FY2017 Interim Results Presentation

Main Q&A

Q : The MUFG Re-Imagining Strategy is mainly focused on initiatives to achieve reforms in domestic operations. What are your plans regarding reforms in global business? Also, what approach are you taking to optimize the existing portfolio of strategic investments?

A : Our domestic commercial banking operations are facing with the harshest business environment. Conditions surrounding our overseas operations are also far from favorable due to constraints on risk weighted assets (RWA) and non-JPY funding. We therefore believe that overall reforms in our global banking business model are imperative. Breaking away from a lending-centered business model, we will promote Origination & Distribution (O&D) to minimize RWA consumption. We also consider cost management a key initiative. Although cost reduction projects in the U.S. & Asia and the integration of banking and securities operations are under way, we would be able to yield further results by, for example, reducing the number of booking offices. However, we need to strengthen compliance-related measures at our business bases around the globe.
With regard to strategic investments, we have made it a policy to exit if we judge the initial strategic importance has lowered, even if ROI is above the target. The sale of CIMB shares was our first move under this policy. Going forward, we will further consider optimization of strategic investment.

Q : How will the finalized Basel regulation impact MUFG's total payout ratio?

A : At the moment, we are currently engaged in discussions on reviewing the capital policy together with formulating our next medium-term business plan, so are not positioned to provide concrete answers to that question. However, all directors are on the same page to implement robust capital policies that can be continuously supported by our investors.

Q : What do you consider to be the keys for the success of the implementation of the MUFG Re-Imagining Strategy?

A : We see two key elements as being essential. First, the key is how to develop a feasible and reliable business plan, and how to fill the gap between the strategic targets we will set for each initiative and the plan. This will require intensive across-the-board internal discussion. Thankfully, the push to engage in this type of discussion is gaining momentum. We are now involved in planning backwards from desired outcomes to identify the steps that must be taken to realize said outcomes, rather than merely discussing based on current way of doing things.

Second, we must endeavor to fully realize our organizational strength. At the frontline level, some employees might feel uncertain about how MUFG Re-Imagining Strategy will turn out, while others may believe that our current approach to day-to-day tasks is not optimal. In particular, a number of younger employees seem to have an acute awareness of issues MUFG is now confronting. Accordingly, we think that the success of our initiatives also hinges on what we can do to help employees realize their full potential.

Q : What are your projections regarding the Common Equity Tier 1 Capital Ratio (CET1 ratio) following the finalization of the Basel regulation? Could you also provide your views on MUFG's current M&A pipelines under capital restrictions?

A : Discussions concerning Basel regulation have yet to reach any conclusion. However, if the discussion comes to a conclusion as generally expected, it is anticipated that rise in the RWA balance would be less than double digits. Given the impact of the gradual cancelation of exceptional treatment we are now receiving with regard to our investment in Morgan Stanley, there may be the impact of lowering CET1 ratio by 1 percent point or more, combining these two. However, our current CET1 ratio exceeds 12%, which is sufficient to absorb such an impact.

Also, because Asset Management is a relatively stable business, requiring small amount of capital, we aim to nurture it as one of MUFG's earnings pillars. We won't blindly invest a trillion yen in this business, though.

Other inorganic initiatives will include the strengthening of our commercial banking network in Southeast Asia. Following Thailand, Vietnam and the Philippines, we would consider strengthening our local commercial bank network to cover Indonesia.

Q : We would like to ask about the promising areas of the Re-Imagining Strategy on MUFG's top-line revenues. Other than those in the Wealth Management field, could you name specific initiatives that you are expecting to yield significant positive effects?

A : With the aim of achieving a 300 billion yen improvement in net operating profits, we are now working to formulate concrete measures. These measures will involve strengthening such operations as wealth management, corporate banking and overseas commercial banking as well as asset management and investor services. At the same time, we will need to enhance the profitability of our existing operations at home and abroad. Furthermore, we will need to reinforce businesses targeting institutional investors, a class of customers that we have previously failed to reach out to in an organized manner. Because of this, their contributions to consolidated profit have remained less than significant. However, we are now seeing opportunities in this field. In sum, our business planning will focus on establishing multiple earnings pillars in new business fields along with improving the profitability of existing operations. Moreover, we will maintain a firm grip on cost management.

Q : We’ve heard that you’ve been paying close attention to rating agencies’ evaluations of MUFG. How do you respond to them? Please also tell us about your target level of CET1 ratio once the Basel regulation is finalized.

A : For MUFG to maintain robust operations at home and abroad, we need to keep ratings above a certain level. In addition to gaining a deep understanding of their rating methodologies, we try to enhance dialogue with credit agencies.
With regard to our target level of CET1 ratio after new Basel regulation is finalized, so far we haven’t made any specific plans. Rather, we will carefully observe the impact of the finalized rules on European and U.S. banks and assess the expected capital level. And then we will consider our target level of CET1 ratio.

Q : How are you going to utilize blockchain technologies to secure greater profit? Could you provide us with a timeframe of your initiatives in this regard?

A : Currently, there are multiple projects aimed at utilizing blockchain and other technologies as listed in page 37 of the presentation material. Of these, global projects, which are listed on the right side of the page, are expected to yield greater cost reduction effects. On the other hand, we are still exploring directions to head for the domestic businesses employing digital currencies. We should build a common platform that is highly convenient to customers by acting in collaboration with retails, communications and transportation and others in different business sectors.
In terms of overall cost reductions, however, we believe that using digital technologies to streamline our existing operations will yield stable cost reduction effects long before new projects aimed at utilizing blockchain and other technologies make some progress.

Q : If MUFG’s operating results for the fiscal year ending March 31, 2018 are more robust than the announced financial targets, do you intend to allocate the portion of earnings in excess of your targets to execute share repurchases?

A : Looking at the uncertainties of operating environment in the second half of the fiscal year, we cannot rule out the possibility of operating results falling short of initial forecasts. Moreover, we may record non-recurring expenses in connection with structural reforms. Taking these factors into account, we have decided not to change our full-year net profits targets. As for the next round of shareholder return, we have yet to begin discussions.

Q : Do you have an intention to reinforce a middle-risk, middle-return business?

A : Currently, our credit risk managers charged with commercial banking, trust banking and securities businesses in Europe, the United States and Asia, are actively discussing such business. Our general intention is to take an unconventional approach in our pursuit of O&D businesses while giving due consideration to the business practices in capital markets. However, O&D businesses have specific credit cycles that require close attention. Given this, we will formulate robust credit policies for managing O&D businesses.

END