

Rates Renaissance: A Defensive Global Banking Compounder

- Japan rate normalisation structurally lifts MUFG earnings and capital return capacity.
- Global wholesale and markets franchise provides diversified non-domestic earnings engine.
- Bloomberg recommend MUFG19 with a BUY, TP of THB 6.05 (¥3,024, JPY/THB at 0.2).

From Margin Compression to Rate Leverage

MUFG is transitioning from a margin-compressed, zero-rate environment into a structurally higher earnings regime driven by positive Japanese interest rates. With one of the largest deposit bases globally, even modest rate increases meaningfully expand net interest income. Combined with reinvestment into higher-yield securities, this creates a multi-year earnings tailwind rather than a short-term cyclical boost.

Diversified Global Earnings Reduce Domestic Risk

Unlike domestic-focused Japanese banks, MUFG generates significant earnings from global wholesale banking, overseas lending, and markets activities. Overseas lending spreads (~1.4%) remain structurally higher than domestic spreads. This diversification reduces dependence on Japan loan growth and provides earnings resilience across global macro cycles.

Global Fee, Markets and Strategic Stakes Create Optionality

MUFG benefits from multiple non-traditional bank earnings sources. The Morgan Stanley equity-method contribution provides capital-light profit exposure. Global infrastructure financing, securitisation, and data-centre related lending create fee-driven earnings growth. Expansion into India and Southeast Asia adds structural loan growth and margin upside.

Buybacks and Cross-Shareholding Reduction Support ROE Expansion

MUFG is actively improving capital efficiency through cross-shareholding sales (~¥557bn expected reduction) and shareholder return programs including up to ~¥500bn buyback. This transition from balance sheet expansion toward capital return optimisation supports sustainable double-digit ROE and improves valuation quality perception among global investors.

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Bloomberg recommend MUFG19 with a BUY, TP of THB 6.05 (¥3,024, JPY/THB at 0.2). The stock is no longer deep in value but still trades below global high-quality banks. If MUFG sustains earnings above ~¥2.1tn and maintains capital return discipline, valuation could gradually re-rate toward global financial compounder ranges over time.

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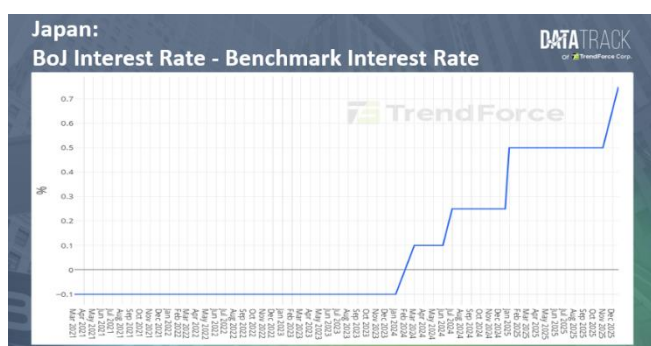
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Higher Rates Reset Japan Bank Profitability

Japan's transition away from negative interest rates represents a structural earnings shift for MUFG. Higher domestic lending yields combined with gradual deposit repricing support multi-year net interest income expansion. In addition, reinvestment of legacy low-yield securities into higher-yield assets provides incremental earnings uplift over time.

For FY ending Mar-2026, MUFG is targeting approximately **¥2.1tn net profit, with 9M profit already at ~¥1.81tn**, implying roughly **~86% progress** toward full-year guidance. This suggests that part of the rate normalization benefit is already reflected in reported earnings, although full-year delivery still depends on markets income, credit costs, and bond valuation dynamics in the final quarter.

Exhibit 1: BoJ Interest Rate Hike



Sources: Datatrack

Exhibit 2: Japanese Bank Shares Rally on Higher Rate Expectations



Sources: Financial Times

Earnings Structure: Global Diversification Reduces Domestic Cycle Dependence

MUFG differs from purely domestic lenders due to its global balance sheet and fee businesses. Overseas lending spreads are estimated around **~1.4%**, materially higher than domestic lending spreads. In addition, Global Markets and wholesale financing businesses contribute meaningfully to earnings during periods of FX and rate volatility.

Recent segment disclosure shows Global Markets delivered a significant share of operating profit during FY25–FY26 periods. While this component is cyclical, it reinforces that MUFG earnings are driven by multiple profit engines rather than a single macro factor.

Capital Allocation: Shareholder Return and Capital Efficiency Focus

MUFG has accelerated capital efficiency initiatives through share buybacks and cross-shareholding reductions. The announced buyback program of up to approximately **¥500bn** signals a structural shift toward ROE-focused capital management. In parallel, continued reduction of legacy equity holdings releases capital and supports sustainable shareholder return capacity without requiring aggressive balance sheet expansion.

At roughly **~1.6x P/B** and **~16x forward P/E**, MUFG is no longer trading as a distressed value bank. Instead, valuation now assumes sustainable double-digit ROE and consistent capital return execution.

Multi-Engine Universal Banking Model

MUFG operates as a diversified universal financial group rather than a traditional single-market bank. The group combines domestic retail and corporate banking, global wholesale lending, capital markets activity, asset management, and strategic equity earnings. This structure allows MUFG to generate earnings from multiple economic cycles simultaneously.

At the group level, MUFG generated roughly **¥10.6tn net revenue (9M FY26)** across all business segments. This diversified revenue base reduces reliance on any single geography or product cycle, supporting more stable through-cycle profitability compared with purely domestic Japanese lenders.

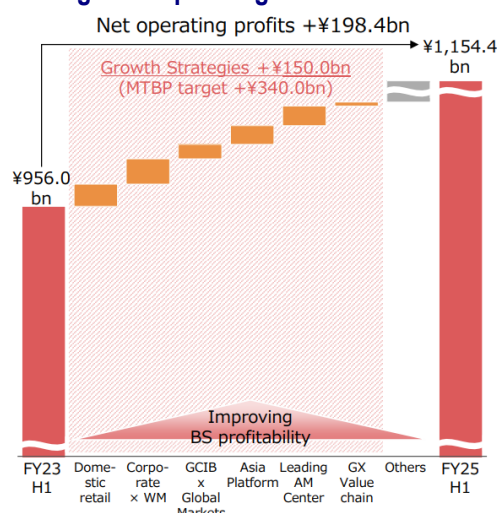
Profit Concentration: Global Markets + Domestic Banking Core

Segment disclosure shows profit concentration across several major engines:

- **Global Markets:** ~¥742bn operating profit (9M FY26)
- **Retail & Digital:** ~¥610bn operating profit
- **Commercial Banking & Wealth:** ~¥601bn operating profit
- **Japanese Corporate & IB:** ~¥348bn operating profit

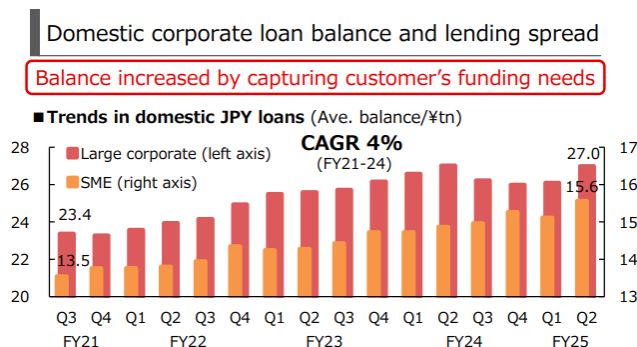
This mix highlights MUFG's ability to monetize both macro volatility (rates, FX) and structural domestic banking spread expansion. Importantly, domestic businesses provide stability while markets and wholesale businesses provide upside optionality.

Exhibit 3: Segment Operating Profit Contribution



Sources: Company Presentation

Exhibit 4: Domestic Loan Book Mix



Sources: Company Presentation

International Banking Provides Structural Growth Layer

MUFG maintains meaningful exposure to faster-growing international markets via:

- Bank of Ayudhya (Thailand)
- Bank Danamon (Indonesia)
- Global Corporate & Investment Banking platform (US / EMEA / Asia)

Overseas loan balances reached approximately **¥53tn+**, with lending spreads structurally higher than Japan domestic loans. This provides a structural ROE uplift versus Japan-only peers and diversifies earnings away from domestic demographic constraints.

Financial Strength: Balance Sheet, Asset Quality

Deposit Franchise: The Core Competitive Advantage

MUFG's funding strength remains one of its most important structural advantages. As of end-September 2025, total deposits were approximately **¥227.2tn**, highlighting the scale of its low-cost funding base and supporting stable net interest income generation through rate cycles. The deposit mix remains heavily weighted toward stable domestic funding, reinforcing balance sheet resilience during periods of global volatility.

This becomes structurally powerful in a positive-rate environment. Even small increases in loan yields materially expand Net Interest Income (NII) because deposit costs reprice slower than loans. This "deposit lag" is the core earnings flywheel driving Japan megabank re-rating since the exit from negative-rate policy.

Asset Quality Remains Stable Despite Global Exposure

Asset quality remains stable despite MUFG's large global wholesale footprint. As of end-September 2025, the **NPL ratio was approximately 1.01%**, reflecting stable credit conditions across major portfolios. While credit cost volatility can emerge during global downturns, MUFG's diversified loan portfolio and regional risk management framework support through-cycle asset quality stability

Despite large global wholesale exposure, MUFG has not yet shown systemic credit deterioration. The key risk remains U.S. CRE and leveraged finance, but current provisioning levels remain manageable relative to earnings capacity

Capital Position Supports Aggressive Shareholder Returns

MUFG maintains strong regulatory capital buffers. The CET1 ratio under transitional Basel III frameworks was approximately **~14%**, providing meaningful headroom above regulatory minimum requirements. Based on disclosed regulatory buffers, the CET1 requirement including buffers was approximately **~8.67%**, supporting continued shareholder return flexibility while maintaining balance sheet strength.

This creates meaningful capital headroom for buybacks and dividends while supporting loan growth and RWA expansion. For equity investors, the key variable is not capital adequacy — but capital volatility under bond mark-to-market stress.

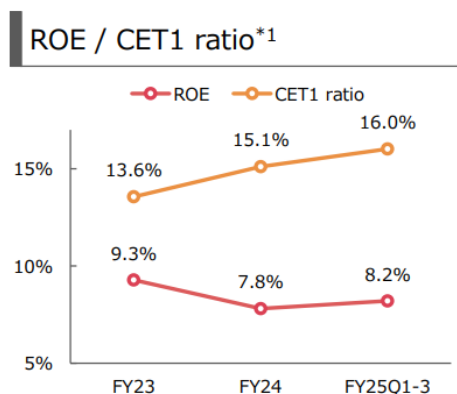
Liquidity Profile Provides Downside Protection

Liquidity metrics remain strong:

- **LCR: ~160%**
- **Loan-to-Deposit Ratio: ~60%**
- Strong domestic transactional deposit base

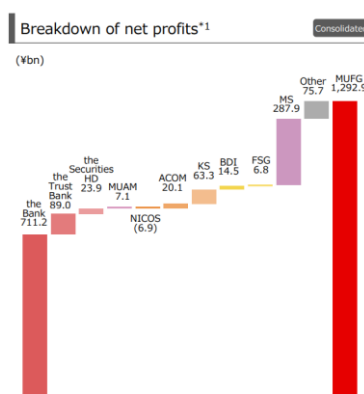
This reduces refinancing risk and allows MUFG to operate as a "liquidity provider" during stress cycles — a key differentiator versus smaller banks

Exhibit 5: Capital Strength Improves While ROE Normalizes



Sources: Company Presentation

Exhibit 6: Net Profit Contribution Across MUFG Business Segments



Sources: Company Presentation

Earnings Engine: Diversified Earnings Structure: Stability + Cyclical Upside Combination

MUFG operates a diversified multi-engine earnings model combining domestic interest income, global fee income, and market-related revenue streams. Core domestic banking and commercial banking segments provide the primary stability layer of earnings, while Global Markets provide cyclical upside during periods of elevated volatility. This structure reduces reliance on any single macro driver and supports more stable through-cycle ROE compared to traditional domestic banking models.

Global Fee Engine: The True Differentiation vs Domestic Peers

Unlike purely domestic Japanese lenders, MUFG operates a global wholesale and fee platform. Overseas loans (~¥53tn) generate spreads near ~1.4%, significantly above domestic lending economics.

In addition, GCIB and capital markets activities monetize global infrastructure financing, data-center funding, and securitisation. The Morgan Stanley stake also contributes capital-light earnings, diversifying income sources away from balance-sheet-intensive lending.

Global Markets: The Earnings Volatility Amplifier

MUFG's latest disclosed segment results continue to demonstrate diversified profit contribution across domestic banking, global wholesale banking, and Global Markets. While Global Markets has recently contributed strongly due to elevated volatility, core domestic and commercial banking segments remain the structural base of recurring earnings.

Fee + Markets + NII = "Portfolio Earnings Model"

MUFG is best understood as a multi-engine earnings platform:

- Domestic NII = structural stability
- Global wholesale fees = structural growth
- Markets = cyclical upside

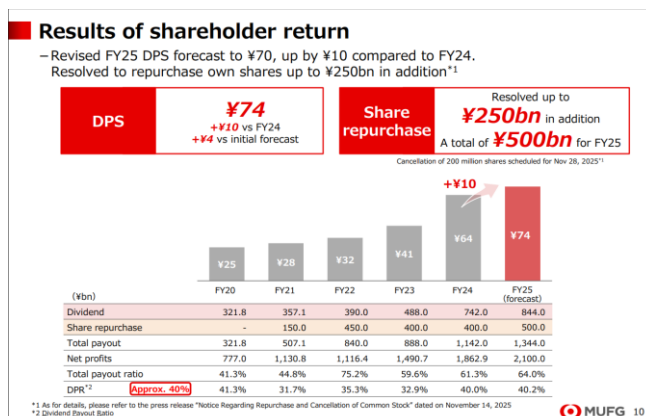
This portfolio structure reduces reliance on any single macro driver and supports higher through-cycle ROE versus traditional domestic banking models

Capital Allocation, Global Expansion & Structural Transformation

MUFG's strategic pivot over the past cycle has been capital efficiency rather than asset growth. Management is actively recycling capital through cross-shareholding reductions and shareholder return programs. The announced **share buyback of up to ~¥500bn** (May 2025–Mar 2026) signals a clear shift toward ROE-driven management.

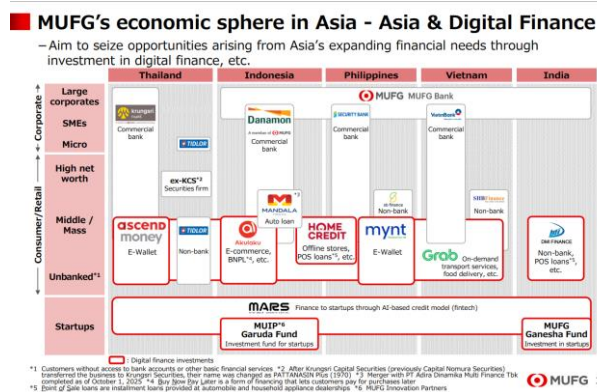
In parallel, MUFG is accelerating the unwinding of legacy equity holdings, with expected cross-shareholding reductions reaching roughly **~¥557bn** under the current plan. This releases trapped capital, improves balance sheet efficiency, and supports sustainable shareholder distribution without requiring aggressive loan growth.

Exhibit 7: Shareholder Return Framework



Sources: Company Presentation

Exhibit 8: MUFG's Integrated Financial Ecosystem Across Emerging Asia



Sources: Company Presentation

Global Expansion: Growth Outside Japan Remains Structural

MUFG continues to expand selectively into higher-growth markets to offset Japan's structural low population growth. The planned strategic investment into **Shriram Finance (India)** represents a move into high-growth consumer and SME credit markets through partnership rather than physical branch expansion. In Southeast Asia, MUFG already has strong positioning via **Krungsri (Thailand)** and **Bank Danamon (Indonesia)**, providing exposure to higher loan growth and margin environments compared to Japan. This creates a geographic earnings diversification layer that improves long-term growth visibility.

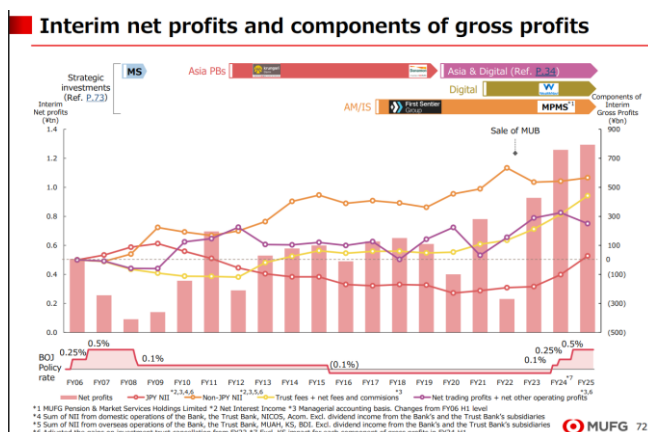
Wholesale & Infrastructure Financing: Capturing Global Capex Cycles

MUFG is positioning itself as a key financial intermediary in global infrastructure, energy transition, and AI data center investment cycles. The strategy focuses on "originate-to-distribute" models — generating fee income while limiting balance sheet intensity. This strategy is particularly relevant in the current global environment where large-scale infrastructure, energy transition, and digital infrastructure capex demand long-duration financing expertise.

Digital & AI Transformation: Productivity and Risk Management Focus

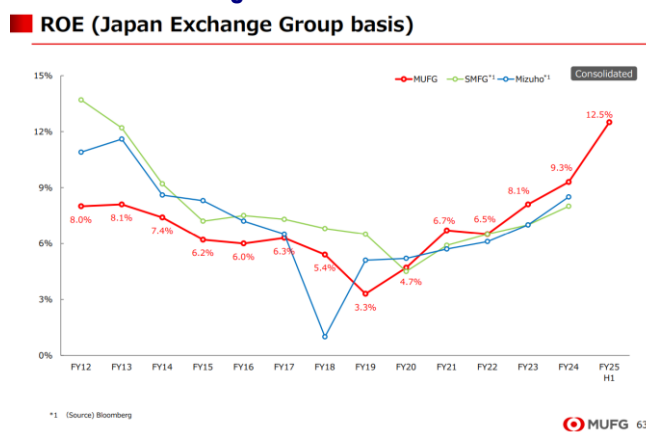
MUFG's digital strategy is focused on operational transformation rather than consumer fintech disruption. The group is investing in AI-driven automation across compliance, credit analysis, onboarding, and risk monitoring. The strategic objective is to reduce structural cost ratios (often cited around mid-50% range historically) while improving decision speed and risk management quality. Over time, this could support margin expansion through operating leverage rather than revenue expansion alone

Exhibit 9: From Zero Rates to Earnings Expansion



Sources: Company Presentation

Exhibit 10: ROE Convergence and Expansion Signal Structural Re-Rating Potential



Sources: Company Presentation

Transitioning from Recovery Bank to Quality Financial Compounder

MUFG currently trades around **~1.6x P/B** and **~16x forward P/E**, implying the market is pricing sustainable double-digit ROE rather than cyclical recovery earnings. The stock has largely exited “deep value Japan bank” positioning but still trades below global high-quality banking franchises. If MUFG sustains earnings near or above ~¥2.1tn and maintains capital return discipline, valuation could gradually converge toward global diversified financial compounder peers.

ROE Sustainability Is the Core Valuation Driver

The key valuation question is not near-term earnings delivery, **but through-cycle ROE durability**. MUFG's current earnings structure — combining domestic NII expansion, global wholesale fees, and markets income — supports ROE in the low-teens range under normal conditions.

However, we must continuously monitor three structural variables:

1. Bond portfolio mark-to-market volatility vs reinvestment yield benefit
2. Overseas credit cycle exposure (especially CRE and leveraged lending pockets)
3. Cyclicity of Global Markets contribution

If MUFG can maintain ROE above ~10–11% through cycles, current valuation multiples can be justified or expand moderately.

Scenario Framework

Base Case — “Stable Normalisation” (BUY)

Japan policy rates stabilise around ~0.75–1.0%. Domestic NII gradually expands while Global Markets normalises but remains supportive. Credit costs remain contained. MUFG sustains profit near or slightly above **~¥2.1tn baseline**.

Bull Case — “Rate + Fee + Capital Return Upside” (Strong BUY)

Faster domestic rate transmission with limited deposit repricing. Global infrastructure and securitisation fees expand strongly. Capital return accelerates beyond current buyback pace. ROE expands toward mid-teens range.

Bear Case — “Bond + Credit Shock Combination” (Neutral / Tactical Reduce)

Rapid yield spike increases unrealised bond losses and pressures capital optics. Simultaneously, global credit cycle deterioration raises provisions. Markets income normalises sharply. Earnings could fall toward **~¥1.8–1.9tn range**.

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Analyst Certification

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RECOMMENDATION STRUCTURE

Stock Recommendations

Stock ratings are based on absolute upside or downside, which we define as $(\text{target price}^* - \text{current price}) / \text{current price}$.

BUY: Expected return of 10% or more over the next 12 months.
HOLD: Expected return between -10% and 10% over the next 12 months.
REDUCE: Expected return of -10% or worse over the next 12 months.

Unless otherwise specified, these recommendations are set with a 12-month horizon. Thus, it is possible that future price volatility may cause temporary mismatch between upside/downside for a stock based on market price and the formal recommendation.

* In most cases, the target price will equal the analyst's assessment of the current fair value of the stock. However, if the analyst doesn't think the market will reassess the stock over the specified time horizon due to a lack of events or catalysts, then the target price may differ from fair value. In most cases, therefore, our recommendation is an assessment of the mismatch between current market price and our assessment of current fair value.

Sector Recommendations

Overweight: The industry is expected to outperform the relevant primary market index over the next 12 months.
Neutral: The industry is expected to perform in line with the relevant primary market index over the next 12 months.
Underweight: The industry is expected to underperform the relevant primary market index over the next 12 months.

Country (Strategy) Recommendations

Overweight: Over the next 12 months, the analyst expects the market to score positively on two or more of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.

Neutral: Over the next 12 months, the analyst expects the market to score positively on one of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.

Underweight: Over the next 12 months, the analyst does not expect the market to score positively on any of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.