

Bank of Tokyo-Mitsubishi UFJ's Investment in Indonesian Commercial Bank – No Immediate Impact on Rating

The following is Japan Credit Rating Agency, Ltd. (JCR)'s opinion on The Bank of Tokyo-Mitsubishi UFJ, Ltd. (security code: -)'s investment in Indonesian bank PT Bank Danamon Indonesia, Tbk.

- (1) The Bank of Tokyo-Mitsubishi UFJ, Ltd. ("BTMU") announced on December 26, 2017 that it would acquire shares of a commercial bank in Indonesia, PT Bank Danamon Indonesia, Tbk. ("Danamon"), from Singapore-based investment fund through 3 steps to finally make it a consolidated subsidiary. BTMU plans to (i) acquire an initial 19.9% stake in Danamon for approximately 130 billion yen in 2017, and (ii) increase its stake to more than 40% by September 2018, and (iii) finally acquire more than 73.8% shareholding interests in Danamon, although the acquisition time is undecided. The funds required for a series of these acquisitions of shares from shareholders including those other than the investment fund might be approximately 700 billion yen at most.
- (2) Ranking 8th in terms of asset size in Indonesia, which has the largest economy in ASEAN countries, and operating 1,859 bases (including subsidiaries) in Indonesia, Danamon has strengths in the fields of automobile finance, loans to SMEs and personal loans. Through the acquisition, BTMU will acquire a base to take growth in Asia & Oceania region including retail banking in a comprehensive manner and can diversify its earnings sources. Synergies between BTMU and Danamon are unknown at the moment and it is necessary to affirm the achievements from the synergies. JCR sees, however, that BTMU's know-how in MUFG Union Bank, N.A. in the U.S. and Bank of Ayudhya Public Company Limited in Thailand and track records in them will work as its strengths in securing sound governance system and risk management and in pursuit of the group synergies.
- (3) Given Danamon's total assets of approximately 1.4 trillion yen and the most recent 1-year net income of 26 billion yen up to September 2017, JCR sees that the impact of the consolidation on BTMU's overall business base and earnings is limited. For the financial aspect, an increase of risk assets and generation of goodwill associated with the investment will place downward pressure on the capital level. However, JCR estimates that even with acquisition of more than 73.8% shares, the investment will depress the 12.3% consolidated common equity Tier 1 ratio (full enforcement basis) as of September 30, 2017 of Mitsubishi UFJ Financial Group, for which BTMU is the core company, by only about 0.5% and thus, the impact on the financial base may be limited. JCR considers it is unnecessary to immediately change the rating due to the investment in light of the BTMU's overall business base and degree of impact on the earnings and financial structure.

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<Reference>

Issuer: Mitsubishi UFJ Financial Group, Inc.

Long-term Issuer Rating: AA- Outlook: Stable

Issuer: The Bank of Tokyo-Mitsubishi UFJ, Ltd.

Long-term Issuer Rating: AA Outlook: Stable

Issuer: Mitsubishi UFJ Trust and Banking Corporation

Long-term Issuer Rating: AA Outlook: Stable



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