FY2015 interim Results Presentation

Main Q&A

Q : Regarding foreign currency funding, with the rising funding cost for the dollar, what do you think of yen-dollar swap financing?

A : As 70 percent of lending is covered by deposits from customers and central banks and the remaining 30 percent is procured by CDs, CP, corporate bonds, etc., we think we are balanced with regards to foreign currency funding sources. Though we also use foreign currency repos and yen-dollar swaps as a source of foreign securities, we always take into account the total balance of funding sources and the use of foreign funding. Going forward, our policy will be to continue to raise the ratio of customer deposits to lending. Accordingly, we are pursuing initiatives such as transaction banking to capture deposits by linking our deposits, cash management and trade finance services, and individuals' accounts to capture sticky deposits through MUFG Union Bank and Krungsri.

Foreign currency ALM has the role of both preserving liquidity and pursuing trading profits opportunities in accordance with the status of interest rates. We now have approximately 10 trillion yen worth of yen-dollar swaps as a result of all these foreign activities. We theoretically have the potential to further increase the total yen-dollar position, but there are limits to availability and it will incur a rise in marginal costs. We continue to manage yen-dollar swaps funding in consideration of these factors and maintain a balance between potential profit and liquidity in order to avoid increasing yen-dollar swaps. Although there was an opinion that it would be better to utilize surplus domestic yen savings abroad, we now believe circumstances have changed.

Q : Where do you see potential risk existing and what are you doing to mitigate it?

A : Looking at our interim financial results, I felt a couple of things. First, although MUFG is composed of several legal entities, each entity has historically concentrated on its core business. For example, MS handles high volatility businesses like investment banking, and MS and each group company are collaborating in different initiatives. In this way each entity is part of a desirable framework for the Group. Second, our business areas are expanding, especially geographically. Global governance was a key theme when we set the new medium-term plan. We are now more easily affected by changes in the economic and financial environment in various regions overseas and are now addressing how to respond to these matters.

The expected regional growth rate has changed greatly since we formulated the medium-term plan. Last year, although there were very high expectations for Asia, but expectations are now declining. Our business is substantially affected by the real economy. Specifically, if there is a slowdown in customers' investment and economic activity, our business is affected too. The point here is that we are seeking growth overseas while keeping our axis in Japan. Our strategy to concentrate on two strategic regions has been successful; one region is the U.S., the world's largest financial market, and the other is Asia, our second mother market. The U.S. economy continues to grow steadily and we have effectively diversified our regional portfolio at the same time.

Our global governance is still evolving. However, MUFG Americas Holdings has hired an American CEO, and its Executive Committee is mainly managed by Americans. More than half of the board is comprised of outside directors. Due to these factors, we will conduct management in a manner that reflects a sensibility to local conditions. Although it is still evolving, we are building a prototype for ideal global governance. This governance system has three layers: local, regional and global, and we aim to strengthen each of those layers. Furthermore, we continue to strengthen governance at MUFG in Tokyo.

Q : Please explain your capital policy. From next year, as you expect to realize a profit from the sale of equity holdings, are there any changes in the three aspects that comprise your "triangle" capital policy?

A : Our "triangle" capital policy will not change, but in response to different circumstances the shape of the triangle might change slightly. Maintaining solid equity capital continues to be a key theme. The CET1 ratio of our overseas competitors is reaching around 12 percent, and as a G-SIB we are closely observing the situation. In addition, we are watching important financial regulations that are being discussed. We believe that to enhance further shareholder return is obviously important. Despite the difficult environment, we will resolutely aim to sustain growth and will continue to deploy our capital based on our "triangle" capital policy and in accord with operating conditions.

Q : Regarding your CET1 ratio, there was a comment that you are conscious of the 12 percent level of other G-SIBs with solid financial foundations and your desire to stand alongside them. In the medium- to long-term, are you aiming for that level through selling your equity holdings and realizing unrealized gains?

A : Regarding capital ratio levels, our strategy is basically to convert our unrealized gains into stable and high quality capital. However, at this time I cannot say whether we will convert the profit from those sales directly into capital. We are also willing to reduce our RWA. Compared to before, the pace of increase of RWA has slowed down because of the slowdown in overseas economies and because of our heightened consciousness of risk assets, such as the promotion of O&D, etc.