Investor Presentation for FY2020H1

Main Q&A

Q : Please explain the top management's view of the weak performance of the company's stock price.

A : I am not satisfied at all about the stock price. There are two issues I recognize.
The first one is efficiency. Management team shares a strong sense of awareness regarding this matter and we are currently working to strengthen our cost control and risk-return management to improve efficiency. We have started to see some signs of success in this respect; however, we still have much progress to make, and that is probably why the performance of the stock price is weak. The second issue is that we haven't been able to show what kind of future we envision. We would like to lift the stock price by demonstrating new initiatives in the future.

Q : Please explain the aim of establishing a new business group.

A : For the past two to three years, significant progress in our discussions regarding our digital initiatives has already been made, such as cost reductions and UX (User Experience) improvements, so what remains is how we implement the initiatives.
The reason why we have created a digital strategy team directly under me in July and are going to establish a new business group is to ensure execution capabilities and rapid speed, as well as the integration of authority toward that end.
While handling customer relations mainly by non-face-to-face channels as a customer segment, the business group will also work to accelerate company-wide digital transformation.

Q : How do you evaluate the current level of MUFG's Common Equity Tier 1 Capital (CET1) ratio, and what kind of conditions will make it sufficient for you to consider share repurchases?

A : Page 24 of the presentation material shows the four ways of viewing the CET1 ratio depending on the current regulation basis, the finalized Basel III reforms basis, and inclusion or exclusion of unrealized gains on available-for-sale securities. At present, we are focusing on two ways of looking at the CET1 ratio: the current regulation basis excluding unrealized gains and the finalized Basel III reforms basis including unrealized gains. This is something that we need to further discuss, but what I consider to be important is the finalized Basel III reforms basis excluding unrealized gains, and we look at 9.5% as a milestone. The current 9.6% is slightly above the milestone, in a financially sound level.

We decided not to repurchase shares this time, but I have the hope to do so considering the current very low stock price level. However, since we cannot foresee the upcoming impacts of COVID-19 as this moment, we aim to maintain a robust capital level and conduct proper risk-weighted asset (RWA) control while continuing to support customers in various ways. Once we have a clearer outlook, then the option would arise regarding how to use the surplus capital, whether it be through the support of customers, our share repurchases, or other allocation.

Q : It seems that the main topics in the next medium-term business plan would be improving the expense ratio and ROE. Which fields, in particular, do you place expectations as the driver for growth in top-line revenues?

A : In the next medium-term business plan, we will continue to control expenses and RWA, with the improvement of ROE as one of the core indicators. As one of the top-line revenue-driving areas, wealth management business and the business in the new business group will be included in terms of domestic retail business. In the new business group, we will generate revenues through upgrading UX by improving products and services, while lowering the break-even point though digital transformation on a company-wide basis as retail business being a starting point. In the domestic corporate field, we will enhance our ability to produce business solutions by continuously leveraging our strengths as a group centered on the Bank, the Trust Bank, and the Securities, mainly targeting large corporates. In the U.S., we are implementing a “Back to Basic” strategy in the regional banking field, and we will continue our efforts to improve profitability through balance sheet optimization. In Asia, we are in the phase of reaping the results of acquisitions. We will work to create synergies and provide new financial services through collaboration with Grab.

Q : It seems difficult for ROE to reach 7% or 8% in the next medium-term business plan. What would be the driver of organic growth in the customer segment?

A : Our net operating profit target of fiscal 2020 was revised upward to ¥1,150.0 billion. Whether or not we can bring the level up to the same as fiscal 2019 will be important.

In the fiscal first half results, mainly due to the increase in the Global Commercial Banking Business Group (GCB), the total of customer segments in net operating profits increased year-on-year. Although the increase in GCB included the consolidation effect of

Bank Danamon (Indonesia), even when excluding this factor, the results still increased due to the positive results of Krungsri (Thailand) and Bank Danamon, which is a promising factor for the future. In addition, we will boost our profit-generating capability in areas such as solution business to corporates in the Japanese Corporate & Investment Banking Business Group (JCIB) and wealth management business in the Retail & Commercial Banking Business Group (R&C).

Q : Please tell us your thoughts on your plan for cost reductions.

A : In fiscal first half, expenses in R&C decreased approximately ¥37.0billion year-on-year. Although there are effects partly from COVID-19, our cost control measures are beginning to bear fruit. We will indicate with specific numbers how much we will reduce costs in the next medium-term business plan.

Q : What is the reason behind the reduction of RWA by the upgrade of the risk measurement method and please tell how much room is left for further reduction in the future.

A : Regarding CVA (credit valuation adjustment), we have carried out various advanced measures, such as creating our own CVA desk, which led to the reduction of RWA in finalized Basel III reforms basis. We intend to continuously upgrade our risk management methods.

In RWA control, other than upgrading risk measurement method, there also includes the initiatives being taken at our corporate center. But what I think is most important, is the activities conducted in business groups over the medium- to long- term, and to improve risk returns, we are controlling RWA for each transaction, and are further clarifying and setting forth the rules. We have continued to make constant efforts in RWA control in an organized way for one and half year and have gradually seen results.

Q : The forecast for credit costs in fiscal 2020 has been raised. Could you share your current view on credit costs in the next fiscal year?

A : Credit costs in fiscal first half exceeded the initial forecast by ¥30.0 to ¥35.0 billion due to CECL (current expected credit loss), but given the current economic environment and other factors, it is expected to exceed in a similar amount for the full-year as well. By also including some additional factors, we upwardly revised the forecast for credit costs by ¥50.0 billion.

When giving a breakdown in the first and second half, we recorded around ¥170.0 billion at partner banks in the first half, but we expect to record around ¥40.0 billion in the third quarter, so the credit costs of partner banks will likely decline to around ¥90.0 billion in the second half. On the other hand, there is a possibility that domestic credit costs will increase to some extent in the second half.

Credit costs for the full-year is expected to take longer than originally expected to return to the ordinary level of ¥250.0 billion, and credit costs for the next fiscal year is expected to be between ¥250.0 and ¥500.0 billion. However, in terms of partner banks, because of credit costs occurring ahead in the current fiscal year, we do not expect to record the same level of credit costs as in the next fiscal year, and we expect a reduction by approximately ¥50.0 to ¥100.0 billion from the current fiscal year's forecast of approximately ¥260.0 billion.

Q : Will the demand for bank loans slow down due to a shift in financing by corporate bonds, especially in large corporates? Also, are you considering strengthening your securities business?

A : Financial markets were supported by the ample provision of funds by central banks around the world, and bond issuance by large corporates has become active. In addition to financial support like this, what we felt strongly as a result of the COVID-19 pandemic was that MUFG is a company that many customers rely on. Not only SMEs, but also large corporates made various requests to us such as bank loans and capital finance. As we noted “business resilience” as one of the keywords of our management policy, it is vitally important to control RWA and to have a robust capital base so that MUFG itself remains strong.

In the securities business, as a result of responding to a variety of customer needs, profits in the overseas securities business have been favorable, and we have promoted our alignment between the Bank and the Securities in Japan. Still, we believe there are many issues to be tackled, including our primary market business, so this is an area where we will need to strengthen.

Q : Please tell us how do you evaluate the number of users of your internet banking service for individual customers, Mitsubishi UFJ DIRECT.

A : Although the number of users of Mitsubishi UFJ DIRECT is not at a sufficient level, it is necessary to respond to changes in customer behavior in addition to continuously improving functions as a tool.

Mitsubishi UFJ DIRECT is used for purposes such as remittance and balance confirmation, but we believe it is important to create contact points with customers on a daily basis because it is expected that online merge offline, or OMO, will occur in society. We released an app called Mable in September, and we would like to increase the number of contact points with customers by making this an entry point.

Q : Please provide an assessment of the sufficiency of the CET1 ratio based on the results of the stress test. Also, is shareholder return policy determined taking into account the results of the stress test?

A : Stress tests are conducted in multiple scenarios each time a plan is formulated or reviewed. For example, an analysis was conducted under a reasonably deep risk scenario assuming the spread of COVID-19. In such case, the CET1 ratio under the current regulation basis including unrealized gains on available-for-sale securities was about 10%. The decision on shareholder return policy is made after comprehensively confirming the adequacy of capital based on the results of stress tests.

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