

U.S. Business Strategy

Main Q&A

Q.1 Please walk us through the project to integrate BTMU's US banking operation under MUFG Union Bank from the perspective of current status, achievements and future challenges.

A.1 Stephen Cummings:

This is the process that has been ongoing for several years. The frontline of our businesses has been well-developed. The first challenge that I took on was to restructure business lines between BTMU and Union Bank because I felt that they were not optimally aligned, and three middle market business divisions were integrated into two: Regional Bank and Wholesale Bank, which made our operations simpler and more productive. The new simplicity will better-serve our clients and eliminate confusion. In addition, we have made progress with respect to central services such as IT and risk management, with the arrival of new CRO, Donna Delloso, within the past year and a new CIOO, Chris Perretta, who joined four months ago. The integration process is under way as we speak. We need to preserve optimal IT management, considering the distinct features of Regional Bank and Wholesale Bank.

Q.2 On the U.S. capital requirements, MUAH has passed CCAR, but am I correct in saying that MUFG is ready to engage in new M&A, or are you still in the process of handling regulatory requirements? What size do you think is suitable for MUFG in consideration of the current environment in the U.S.? Are you going to grow further or maintain the size as it is?

A.2 Stephen Cummings:

In terms of M&A and regulations, there are a lot of important points. Capital is most important and capital adequacy must be carefully examined. M&A has to make strategic sense and provide appropriate return. From the size stand point, our regional bank is 120 billion dollars in assets, and I believe that's not an optimal structure given the continually rising costs for meeting regulatory expectations and the IT demands. Our aspiration is to become a Top 10 bank, which would suggest an asset size of approx.250 billion dollars, double our current size. Achieving that level, we can optimize our cost structure. On the other hand, M&A does not solve all of our problems. It is important that we work on improving our efficiency ratio.

John Woods:

As asset size is closely related to the level of regulatory requirements, it's critical to obtain the optimal size. As for M&A, we have a close dialogue with Tokyo to achieve the appropriate size that optimizes the cost structure. We have to ensure an appropriate deployment of capital with appropriate returns that exceed cost of capital

Stephen Cummings:

What is important is to ensure an appropriate balance of organic and inorganic growth that will provide appropriate return and add value to MUFG.

Muneaki Tokunari:

If I may add one thing, what is important is that we always carefully screen M&A projects by conducting internal tests to make sure we achieve our ROI hurdle. With regard to the kind of projects to take on in the U.S., we will evaluate thoroughly from the ROI perspective to make our decision.

Q.3 As the slide 36 shows, BTMU has a significant gap between loans and deposits, while MUAH funds most of its loans with deposits. I believe that some of the gap is filled by the head office funding support, most of which is based on the US dollar funding using yen, but the basis spread for JPY-USD currency swap has widened. Under such circumstances, what kind of measures are you considering and implementing?

A.3 John Woods:

We have diversified funding to support BTMU's loan-deposit gap, and it's reasonably stable. Let me give you some explanation on the funding from our parent company. Tokyo has been implementing JPY-USD swap typically in the mid to long term range, and the spread has been ranging 60 to 80 basis points, and we have been enjoying the benefit of solid funding. More recently, the yen/dollar swap spread has widened above 90bps. If this continues, the overall funding costs will rise. In the meantime, we have made a focused effort to increase customer deposits. Especially, MMDA and other deposit products have been doing well. Due to the U.S. banking law, sharing deposits between MUAH and BTMU is not permitted, but our product and sales capabilities have been shared, which has been contributing to the increase in our customer deposit base.