Investor Presentation for FY2020

Main Q&A

Q : Please tell us about your personal commitment as Group CEO to “Corporate transformation,” one of the three key strategies.

A : I believe that Corporate transformation is the most important of the three strategic pillars of our new medium-term business plan (MTBP). Transforming corporate culture and employee modes of operation is not easy. With digitalization, the behavior of everyday life of each employee is undergoing a natural shift as they increasingly go online. Many of them frequently opt for smartphone-based economic activities, such as information gathering and shopping, due to the superior convenience offered by these device technologies. Corporates, however, operate within a unified structure of rules and procedures from the past. This makes it harder for them to digitize certain aspects of their operations. Therefore, we must be particularly conscious about how best to digitize our operations.

To this end, we are striving to raise employees’ awareness via such opportunities for exchange as town hall meetings, facilitating employee engagement to help them switch their perspectives.

Q : MUFG’s renewed capital management policies are described on page 66 of the presentation material. Could you also discuss your commitment as Group CEO in terms of efficient capital management?

A : Our initiatives under the previous MTBP required the massive use of expenses, risk-weighted assets (RWAs) and capital and, therefore, were overly dependent on growth in gross profits. However, such growth has been lower than anticipated due to changes in the external environment, including the prolonged global trend toward low interest rates. Under the new MTBP, we aim to raise net operating profits without using the greater amount of expenses and RWAs. We will also place firm control on capital, funds, personnel and other managerial resources. With regard to capital management, we have clearly announced our target of maintaining Common Equity Tier 1 (CET1) capital ratio (based on the finalized Basel III regulations and excluding unrealized gains on available-for-sale securities) within the range of 9.5% to 10%. We have no intention to further relax this target.

Q : MUFG claims to have no intention to increase RWAs under the current MTBP. Given this, what are your plans for securing greater earnings and achieving profits attributable to owners of parent totaling ¥1 trillion or more in fiscal 2023?

A : Although our fiscal 2020 profits attributable to owners of parent were only ¥777.0 billion, this figure was achieved under the influence of the COVID-19 pandemic, which has left a negative impact of approximately ¥300.0 billion. If we were to simply exclude such negative impact from fiscal 2020 results, we would be able to achieve more than ¥1 trillion. That being said, we must also take the current influence of declining interest rates into account. In sum, we believe that to meet the ¥1 trillion target, we need to secure around ¥100.0 billion in additional profits.

With regard to expenses for fiscal 2020, we have succeeded in reducing them approximately ¥90.0 billion, albeit thanks in part to some special factors, on a basis of excluding the increase impact due to the consolidation of Bank Danamon and FSI. This indicates that our framework designed to secure a greater return without increasing expenses began taking effect.

Looking at profits, we must overcome two challenges. First, we must address our domestic profit base. In addition to promoting digital transformation (DX) in the retail field, we will secure greater earnings power through expanding wealth management profits by providing solutions from leveraging MUFG Group's comprehensive capabilities and corporate transactions by strengthening our approach to customer's management issues. Second, we need to upgrade our global operations. Global Corporate & Investment Banking (GCIB) Business Group has been confronted by an issue associated with ROE. To resolve this issue, GCIB will execute its business strategies in close collaboration with the Global Markets Business Group, with the aim of expanding fee income and thereby improving profitability. As for wealth management, we will assign a total of 500 dedicated employees to relevant positions and are introducing a sales system in which specific individuals serve the same customers on a long-term basis. We are also developing a digital platform. Thanks to these and other structural efforts, we consider the likelihood of achieving our profit target to be quite high.

Q : Please explain MUFG's plan for reducing expenses under the new MTBP. Also, do you expect the promotion of DX to result in additional cost reduction effects?

A : In line with the new MTBP, we aim to cut on a consolidated basis of the Bank approximately ¥30.0 billion in domestic personnel costs, in addition to approximately ¥20.0 billion in domestic facility costs, and approximately ¥30.0 billion in overseas expenses (excluding those incurred by Krungsri and Bank Danamon) for an overall reduction in expenses totaling roughly ¥80.0 billion. Although overseas expenses have been affected by growth in regulatory costs in step with the expansion of overseas operations, we expect such expenses to peak out in the next three years. We also recognize the future probability of additional cost reductions attributable to DX and other efforts.

Q : I highly appreciate the MUFG Carbon Neutrality Declaration. Please explain the factors leading to the announcement of this declaration.

A : To date, we have made clear our support of the Paris Agreement and since doing so have promoted initiatives to contribute to the realization of its shared targets. Moreover, the Japanese government declared its target of achieving carbon neutrality in 2050. In light of these circumstances, we have engaged in in-house discussion regarding our approach to this subject and decided to publicize our Carbon Neutrality Declaration. In addition, we will join the Net-Zero Banking Alliance (NZBA), an international initiative that has just been launched under the leadership of the United Nations. These efforts are, of course, intended to span a long period of time. However, our plans call for announcing interim targets for 2030, as required by the NZBA, by the end of fiscal 2022. With regard to Scope 3, which represents the volume of greenhouse gas (GHG) emissions attributable to our investment and finance portfolio, it is important to robustly monitor and control the status of CO2 emissions by the recipients of our investment and finance via the use of Science Based Targets and other methods. Therefore, we will engage in ongoing discussion with our industry peers and, based on scientific evidence, consider how to contribute to GHG reductions. While paying attention to the need of stable domestic energy supply, we will also remain engaged with our corporate clients and thereby promote our initiatives in this field.

Q : Please elaborate on MUFG’s initiatives to upgrade its methods of ROE management. Moreover, what is your rationale for excluding net unrealized gains on available-for-sale securities from the denominator in MUFG’s standard formula for calculating ROE?

A : In order to accurately calculate ROE by business group, we have decided to allocate RWAs and other items previously managed solely by headquarters, to each such group. Although such reallocation might bring down the ROE of certain business groups, we nevertheless decided to take this approach to strengthen financial discipline.

Also, we know that our own standard for ROE calculation, which excludes net unrealized gains on available-for-sale securities, differs from the standard method stipulated by Tokyo Stock Exchange (TSE). Net unrealized gains on available-for-sale securities are extremely susceptible to fluctuations in the external market environment, but we place the foremost priority on securing robust consistency between the ROE target for the entire Group, which excludes net unrealized gains on available-for-sale securities, and ROE targets for business groups. In these ways, we manage and improve our ROE. This approach, we believe, will eventually help us similarly improve an ROE calculated based on the TSE standard.

Q : We anticipate that MUFG is highly likely to record considerable capital surplus in the final year of the MTBP. If that is the case, what are your plans for the allocation of such surplus? Please share your thoughts on this subject, including the expected proportion of funds allocated to share repurchases and growth investments as well as the possibility of accelerating MUFG's relevant schedules.

A : At the end of fiscal 2022, we will see the complete expiration of the gradual exemption of special treatment that allows our investment in Morgan Stanley to not be subject to double gearing adjustments. We also anticipate the positive effect of our ongoing control on RWAs. Taking these factors into account, we expect certain amount of capital surplus in fiscal 2023. It depends on circumstances prevailing at that time, but we think that the acceleration of our schedules for share repurchases, growth investment or other options is conceivable should such options be planned in a way that pays close attention to projections regarding capital surplus. As of May 2021, we have opted not to carry out share repurchases due to a lack of clarity regarding the outlook for the COVID-19 pandemic. Nevertheless, we remain open to the possibility of such action and, depending on prevailing circumstances, consider executing share repurchases within fiscal 2021.

Q : We were briefed about MUFG's plan of reducing equity holdings worth more than ¥300.0 billion in the next three years. Do you consider the possibility of further accelerating the pace of reduction?

A : In the course of our previous reduction plan, which aimed to reduce ¥800.0 billion in equity holdings (on an acquisition-cost basis) in six years, we have actually reduced such holdings worth ¥870.0 billion. We have a number of equity holdings already agreed for divestment with corporate clients but haven't been divested yet, so looking at our plan for the next three years, the reduction of ¥300.0 billion is considered the bare minimum target as this amount. Our policy for reduction of equity holdings remains unchanged, and we think that the pace of reduction may very well be accelerated.

Q : With regard to MUFG's target of achieving profits attributable to owners of parent of ¥1 trillion or more, please confirm the degree of your commitment.

A : All members of the top management team are equally and strongly committed to achieving the target of ¥1 trillion or more. In addition, all of us have firmly committed ourselves to accomplishing our ROE target of 7.5%. Our commitment is not merely to achieving ¥1 trillion, but to achieving an even higher level of profit. We are aiming to become a company capable of steadily earning ¥1 trillion or more. Although there may be unexpected changes in the environment in the next three years, we currently believe that the probability of achieving this target is pretty high.

Q : MUFG has opted to not carry out share repurchases. Does it intend to execute share repurchases only if the COVID-19 pandemic is contained? Please share your thoughts on this matter. Also, MUFG currently seems to be positioned to benefit from an increasing number of opportunities for growth investment. Given this, are you considering executing any major acquisitions?

A : Regarding requisite conditions for greenlighting a share repurchase, we have not set the specific quantitative criteria for the containment of COVID-19. However, although our CET1 capital ratio remains in roughly the middle of the targeted 9.5% to 10.0% range as of March 31, 2021, we need to pay close attention to such factors as future developments in the COVID-19 pandemic in Japan. Should the economy be reinstated to a growth track, we would be better positioned to consider share repurchases and other capital utilization measures. As for investment for growth, investments in MUFG's unique business portfolio have now been mostly completed, and the remaining fields in need of further investment are digital, IT and overseas asset management / investor services (AM/IS). We will continuously consider investing in these fields while focusing on securing returns from existing investments in other fields.

Q : Within the banking industry, there are the growing calls for reducing equity holdings to zero. Could you provide your views on this subject? For MUFG, would this be considerably difficult or even unrealistic?

A : Japanese banks have traditionally held their equity holdings based on longstanding industry norms nurtured over the course of history. Therefore, before initiating the reduction, we have discussed this subject from multiple perspectives. Nowadays, many of our corporate clients understand why we must divest such equity holdings. We have also seen changes in favor of divestment among various external conditions. Accordingly, we have succeeded in divesting most of the equity holdings that had been held in accordance with traditional transactional norms. Our policy of reducing equity holdings on an ongoing basis is unchanged. Of course, we also consider engagement with corporate clients a matter of extreme importance. Accordingly, we believe that divesting all the remaining portion of equity holdings at once is difficult. We think that this task will take time.

Q : It has been one year since MUFG introduced the Current Expected Credit Loss (CECL) method for credit loss calculation to overseas partner banks. Please provide your evaluation on these matters as well as your thoughts on relevant issues that must be addressed.

A : The adoption of CECL affected MUAH in particular, causing it to record a significant volume of allowances in the first half of fiscal 2020. However, in the first three months of 2021 (January through March), MUAH posted the reversal of some allowances, reflecting such factors as the GDP outlook for the U.S. Be that as it may, MUAH tends to record major fluctuations in credit costs due to the influence of CECL. Accordingly, we need to pay attention to this influence in the course of determining the outlook.

Q : As a component of Corporate transformation, MUFG aims to contribute to efforts aimed at addressing environmental and social issues while transforming its corporate culture. Could you describe specific expected impacts of these endeavors on MUFG's growth strategy and structural reforms?

A : We consider supporting the sustainable development of society to be a requisite for ensuring sustainable business growth for MUFG. With this in mind, we have freshly identified 10 priority issues encompassing environmental and social issues that must be resolved preferentially via MUFG's business operations. These issues are, in turn, incorporated into our growth strategies, structural reforms and other key strategic measures. As a result, each key strategy bears relevance to environmental and social issues. Moreover, we are aware of the potential barriers, such as slow decision-making process, insistence on a precedent-based approach, and focus on risk avoidance and a resulting reluctance to take on challenges. We are determined to not be inhibited by these factors. Encouraging employees to take a further agile approach and tackle challenges is the preeminent objective of our corporate culture transformation. We believe that unless we accomplish this transformation, we will not be able to make progress in growth strategies and structural reforms.

Q : With regard to MUFG's reduction targets for GHG emissions, please explain the Group's approach to external discussion involving other companies within and outside the banking industry as well as its action plans aimed at achieving such targets.

A : First, we have launched initiatives to reduce Scope 1 and Scope 2 emissions, which represent the volume of GHG emissions from our own operations. As for reduction in Scope 3, which represents the volume of GHG emissions attributable to our investment and finance portfolio, we need to start by identifying what kind of assistance we can offer to our corporate clients through ongoing engagement with them. We have also revised our sustainable finance target upward from ¥20 trillion to ¥35 trillion. Looking ahead, we will push ahead with these reduction efforts in a way that reflects feedback from discussions with corporate clients regarding promising technologies that are expected to help create a decarbonized society and are deserving of investment and finance.

Q : With regard to MUFG's target of stably achieving profits attributable to owners of parent totaling ¥1 trillion or more, could you elaborate on the profits you actually expect to achieve?

A : We know that a profit target of ¥1 trillion or more cannot be met easily. However, we are strongly committed to this target. We actually believe that, in order for MUFG to stably earn ¥1 trillion or more, a business plan that assumes a level of profit that barely surpasses this figure would be insufficient.

Q : Can we expect MUFG's total return ratio to approach 100% in fiscal 2023 or later? Please share your thoughts on a projection of this kind.

A : We have determined no specific target or benchmark for the total return ratio. Instead, we aim to steadily achieve a dividend payout ratio of 40% based on our target level of profits attributable to owners of parent stably surpassing ¥1 trillion. With regard to the usage of capital, considering the current absence of major acquisition deals like those that had been pursued by MUFG until recently, we will be well-positioned to opt to execute share repurchases, a type of shareholder return measure with superior capital efficiency, in light of our latest record of Price Book-Value Ratio (PBR). I myself have a strong sense of mission regarding the enhancement of MUFG stock prices. With this in mind, I am currently engaged in discussion with outside directors regarding the possible adoption of Total Shareholder Return (TSR) as a KPI for determining my compensation as Group CEO.

END