FY2016 Results Presentation

Main Q&A

Q : Please tell us about your self-evaluation on MUFG Re-Imagining Strategy.

A : The current mid-term business plan was designed to tackle and overcome mounting adversities over a period of 10 years going forward, with an eye to the worldwide ultra-low interest rates environment and tightening financial regulations. However, actual changes in the business environment, including the introduction of Negative Interest Rate Policy by BOJ, impacted us even more than we anticipated. With this in mind, we discussed what measures were necessary to make a course correction toward the originally planned direction and formulated the Re-Imagining Strategy. Taking into account the feasibility and timelines of each proposed measure, we anticipate the strategy to exert a positive impact of about ¥300 billion on operating profits. In fact, we anticipate that the positive effects may be even more far reaching.

At the beginning, we took a bottom-up approach to come up with each measure, but a top-down approach was taken when structuring the Re-Imagining Strategy in the end. The strategy is not so much a plan as a policy. Rather than creating a set of elaborate business plans, we focused on presenting a future vision that would lead employees to move forward. We will incorporate each measure to concreate business plan in order to move the project forward surely.

Q : What challenges do you expect in the course of executing the Re-Imagining Strategy? The implementation of such a major project must require strong leadership

A : When the project was launched, I called upon the members to persist with ongoing reform initiatives and work together as one with the aim of creating a strong financial institution capable of moving forward under any circumstances. We had open-minded and active discussions with members from each group company. Later on, we also invited people from outside the group to provide fresh perspectives, a move that led to even more lively discussions. Looking ahead, however, we may face challenges in an executing phase. For example, a challenge would be enthusiasm gap between frontline employees and top managements. To guard against this, we will involve them in the strategy through group-wide discussions on the next mid-term business plan. The vision and policies of the Re-Imagining Strategy are embraced by all of top senior managements, and the heads of each group entity are responsible for clearly instilling these concepts to those of each entity. We will pursue our core goal of seamlessly providing customers with a variety of solutions and functions as MUFG group.

Q : The Re-Imagining Strategy includes no mention of MUFG’s exit strategies, such as for withdrawing from unprofitable operations or investments. Are you going to incorporate such withdrawal policies into the next mid-term business plan?

A : We will also review existing operations, strategic investment, channels and reallocation of human resources. It would take time to execute the exit from existing strategic investments. Once the exit has been executed, we will reallocate to new growth areas. Also, although reviews of channels are well under way, we believe that the downsizing of branch networks must not be the sole focus of these efforts. Rather, we will consider a new branch model specializing specific fields through the utilization of digital technologies. Accordingly, we will focus on transforming branch operations instead of merely reducing the number of branches. In addition, we will accelerate the ongoing reallocation of human resources. Furthermore, we will reallocate additional human resources ingenerated by the efforts of digitalization to boost expansion into new business fields and growth areas.

Q : Please share your perceptions of international discussions with regard to financial regulations.

A : We expect revised Basel III regulations to be finalized by the end of 2017, or at the latest, by the end of 2018. However, we will carefully monitor developments as discussions may be affected by the future policy of the U.S. administration. The level of RWA floor setting is the key issue here, but we believe MUFG can withstand the new regulations as long as requirements thereunder fall within the scope of our forecasts.

Q : With regard to reallocation of strategic investment portfolio, do you intend to embrace a policy of increasing equity invested in companies in areas of growing importance?

A : As in the lease business, we will be engaged in financing aimed at accommodating needs in connection with commercial funding and business development efforts that cannot be met solely through banking functions. To this end, we will utilize the capabilities of Mitsubishi UFJ Lease & Finance. We will also step up our alliance with Hitachi Capital Corporation, which we have made an equity-method affiliate. We are confident that the forthcoming finance business run by three domestic leaders in the fields of banking, trading and manufacturing, will be unique and trail-blazing.

In asset management, we will plan to transfer Trust Bank’s corporate loan-related businesses to Commercial Bank. The trust bank will focus on asset management, investor services, shareholder services and real estate administration services. Among these, asset management is an important component. Although we have stated that asset management involves risk associated with loss of talents, we will consider executing majority investments while staying alert in order to prevent such risk from emerging.

Q : What was the impact of revisions in the Dodd-Frank Wall Street Reform and Consumer Protection Act on your U.S. operations' organizational structure? Also, please explain the impact of CVA regulations.

A : We don't expect Glass-Steagall Act to be reinstated or the Dodd-Frank Act to be abolished. The main problem we have with recent regulations is that they go a bit too far in imposing strict rules, but the public won't stand for abolishing them altogether. However, we have seen a growing trend toward the easing of excessive regulations and, once they are relieved from extremely strict capital standards thanks to the possible relaxation, we think that U.S. financial institutions may increase shareholder returns and investments for growth. As for CVA, we are taking steps to secure our responsiveness to these regulations. Moreover, we expect the further tightening of CVA standards going forward.

Q : Although the plan's targets include an increase in profit attributable to shareholders, why is the target for net operating profits lower year on year? How long will it be before the Re-Imagining Strategy exerts a positive effect on net operating profits?

A : As you have pointed out, the fiscal 2017 target for net operating profits is down on a year-on-year basis. Interest income from domestic loans and deposits is expected to continue downward. We also took the negative impact of a reduction in the balance of foreign bonds into account. Amid a conventional operating environment so far, with low interest rates acting as the key negative factor, we have been supplementing a decrease in interest income with a gain on sales of securities. However, a reduction in the bond balance has made it even more difficult to offset the decrease in interest income with the gain on sales of securities. In addition, the rising cost of foreign-currency funding impacted on us disadvantageously. Although the Re-Imagining Strategy is now addressing the aforementioned issues, it is designed to be implemented over seven fiscal years going forward. In the short term, investment and expense for the strategy would exceed gains yielded by the strategy for a term of next mid-term business plan. Nevertheless, we are committed to overcoming such circumstances and achieving growth.

Q : In fiscal 2016, the total payout ratio, including those attributable to share repurchases, amounted to 47.9%. Are you going to maintain this ratio at around 50%? Could you explain the amounts allocated to the dividends payout and share repurchases?

A : In fiscal 2017, we will maintain our existing capital policy framework. Toward the launch of the next mid-term business plan, we will discuss our current policies on the dividends payout and the repurchase of shares while assessing the possibilities of forward-looking growth investments. In the course of such discussions, however, we will need to take into account our investment in Morgan Stanley losing its crisis investment designation and being subject to double-gearing.

Q : There is a significant ¥400 billion difference between consolidated and non-consolidated net income target for fiscal 2017. Do you think that the Commercial Bank, on a non-consolidated basis, could see profitability return to previous levels if Japanese yen interest rates returned to normal over the long-term? Also, do you expect the gap between consolidated and non-consolidated performance forecasts to grow wider going forward?

A : We didn’t take the rise in the domestic interest rates into account when formulating our financial targets for fiscal 2017. We expect the low interest rate environment will continue for a while. As for consolidated business performance, if it were not for losses recorded by Mitsubishi UFJ NICOS and ACOM, fiscal 2016 consolidated operating results would have exceeded non-consolidated performance by even more than ¥400 billion. We expect that both of these subsidiaries will make a positive figure in fiscal 2017. Morgan Stanley will steadily contribute to consolidated operating results thanks to the integration of its wealth management business and investment banking functions. Our U.S. subsidiary posted record-high earnings in fiscal 2016 and its performance in fiscal 2017 is strong, as well. Also, Krungsri’s performance is stable. Even though the performance of Mitsubishi UFJ Securities Holdings was sluggish in fiscal 2016, this subsidiary has significant potential to contribute to consolidated operating results. In sum, we believe that our efforts aimed at realizing efficient consolidated management began creating steady and notable results.

Q : Although Mitsubishi UFJ NICOS is positioned as the Group’s payment platform, what is the positioning of ACOM?

A : At Mitsubishi UFJ NICOS, efforts are under way to integrate its multiple legacy systems. Collaborating with overseas digital companies, we will establish a strong payment platform business to both corporate and individual customers.

Meanwhile, ACOM recorded a loss in fiscal 2016. However, ACOM’s operations related to the provision of guarantees for banking card loans enjoyed strong showings. In fact, these operations secured card loan users who are in good standing and usually from market segments that differ from those represented by ACOM’s usual customers. Currently, review of approach to bank card loan business is under way. We see such reviews as positive as we have been focusing on creating a healthy consumer finance market that is our aim since the acquisition of ACOM

Q : What are primary risk factors that may affect operations in the 6 to 12 months lying ahead?

A : We pay close attention to the geopolitical risks of U.S. and China. With regard to the United States, we don’t see a significant possibility of critical incidents forthcoming. However, if such an incident comes into play in this country, the impact of the tail risk on markets would be considerable. Looking at China, we are worried about how the global economy will be affected by slowdown of Chinese economy rather than direct credit risk from our exposures to China.

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