Investor Presentation for FY2021

Main Q&A

Q：Over the past year, MUFG’s stock has outperformed compared to other G-SIBs in terms of price. Could you share your analysis, as CEO, regarding the factors behind this track record?

A：In fiscal 2021, we focused on three challenges, namely, improving our earnings base in Japan, shifting from quantity to quality in overseas operations and achieving corporate culture reforms. As a result, our new business structure is now almost complete, enabling us to keep a firm grip on expenses and RWAs even as we secure profits. At the same time, we believe that our recent swift management decision making regarding the sale of MUFG Union Bank (MUB) and other issues, is appreciated by investors. In general, stock prices are determined by investor expectations. That said, right now our stock price is on a downward trend. Accordingly, we need to work even harder going forward.

Q：MUFG’s ROE, calculated based on its capital in line with Tokyo Stock Exchange’s definitions, amounts to around 6% and falls short of a level expected by investors. Please explain your plans for improving ROE going forward.

A：In fiscal 2021, ROE as defined by MUFG stood at 7.79% against its fiscal 2023 target of 7.5%. Our foremost priority is to ensure a stable ROE based on our own definition of more than 7.5%. However, we of course know that this level is still insufficient.

To further improve ROE, we have broken it down into three components, namely, profits, expenses and RWAs, and have striven to make improvements in each. Regarding profits, commission fee income from operations such as wealth management (WM) and lending spreads have been improving in Japan. While making progress in improving profits, we have also been able to appropriately control expenses and RWAs. Regarding overseas operations, we have consistently prioritized the United States and Asia as two major market regions. In the United States, we intend to place stronger focus on corporate transactions upon the sale of MUB. We consider this region to be a promising market that can make MUFG’s ROE higher. Meanwhile, although the business environment is harsh in Asia due to the COVID-19 pandemic, we will nevertheless strive to seize opportunities arising from growth in Asian economies through the sharing of best practices of Bank of Ayudhya (Krungsri) to other partner banks.

Q : Please tell us about the review of the business portfolio. Morgan Stanley's profit contribution has consistently accounted for more than one third of MUFG's profits attributable to owners of parent for some time. What do you think of MUFG benefitting from such a large contribution even though the Company itself is not directly involved in the management of this alliance partner?

A : In the investment banking business, we have been developing the collaboration, while incorporating profits from investment in Morgan Stanley as one of our profit sources. In addition to collaborating with Morgan Stanley and leveraging each firm's expertise, we have also been working on large-sized acquisition finance opportunities with our own capability.

We therefore see the large profit contribution by Morgan Stanley positively. On the other hand, we will strategically utilize capital to enhance our profitability, such as to strengthen our business portfolio in the Asia business and global asset management / investor services (AM/IS) areas.

Q : Although MUFG has announced its interim targets toward carbon neutrality, don't you think it is necessary to set short-term targets?

A : Our interim targets are set in terms of ranges with reference to the so-called 1.5°C target of the Paris Agreement and nationally determined contributions (NDC) disclosed by each signatory country. We intend to begin the pursuit of these targets by promoting engagement. Rather than focusing on establishing short-term targets, we would like to allocate our resources to the development of measures that will facilitate the achievement of our interim targets as we currently face future uncertainties regarding the situation of Russia and Ukraine and other factors.

Q : Please describe your views on how to balance investment for growth and share repurchases.

A : Currently, we have a robust number of candidates for growth investment. Investment of this kind can be roughly classified into three categories based on risk-taking approaches: 1) risk-taking in existing businesses; 2) risk-taking transcending the scope of existing businesses; and 3) risk-taking in totally new fields. We have some attractive M&A candidates in existing business fields but, unsurprisingly, they are priced pretty high. Therefore, it is important to assess the possible synergetic effect of collaboration between MUFG and each candidate. We are also engaged in discussion about investment in the fields covered by the Asia business, IT and AM/IS, and we hope to appropriately determine the right candidates. For example, we are currently involved in investments in

Indian start-ups and Mars Growth Capital.

Regarding share repurchases, we know that MUFG stock was sold even after the announcement of repurchases. However, if share repurchases has not been announced, an even greater volume of MUFG stock might have been sold. We are paying close attention to how improvement in base revenues and increases in dividends reflects our stock price.

Q : What was background of the upward revision of MUFG's reduction target for its equity holdings?

A : Last year, we announced a target of selling more than ¥300.0 billion in equity holdings (acquisition-cost basis) over the course of the Medium-Term Business Plan (MTBP) period. As we have already sold a considerable volume of equity holdings, we are aware of the possibility that we might face even more difficult negotiations. With this in mind, we have set our original target by the thought of selling at least ¥300.0 billion, which would be ¥100.0bn annually. However, at the conclusion of the first year of the MTBP, we had successfully sold equity holdings of ¥169.0 billion, more than half of the original target. This was due to our current efforts to promote engagement with corporate clients to break away from traditional dependence of cross-shareholding amid changes in social and business norms. Now, we have decided to take on the challenge of divesting equity holdings of ¥500.0 billion, which has been set with the intention of not decreasing our pace of sale.

Q : Compared with the beginning of the MTBP period, MUFG seems to have more capacity in terms of capital. Do you have a plan to raise profits by pursuing quantitative growth?

A : Although we intend to consider investment for growth as well as further repurchases of own shares, our capital management is now more conscious than before of such future uncertainties such as the situation of Russia and Ukraine, inflation, and resurgences of the COVID-19 pandemic. On the other hand, we have encountered new potential deals in structured finance and other fields. For us to meet demand for such financing deals, we need to secure a certain volume of capital. In addition, we have achieved an approximately ¥7 trillion increase in lending balance, including the effect of FX fluctuation, from September 2021. We haven't increased loans with a low lending spread. Going forward, we continue to aim for growth in the balance of high-profitability lending.

Q : In light of MUFG's recent decision to sell MUB, could you describe the current level of unrealized losses to be recorded as part of first-quarter results associated with securities, loans and others to be sold?

A : We expect to record unrealized losses of approximately ¥270.0 billion for the first quarter in connection with securities, loans and others to be sold through the sale of MUB. At the same time, we anticipate the recording of approximately ¥120.0 billion in extraordinary gains when the transfer of our shares in MUB is executed. Consequently, we will record a net loss of around ¥150.0 billion. As interest rates have increased since the end of March 2022, the volume of this loss is currently growing and has reached more than ¥200.0 billion. Since the risk of interest rate hikes is almost under control, we forecast that future fluctuations in unrealized losses will, albeit being susceptible to market trends, fall within the scope of a couple tens of billion yen from the current level.

Q : Please describe the actual magnitude of unrealized losses on foreign bonds, which amounted to ¥850.0 billion as of March 31, 2022, in light of your hedging position. Also, do you think it is possible to robustly control these losses?

A : The ¥850.0 billion unrealized loss on foreign bonds can be reduced to around half, when we take into account unrealized gains from bear funds in place for hedging purposes and unrealized gains from interest rate swaps subject to hedge accounting. Although the abovementioned unrealized loss could be even larger in the first-quarter results, we will nevertheless be able to keep it under control as we have approximately ¥3 trillion in unrealized gains on domestic equities while considering multiple stress scenarios.

Q : Like this time, investor expectations for share repurchases will grow higher at time of the interim results announcement. Could you elaborate on your present thoughts regarding share repurchases considering outlook for the Common Equity Tier 1 (CET1) capital ratio?

A : Our outlook for the CET1 capital ratio is featured on page 48 of the presentation materials as part of a section outlining capital allocation. We have set our fiscal 2022 target for profits attributable to owners of parent at ¥1 trillion, and this amount corresponds to the sum of total dividends of approximately ¥400.0 billion, funds for share repurchases totaling ¥300.0 billion, and an approximately ¥300.0 billion impact from the double gearing adjustments. In addition, we expect a positive effect from capital released upon the sale of MUB as well as a negative effect by the resulting acquisition of shares in U.S. Bancorp. Taking all these factors into account, we anticipate an approximate net effect of +35bp on the CET1 capital ratio. We consider optimally allocating funds arising from this positive effect to growth investments and shareholder returns to be a matter of importance.

Q : MUFG has named its current CET1 capital ratio exceeding the target range as a rationale for share repurchases. However, do you think that it is possible to execute share repurchases, even when the CET1 capital ratio remains within the target range, from the perspective of improving ROE?

A : Although our capital management targets are presented in the form of a target range, the execution of share repurchases may well be possible even if the CET1 capital ratio does not exceed the target range. We flexibly consider the volume of capital to be retained based on prevailing circumstances. For example, when the level of capital is near the upper threshold of the target range, we could still conclude that the necessary volume of capital coincides with the middle of such range. In this case, we might decide to return the excess to shareholders.

Q : Given the current status of international affairs and other trends, what macro risks do you consider deserving of your attention?

A : Although we believe that current uncertainties could possibly result in the creation of profit opportunities, we are also concerned about the impact of the radically evolving market environment. However, the U.S. economy has been strong, with the present government policies toward monetary normalization being well controlled. Reflecting this, our base case is that both Japanese and U.S. economies will see modest recovery in step with the gradual containment of the COVID-19 pandemic. Simultaneously, we have prepared a high-risk scenario assuming the deterioration of the U.S. economy due to the flight of funds from the capital market, paying close attention to determine whether this scenario comes into play.

Q : In order for MUFG to achieve its medium- to long-term ROE target of the 9–10% range, the Company needs to adjust the level of capital while undertaking investment for growth. In this light, could you describe your current approach toward achieving the ROE target?

A : Rather than simply adjusting the denominator of ROE through share repurchases to meet the 9–10% ROE target, we intend to simultaneously undertake proactive investment for growth to achieve this target. Although small-scale investment deals make up most candidates in our pipeline, we expect the effect of growth investment to contribute to our future operating results. Moreover, growth in base revenues, such as those arising from improvement in lending spreads, is similarly expected to help us raise ROE. We will continuously strive to improve these factors.

Q : Please explain the impact of interest rate hikes, both at home and abroad, on MUFG's operating results, including the CET1 capital ratio and ROE.

A : Higher interest rates work positively in our commercial banking business. However, the current upturn in interest rates is sharp and may entail the risk of stagflation. Therefore, we cannot conclude that interest rate hikes serve as a positive factor in every aspect of our operations.

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