FY2014 Results Presentation

Main Q&A

Q: What do you see as the main business risks in the new mid-term business plan?

A: We see major business risks as falling into the three categories of (1) the real economy, (2) financial markets, and (3) financial regulation. In terms of the real economy, there would be a significant impact if GDP growth were slower than we had assumed in the plan. We think the most serious risk is the potential impact of efforts by the US Federal Reserve to wind back QE not proceeding smoothly, which could affect not only the US, but Asia and Europe as well. In terms of risks related to financial markets, the main one is interest-rate risk on our bond portfolio. We would gain if rates moved slowly upwards as we have forecast, but a sharp rise in rates could reduce unrealized gains or even force us to write down the value of bonds held in the banking book. This in turn could lead to impairment of our capital base. Finally, within the third risk category of financial regulation, the main issue is that of risk-weighted asset variance. For instance, if regulators instituted capital floors based on the standardized approach, depending on the detailed measurement methodology applied, it could result in increases in risk assets that would depress our capital ratio. We also have concerns about the issue of interest-rate risk in the banking book and whether to apply government bond risk weights. The Japanese banking regulators responded appropriately last year when the issue of total loss-absorbing capacity arose, and it was a good outcome. What I can say is that it has given us a feel for what we should do in these areas.

Q: The market consensus is that Japanese firms will seek to reduce strategic shareholdings under the new Corporate Governance Code. We think corporates generally hold the same view. What changes do you feel, based on what is happening in your actual business operations?

A : We are expecting change. We also hope that everyone including companies reaches a common understanding on the issue. Unilateral actions by the banks could potentially be risky. You need to appreciate that our domestic dealings with large companies generate significant revenues for us, and we face the risk of losing transaction share if we were to offload shareholdings. I actually have some personal experience of that. For banks, the strategic shareholdings pose a risk, and we realize that we should lower our equity exposure to avoid adverse capital impacts. Because it has been highlighted as a general problem that banks and other creditors also being shareholders, we expect the industrial community and investors have same awareness of the issues. The issue of strategic shareholdings is one that has come up recently in our discussions with customers, and our impression is that there exists a high level of awareness of these issues within our customer base.

Q : There appears to have been virtually no change in the group’s capital policies, according to the presentation materials provided. Has your policy on the use of capital changed at all over the past 6–12 months?

A : There has been no change in our capital policy, which is to enhance further shareholder returns and make strategic investments for sustainable growth while maintaining solid equity capital. You will notice that we have set a slightly higher target for ROE in the new mid-term business plan, namely 8.5–9.0% rather than a simple 8.5% goal. While there is certainly no reason for the basic rationale to change, we have clearly altered our thinking in that one of the plan’s major themes is the need to generate productivity improvements in line with top-line revenue growth. We are taking a Group-driven approach and looking to optimize Group operations by, for example, integrating the CC functions of MUFG and BTMU, the two asset management companies, and our operations in Thailand and the Americas. Please be aware that we are facing a variety of regulatory restrictions in our domestic market, therefore we have to make progress step by step. Finally, I would like to emphasize that we still retain a flexible capital policy. The fact that we are conducting another ¥100 billion share buyback following the repurchase program of last November provides proof of this, I believe.

Q: You say there has been no change in the basic policy on use of capital, but there are plenty of investors talking about how MUFG has altered its stance on shareholder returns. Please let us know what was discussed internally before setting an EPS growth target of at least 15% and ROE target of 8.5–9%, and any change in awareness?

A: In saying that there has been no change in our basic policy on use of capital, I was referring to the fact that the triangle of capital policy are unchanged. We have no intention of changing them, given that we expect banks to remain one of the keystones of society, and that we must always be prepared to support customers even when business conditions are tough. Having said that, we have made a slight policy shift by saying we manage our capital flexibly in accordance with business conditions. I am conscious that this also formed part of my message from around the third quarter of 2014. With regard to internal debate, I can assure you that we have an extremely open and robust discussion about such issues, both within the Board of Directors that includes outside directors as representatives of our external stakeholders, and within the Finance Committee that comprises the CFO and other executives with senior responsibilities. Capital policies might have been the sole preserve of the chief executive in the past, but that has now changed and we hold open discussions on such issues now within the executive suite. It was in one such discussion that the EPS target came up, and we adopted it straight away because we thought it was a good idea.

Q: Will MUFG continue repurchasing shares even if the share price rise, and MUFG share is traded at a premium to book value?

A: We would not refrain from buying back shares just because the stock is trading at a premium to book value. Naturally, though, we would have to think about it if we thought the premium excessive. The EPS growth target is one of our central financial goals, and so guides our thinking. We would not want to go into spiral of contraction.