

Mitsubishi UFJ Financial Group (8306 JP)

FUNDAMENTAL VIEW ¹

As of 07 Mar 2024

- 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 until recently.
- Core profitability had been weak due to Japan's ultra-low interest rates and growth; that improved post an efficiency drive and a CEO change in April 2020. The bank has committed to at least JPY 1 tn in annual 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 07 Mar 2024

- The group's cost-income ratio was previously in the high 60's, but improved efficiency, the sale of MUFG Union Bank (MUB) in the US, and better revenues has led to this ratio falling to the high 50's.
- MUFG is exposed to Japanese equities through large unrealised gains, but has steadily been decreasing its shareholdings every year. It reduced the MTM impact of rising yields on its \$ bond portfolio, as well as the potential impact on its JGB portfolio given the modifications to yield curve controls.
- MUFG had a good FY22 with impressive margin improvement, lower credit costs and the completion of the MUB sale. It has set a net income target of JPY 1.3 tn for FY23, by improving net operating profits in customer segments and expense control; it has met it in 9M23 aided by certain one-offs.

CREDIT QUALITY SCORE (CQS) ²

As of 22 Apr 2024

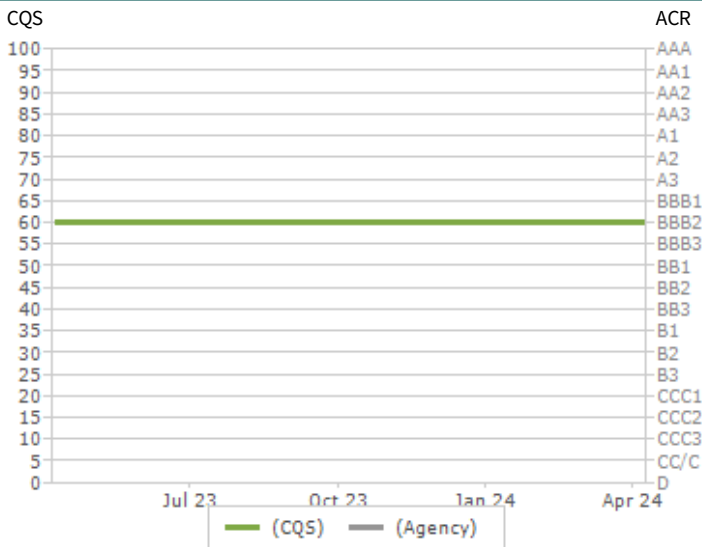
CURRENT CQS

60

CQS OUTLOOK ³

NEGATIVE STABLE POSITIVE

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



KEY METRICS

As of 07 Mar 2024

¥ BN	FY19	FY20	FY21	FY22	9M23
Net Interest Revenue/Average Assets	0.60%	0.56%	0.57%	0.79%	0.63%
Operating Income/Average Assets	1.27%	1.16%	1.11%	1.22%	1.27%
Operating Expense/Operating Income	70%	68%	69%	65%	58%
Pre-Impairment Operating Profit / Average Assets	0.38%	0.37%	0.34%	0.43%	0.50%
Impairment charge/Average Loans	(0.21%)	(0.48%)	(0.30%)	(0.61%)	(0.31%)
ROAA	0.17%	0.23%	0.32%	0.30%	0.45%
ROAE	3.3%	4.7%	6.7%	6.5%	9.6%
CET1 Ratio excluding unrealised securities gains in AOCI	9.8%	9.7%	9.5%	9.8%	n/m

BUSINESS DESCRIPTION

As of 07 Mar 2024

- 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, in 2020 it invested \$700 mn in SE Asia's Grab, and more recently has bought Home Credit's Philippine and Indonesian subsidiaries, Link, an Australian pension fund administrator, auto loan companies in Indonesia, Albacore Capital, an alternates fund manager, and StanChart's Indonesian retail operations.

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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