and capital allocation can conceivably be changed more in favor of such a business model. Business in the asset trust field can contribute positively to ROE. On the other hand there's probably room to reduce loan commitment lines that remain unused. Equity as the denominator of ROE can also be optimized and well-managed. It all boils down to how MUFG approaches capital leverage and that our philosophy for this hasn't

changed. But I do want to add more flexibility to our approach.

Q: Will MUFG's balance of Japanese government bonds (JGBs) be reduced going forward? Meanwhile, the Group's balance of cash and deposits has increased as a result of selling off JGBs. Isn't this negative in a way from the standpoint of ROA?

A: I don't think this portends to a dramatic decrease in our balance of JGBs. Given our collateral needs, the balance needs to be maintained at around 30 trillion yen at a minimum, and this would suggest that the balance would be range-bound at around the current level. But as a recent change, I will say that the duration of the portfolio has lengthened in step with an increase in the balance of long-term JGBs of 10 years or longer. I don't think we are about to lengthen that period to four years, but we are adding some elasticity to the portfolio.