FY2017 Results Presentation

Main Q&A

Q : Did MUFG change its Common Equity Tier 1 Capital ratio target, revising it to include the balance of net unrealized gains on available-for-sale securities? Also, MUFG has repurchased ¥100 billion of its own shares in each six-month period. Going forward, does the Company intend to flexibly repurchase its own shares by giving consideration to its performance and market conditions?

A : We set our Common Equity Tier 1 Capital ratio target to reflect the impact of an increase in risk-weighted assets attributable to the finalization of Basel III regulations while including unrealized gains.

Regarding our capital policy, we have established the basic policies for shareholder returns, as presented on page 52 of the presentation material. While we have changed some elements, we kept key capital policy components unchanged. Our concept of a “capital triangle,” featured on page 51, remains unaltered. In line with this concept, we are focused on further enhancing shareholder returns, maintaining solid equity capital and undertaking strategic investments for sustainable growth. We will stay committed to striking a balance between these pursuits.

On the other hand, we have changed the following three points.

First, we have explicitly stated our focus on dividends. Specifically, we have expressed our renewed intention to irreversibly increasing dividends. For fiscal 2018, MUFG forecasts a full-year dividend of ¥20 per share in light of its target of ¥850 billion. This dividend forecast reflects a clear departure from our previous pattern of dividend payment.

Second, we have clearly stated our intention of achieving “a dividend payout ratio target of 40%.” This is a goal we will steadily work toward over the course of the current and next medium-term business plans, not an ultra-long term target. That is what we meant by announcing this target.

Third, we will flexibly repurchase own shares. Previously, we said that MUFG would be flexible when repurchasing own shares, but in reality our approach was anything but flexible. To date, MUFG has always expended exactly ¥100 billion on share repurchases in each six-month period. Looking ahead, however, we will consider own shares repurchases, for examples, when stock prices are relatively low, when profits are greater than initially planned, and/or when we have a capital surplus. While maintaining our focus on increasing dividends, we will consider own share repurchases depending on the situation. That’s what “flexible” means. At the same time, it doesn’t necessarily mean that such repurchases exactly reflect financial results.

In addition, we are very determined not to carry over excessive capital, and will maintain a tight grip on capital policy. We will stick to this approach going forward.

Q : Please tell us how you included earnings from equity-method affiliates in your business plan by business group?

A : Actually, equity-method profits are not included in net operating profit plan by business group. However, the profits are included when the affiliates become the consolidated subsidiaries.

Taking a look at the fiscal 2017 results of the Global Commercial Banking Business Group, for example, net operating profits totaled ¥190 billion, while the fiscal 2020 target is set at ¥320 billion. This fiscal 2020 target includes the effect of Bank Danamon's inclusion into the scope of consolidation, which will, in turn, contribute to growth in net operating profits.

Q : I feel MUFG's fiscal 2018 target for profits attributable to owners of the parent, ¥850 billion, is rather conservative. Does this target give no consideration to the possibilities of fluctuations in credit costs or an unexpected posting of gains on equity securities? What if MUFG found itself likely to secure greater earnings from items other than core business? With this in mind, please elaborate on the reasoning behind MUFG's management targets for fiscal 2018 and how progress toward these targets will affect shareholder returns?

A : We are firmly determined to execute major structural reforms in the fiscal years ending March 31, 2018 and 2019. We have no intention to inflate fiscal 2018 profits by one-off profits. Our new medium-term business plan centers on securing MUFG's sustainable operations amid structural changes over the next 10 to 20 years. We are strongly committed to passing down an excellent company that future generations can be proud of. Since we are undertaking thoroughgoing reforms, we will inevitably be positioning these two fiscal years as a "heads down" period. That being said, achieving our profit target of ¥850 billion will require, I believe, considerable effort directed at securing robust net operating profits. Turning to items presented below net operating profits, credit costs could possibly fluctuate greatly. If we were to limit our focus to bottom line profits, our forecasts for the fiscal year-end could differ from our current target. In such a case, we might not increase dividend; while, we would flexibly undertake share repurchases instead.

Q : What medium- to long-term returns we can expect to receive by holding MUFG shares? Also, how strong is your commitment to achieving your ROE target under the new medium-term business plan and how is that target likely to be achieved? In addition, what is the likelihood of robust shareholder returns in line with the "capital triangle" concept?

A : First and foremost, we believe that MUFG must remain a corporate citizen and a financial institution that serves as part of the bedrock of society while withstanding hardship at all levels. In anticipation of radical changes in society and industry, the new medium-term business plan sets forth a number of initiatives aimed at ensuring that we remain such a financial institution for the next six years and beyond. Specifically, the Eleven Transformation Initiatives are focused on feasible businesses that have growth potential, enable the MUFG Group to demonstrate its comprehensive capabilities, and likely to become one of the major MUFG business pillars once after the plan has run its course.

Moreover, we will employ the strength of the Global Commercial Banking Business Group. This group boasts a unique business model that no other financial institution is developing. We will focus on countries with growth potential and help grow our local partners from mid- to top-level banks.

Once those are achieved, MUFG will become a fairly powerful global financial group. With regard to asset management and investor services, we will endeavor to achieve growth in top-line revenue. Of course, we are aware that some of the initiatives such as GCIB Business Model and Institutional Investors Business are challenging. We are also aware of risks in the face of rapidly evolving external conditions. However, we have carefully planned our tactics and have detailed plans. We are committed to implementing all of what we have planned to do.

However, if these tactics don’t work out, we will accelerate the sale of equity holdings while stepping up efforts to reduce expenses. Furthermore, we can expect Morgan Stanley to contribute to profits. Taking this and other positive factors into account, I would rather advise you to look forward to our financial results. We can assure you that shareholder returns will grow in step with growth in financial performance.

Q : Fiscal 2020 net operating profits are expected to amount to approximately ¥1.5 trillion. Taking this into account, I assume that profits attributable to owners of the parent for that fiscal year are likely to surpass ¥1 trillion. What do you think?

A : In comparison with fiscal 2017 results, we plan that net operating profits will increase around ¥250 billion. Thus, we expect fiscal 2020 net operating profits to amount to somewhere between ¥1,450 billion and ¥1,500 billion. Based on this projection, we are certainly anticipating that profits attributable to owners of the parent will surpass ¥1 trillion.

Q : Looking at page 25 of the presentation material, the breakdown of the business plan by business group features net operating profits for each group. However, the sum of figures for each group doesn't match with MUFG's consolidated net operating profits. Why is that?

A : As indicated beside the chart on page 25, consolidated results also include profits and losses for headquarters and other that are not classified under any of the business groups.

I will also provide a supplementary explanation outlining why we disclosed business plans by business group. The chart discussed is intended to illustrate how each business group is going to achieve profit growth. Moreover, the disclosure of ROE and expense ratio by business group is aimed at reminding each group head that they are expected to be fully committed to our goals. At an Investors Day scheduled for July, group heads are expected to take platforms and provide presentations themselves.

Q : Can we expect MUFG to increase total payout? Or, is growth in shareholder returns not likely, given such factors as the possible impact on capital of the termination of the exceptional treatment with regard to MUFG's investment in Morgan Stanley? Please also share your vision for new strategic investment with us?

A : Although our newly established basic policies for shareholder returns emphasize flexibility, they don't necessarily require a reduction in total payout.

Of course, we are acutely aware of our capital constrains. This awareness, in turn, has prompted us to disclose ROE targets by business group. In fact, MUFG has shifted its focus to securing greater capital efficiency throughout the course of the previous medium-term business plan. We are also clearly aware of the impact of the termination of exceptional treatment with regard to our investment in Morgan Stanley.

When it comes to new strategic investment, we will continue to consider new strategic investment as long as it has strategic significance and is justifiable to shareholders. Possible outlets include investment in asset management and investor services in addition to the additional acquisition of equity stake in Bank Danamon.

Once again, we have no intention to accumulate excessive capital. We would rather maintain a flexible stance when discussing these measures.

Q : If gross profits don't grow as planned, does MUFG have a buffer to mitigate the negative impact? Will the Company be able to avoid such impact by, for example, undertaking additional cost reduction measures?

A : In Japan, efforts are already under way to reduce the overall workloads through the decisive streamlining of domestic operations. We will swiftly promote these measures. Overseas, we will optimize our branch network while enhancing the efficiency of operations. These initiatives are presented on page 38 of the presentation material. Moreover, since our success or failure in terms of internal control will directly affect cost, we must maintain a firm grip on it. With this in mind, we have appointed an executive officer in charge. The new position has been given a clearly defined role and responsibilities that are separate from business execution. Our cost reduction initiatives are included in the new medium-term business plan in various ways. Over the next six years, we are planning to cut a total of ¥110 billion. We realize, however, that this alone will not be sufficient and we will continue to undertake additional cost reduction measures.

Q : Did you incorporate expenses incurred at Bank Danamon into expenses premeditated under the new medium-term business plan? Although cost reductions are expected via structural reforms, do they include the effect of reduction in personnel due to natural attrition?

A : Factors you have pointed out are included in our business plan for the Global Commercial Banking Business Group and expected cost reduction via structural reforms, respectively.

Q : Do you think that earnings from MUFG Americas Holdings Corporation (MUAH) will grow in step with a rise in U.S. interest rates?

A : In general, if interest rates rise, we can expect a higher interest margin, which, in turn, will help increase net interest income. However, MUAH had been striving to ensure that its profitability was not too sensitive to changes in interest rate fluctuations and, to this end, had put in place hedging against these fluctuations. But MUAH already shifted from this approach, and it is now positioned to enjoy profits arising from rising interest rates. We also believe that there is room for improvement in the expense ratio.

Q : The Global CIB Business Group’s ROE remains low. Why is that?

A : The main factors are the buffer asset costs and so on. To rectify this, we need to review commitment lines while broadening the range of customer transactions such as forex, trade finance, cash management and DCM. Furthermore, we will tackle CLO business an etc., while securing human resources who possess abundant experience and expertise. We are also assiduously endeavoring to enhance controls on expenses and expect that expenses will soon be settled at an optimal level.

Q : In the course of structural reforms, how is MUFG going to reallocate its human resources? Please tell us the overview of your human resources strategy?

A : In terms of overall workload reduction, operational processes being implemented at domestic branches and operations centers will account for the majority of reduced workloads. However, I believe that none of the staff at these sites is in need of massive re-skilling. We will carefully draw up detailed plans aimed at gradually reallocating them to tasks that align with their previous duties. We also plan to establish MUFG University, introducing measures to better motivate employees. In addition, MUFG is revising its HR system away from “seniority-based” practices to ensure that employees’ compensation accurately reflects their responsibilities. These efforts are expected to help us nurture excellent human resources, offer greater career opportunities and recruit promising candidates.

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