

Mitsubishi UFJ Financial Group (8306 JP)

FUNDAMENTAL VIEW¹

As of 15 Dec 2022

- MUFG is the largest of Japan's three megabanks, and has the most diversified operations by business line and geography. It has also been the most acquisitive.
- Core profitability has been weak due to Japan's ultra-low interest rates and growth; that has been improving post an efficiency drive (and a CEO change in April 2020) and the bank has committed to at least JPY 1 tn in net income going forward, which we see as achievable.
- Given its size and systemic importance, MUFG is considered too big to fail, and will be supported by the Japanese government if needed.

RISKS & CATALYSTS

As of 15 Dec 2022

- The group has a high cost-income ratio as it combines a much-delayed efficiency drive with new investments, and faces income challenges in its retail banking operations. However, it has finally moved decisively to improve its returns via the sale of MUFG Union Bank (MUB), its underperforming US retail and SME operations.
- MUFG is exposed to Japanese equities through large unrealised gains but is in the process of reducing these shareholdings. It has taken actions to reduce the MTM impact of rising yields on its \$ bond portfolio, as well as the potential impact on its JGB portfolio if yield curve controls are modified.
- MUFG had a substantially improved FY21, and the performance improvement has mostly continued into 1H22, thanks in part to a weaker JPY.
- At 1H22, its CET1 ratio buffer vs. the regulatory minimums was at a relatively low 1.4% or 0.9% based on different metrics, and its TLAC ratio at 18.6% was also just 60 bp above the minimums, a 45 bp expected gain from the sale of MUB notwithstanding.

CREDIT QUALITY SCORE (CQS)²

As of 27 Feb 2023

CURRENT CQS

70

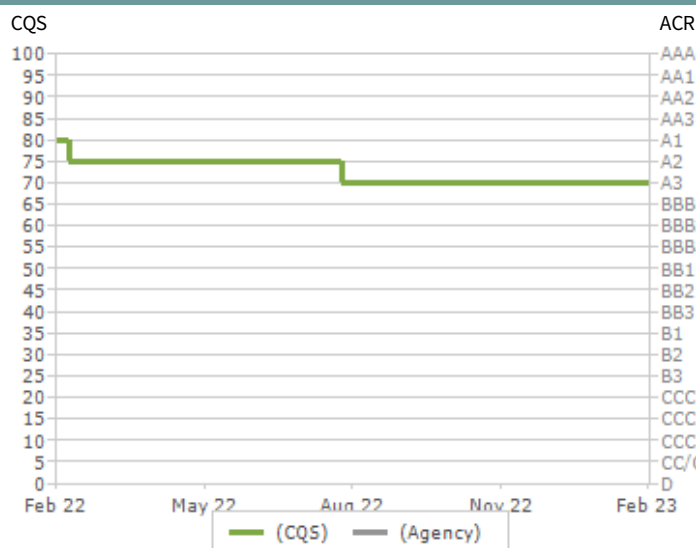
CQS OUTLOOK³

NEGATIVE

STABLE

POSITIVE

HISTORICAL RATINGS: AVERAGE AGENCY RATING (ACR)⁴ VS CQS



KEY METRICS

As of 15 Dec 2022

| ¥ BN | 1H22 | FY21 | FY20 | FY19 | FY18 |
|--|---------|---------|---------|---------|---------|
| Net Interest Revenue/Average Assets | 0.90% | 0.57% | 0.56% | 0.60% | 0.64% |
| Operating Income/Average Assets | 1.25% | 1.11% | 1.16% | 1.27% | 1.24% |
| Operating Expense/Operating Income | (61%) | 69% | 68% | 70% | 71% |
| Pre-Impairment Operating Profit / Average Assets | 0.48% | 0.34% | 0.37% | 0.38% | 0.36% |
| Impairment charge/Average Loans | (0.42%) | (0.30%) | (0.48%) | (0.21%) | (0.01%) |
| ROAA | 0.12% | 0.32% | 0.23% | 0.17% | 0.29% |
| ROAE | 2.7% | 6.7% | 4.7% | 3.3% | 5.4% |
| CET1 Ratio excluding unrealised securities gains in AOCI | 9.4% | 9.5% | 9.7% | 9.8% | 10.0% |

BUSINESS DESCRIPTION

As of 15 Dec 2022

- The 2 main banks of MUFG are MUFG Bank (earlier the Bank of Tokyo-Mitsubishi UFJ or BTMU) & Mitsubishi UFJ Trust & Banking. In the early stages of Japan's long banking crisis Bank of Tokyo merged with Mitsubishi Bank, and in the late stages they absorbed UFJ (former Sanwa Bank & Tokai Bank) while Mitsubishi Trust absorbed Toyo Trust & Nippon Trust.
- The group includes consumer lenders Mitsubishi-UFJ NICOS & ACOM, and securities/IB joint ventures with Morgan Stanley - MUFG invested in Morgan Stanley in 2008 and now has a ~20% stake. In Dec-22, it completed the sale of its US retail and commercial bank, MUFG Union Bank, to US Bancorp.
- It has a majority stake in Thailand's Bank of Ayudhya (now Krungsri), 20% stakes in Vietnam's Vietinbank and Philippines' Security Bank, and has acquired control of Indonesia's Bank Danamon.
- In August 2019, it acquired Colonial First State from Commonwealth Bank of Australia to strengthen its global asset management business, and in 2020 it invested \$700 mn in SE Asia's Grab.

GLOSSARY

¹ The **Fundamental View** is our current assessment of credit quality and our expectation of how credit quality will trend over the next year or longer.

² The **Credit Quality Score (CQS)** is a number between 5 and 100. It is a medium-term credit score for corporates and financial institutions that utilizes a combination of sector fundamental scores and equity market signals. Values of CQS above 50 generally indicate investment grade credit quality.

³ The **Credit Quality Score (CQS) Outlook** is the near-term (3 month) outlook for the CQS, based on its trend, volatility and distance from the adjacent CQS risk bucket.

⁴ The **Agency Composite Rating (ACR)** is the average senior unsecured rating from one or more major rating agencies.

Quantitative scores provided by CreditSights Analytics, LLC. Scores are shown are for the lesser of (1) 2 years and (2) date of CreditSights inception of quantitative coverage.

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