MUFG Investors Day 2020

Main Q&A

<u>Retail & Commercial Banking Business Group (R&C)</u>

Q : We have been told that MUFG aims to reduce costs ¥100.0 billion by the end of fiscal 2023 via structural reforms. Please elaborate on your mid- to long-term forecasts on this and other factors contributing to or hindering the Company's cost reduction efforts.

A : Around half of the ¥100.0 billion cut in costs is expected to derive from the execution of sales channel strategies and Business Process Reengineering (BPR) as part of digitalization strategies. At the same time, however, we anticipate an approximately ¥20.0 billion increase in system and other expenses. Moreover, we will see rises in expenses linked to revenue and structural reforms associated with the digital shift. Thus, net cost reductions may not necessarily amount to ¥80.0 billion. Nevertheless, we will step up our efforts to achieve further cost reductions in the next medium-term business plan (MTBP).

Q : In fiscal 2019, MUFG saw decreases in gross profits in the wealth management (WM) and asset management fields. Looking ahead, what are your plans to increase gross profits?

A : Indeed, full-year operating results for fiscal 2019 showed a decrease in gross profits. However, the second half results included the bottoming out of that downtrend. In fact, second-half gross profits were up ¥6.0 billion compared with the same period of the previous fiscal year. Going forward, we will reinforce frontline staffing for and increase employees in charge of the WM business in the Bank from approximately 90 to 500 while accelerating our efforts to expand transaction volume via cross-selling. In addition, we expect the merger of Mitsubishi UFJ Morgan Stanley Securities (the Securities Business) and Mitsubishi UFJ Morgan Stanley PB Securities to help us enhance service quality. Moreover, we will increase the likelihood of successfully closing deals via the build-out of digital-driven WM business platforms. We will also raise the balance of assets under management to ¥130 trillion in four years going forward.

Q : Please provide your outlook on credit costs for fiscal 2020, given the results of the first three months.

A : As for the consumer finance business handled by NICOS and ACOM, credit costs will remain virtually on par with our forecast. However, overall credit costs recorded by R&C

might be approximately ¥20.0 billion to ¥30.0 billion in excess of our initial plan due mainly to deterioration in corporate performance among SMEs. We may have to record even higher credit costs if prolonged economic stagnation further damages the creditworthiness of our clients. Therefore, we consider properly monitoring SME performance to be imperative even as we extend fundraising assistance to them.

Q : Please explain how MUFG reviewed its sales channel strategies to ensure responsiveness to the COVID-19 pandemic.

A : We are currently seeing drastic changes in customer needs and behavior. To adapt, we are working to develop optimal channels for meeting those needs while striving to realize a hassle-free, simplified and convenient user interface (UI) and user experience (UX). Furthermore, we will integrate online and face-to-face transactions and thereby establish a platform capable of providing all customers with quick access to satisfying services whenever they need.

Q : I assume that among the business groups, R&C is positioned to bear the heaviest burden due to the measures it has had to undertake to counter the spread of COVID-19. Don’t you think that the implementation of such measures may negatively affect progress in MUFG’s structural reforms?

A : First of all, our branch and back-office center employees have been doing their best to fulfill MUFG’s social mission, operating all of these facilities on a continuous basis. However, we are also acutely aware of the risks and costs arising from the operation of these facilities. At the same time, we have seen a growing number of staffs who believe that the volume of clerical work and administrative procedures processed at branches must be decreased in order to curb customer waiting time and shift staff resources to tasks aimed at delivering higher added value to customers. Considering that their belief coincides with the direction of current operational process reform initiatives being undertaken by headquarters, we don’t think that COVID-19 countermeasures will hinder progress in structural reforms.

Q : Please elaborate on the current status of credit costs associated with the consumer finance business.

A : Currently, credit costs are virtually in line with our plans. We don’t expect a large increase in credit costs.

Q : Please explain MUFG's cashless and settlement strategies centered on NICOS.

A : Despite intensifying competition among payment methods, we believe that credit cards will remain the mainstay cashless payment method among consumers. Our short-term initiatives will entail enhancing customer convenience and benefits via the promotion of smartphone apps, which are designed to secure customer contact points, the renewal of proper cards (e.g. NICOS, MUFG, DC), and the provision of multi-reward functions. Over the mid- to long-term, we will step up coordination with next-generation web channels for corporate clients with the aim of establishing a structure capable of delivering one-stop transactional services employing a groupwide, integrated approach.

Q : Please explain the status of progress in system integration plans associated with NICOS.

A : The formulation of system integration plans has been steadily progressing and is expected to reach completion by the end of March 2021. At this moment, we also expect investment associated with integration-related development projects to amount to approximately ¥60.0 billion. Considering this and other factors, overall investment will stand at approximately ¥100.0 billion. As we annually invest approximately ¥20.0 billion in system renewal and others on a regular basis, we don't consider this amount to be an extremely large investment. We will also clarify the timing of system integration completion in the future.

Q : Could you tell us how discussions regarding the revision of interbank transfer fees and other fee systems are going?

A : Our basic stance is to provide customers with satisfying, high-quality services and to receive fees commensurate with the costs associated with and value delivered via the provision of such services. Although transfer fees include costs arising from back-office operations and system costs, we will flexibly review our overall fee systems as necessary while paying close attention to public discourse regarding interbank transfer fees.

Q : What are your policies on nurturing human resources capable of handling WM transactions, which require high level of expertise?

A : In the Bank, we will build a team of WM specialists, putting them in charge of high-end and semi-high-end customer transactions and setting them apart from business units tasked with mass retail operations. To promote a cross-selling approach, we will include several staffs specializing in corporate clients in addition to some focused on individual transactions, thereby maintaining the mixed team composition. Moreover, we will employ know-how offered by Morgan Stanley to step up human resource development.

Q : What initiatives have you been undertaking to promote the digitalization of operations targeting corporate clients?

A : We will provide a variety of services centered on MUFG Biz, which was released in June 2019. These services include online lending and various procedures requiring no branch visits. Furthermore, as we aim to enhance customer communications on a qualitative and quantitative basis, we are introducing new communications tools, such as video conferencing systems.

Q : What are your plans to curb a rise in system operational costs even as you enhance the content of digital-driven services?

A : System development is obviously essential to our ability to promote digitalization. However, this does not necessarily mean that digitalization always requires the development of monstrously large systems. Rather, we will develop flexible systems that provide external connections. By doing so, we will curb development costs.

Japanese Corporate & Investment Banking Business Group (JCIB)

Q : Please provide your outlook on credit costs.

A : We forecast that JCIB’s fiscal 2020 credit costs will total approximately ¥20.0 billion, a modest amount. Credit costs recorded in the first three months amounted to several billion yen, shifting within the scope of our estimation. Given the current economic environment, we don’t expect a large amount of credit costs to amass. Drawing lessons from the financial crisis triggered by the global financial crisis, many Japanese large corporations have worked to strengthen their financial position. Because of this, our forecasts do not include a drastic deterioration in their creditworthiness. We do recognize that there is a lingering sense of uncertainty regarding the future and, therefore, we are stepping up the monitoring of sectors and corporations that require attention. To this end, both Corporate Banking Divisions and Credit Divisions are acting in close collaboration.

Q : Could you describe the expected pace of equity holding divestment MUFG plans to execute during the next MTBP period?

A : For fiscal 2020, we expect to divest equity holdings totaling approximately ¥140.0 billion on an acquisition cost basis. This estimation represents the sum of equity holdings already divested and those subject to divestment as agreed upon with corporate clients and set to be divested until the end of March 2021, in addition to those expected to become subject to divestment as agreed upon with corporate clients and set to be divested by the same date. Combining this estimation with the cumulative amount of equity holdings divested between fiscal 2015 and fiscal 2019, we expect total divestment to reach approximately ¥870.0 billion, far in excess of our initial target of ¥800.0 billion. Currently, our plans for equity holding divestment during the next MTBP period are under discussion, with an eye to ensuring economic rationality and employing a financial viewpoint. We have also positioned firm control on risk-weighted assets (RWAs) as a priority measure. Therefore, we are set to push ahead with divestment in a steady manner. Although we have yet to formulate a numerical target for divestment under the next MTBP, we do expect to annually divest equity holdings totaling at least ¥100.0 billion Therefore, our discussions on divestment plans will be premised on achieving ¥300.0 billion in three years.

Q : What is the status of fundraising assistance aimed at helping ensure responsiveness to the fallout from the COVID-19 crisis? Also, what is your outlook regarding MUFG's lending pipelines?

A : During the period spanning March to June 2020, we received a number of requests involving quite a large amount of fundraising assistance. In response, the Bank set a credit facility of more than ¥10 trillion and furnished lending totaling ¥6.6 trillion, while the Securities underwrote corporate bonds totaling ¥1.6 trillion. These initiatives exemplified, we believe, the success of our efforts to accommodate requests from corporate clients in a speedy and appropriate manner. Looking ahead, we forecast that the calls for fundraising assistance will shift to a new phase to meet a growing need for capital financing. MUFG estimates that the overall market need for capital financing will amount to ¥4 trillion to ¥5 trillion. Of this, MUFG could be asked to extend ¥1 trillion to ¥1.5 trillion in total. Although this situation will bring us business opportunities, financing of this kind entails higher lending risk than conventional fundraising assistance aimed at providing working capital. On the assumption that it is highly redeemable, we will keep a close eye on securing profitability and carefully assess whether the financial positions of corporate clients can be strengthened soon and whether they can be reinstated to a growth track. Also, we will remain alert to the volume of RWAs while accommodating the need for capital financing via, for instance, the use of our securities functions and the development of syndicated frameworks.

Q : Given the fundraising assistance MUFG is currently extending and the capital enhancement need the Company aims to accommodate going forward, please provide your outlook on the volume of RWAs to be recorded in fiscal 2021 and beyond.

A : Over the past two years, we have reduced RWAs by a total of ¥1 trillion. In addition to benefitting from an improvement in the interest margin, we have been able to accumulate revenues via the origination & distribution (O&D) business and transaction banking.

Although the volume of RWAs recently increased ¥1.3 trillion due mainly to our response to requests for fundraising assistance, this increase largely consists of short-term loans. In fact, some borrowers have already begun repaying these loans. While our involvement in capital financing will contribute to a rise in RWAs, we nevertheless aim to suppress growth in the volume of RWAs via, for example, the use of our securities functions. Under the next MTBP, we will control RWAs even as we accumulate net operating profits and strive to restore a virtuous cycle of improving ROE.

Q : What are your views on the growth potential of the domestic sustainability linked loan market?

A : MUFG has committed to extending a cumulative total of ¥20 trillion in sustainable finance by the end of fiscal 2030. In fiscal 2019 alone, we have extended a total of ¥3.7 trillion in such loans. Of this, the amount extended by JCIB in relevant fields totaled approximately ¥1 trillion. Although financing for environmental (E) projects via such vehicles as Green Bonds initially made up a large proportion, we currently handle a growing volume of financing for social (S) projects, such as Social Bonds and Sustainability Bonds. Regarding sustainability linked loans, we acted as an industry forerunner and successfully completed the first and second rounds of issuance. For fiscal 2020, we aim to extend a total of ¥2 trillion in sustainable finance. To this end, we are nurturing an enough potential projects in our pipelines.

Q : Could you share your evaluation of progress made in the development of the RM-PO model in terms of both positive outcomes and issues to be addressed going forward?

A : Thanks to the integration of sales functions of the Bank and the Trust Bank, relationship managers (RMs) at Corporate Banking Divisions are positioned to access all product office (PO) functions. This significantly helps enhance collaboration between RMs and the Trust Banks' POs on a qualitative and quantitative basis. Moreover, the implementation of this model has led to certain results in the IR and SR fields and the real estate-related business. We have also seen certain results from various services associated with shareholder identification surveys and services aimed at helping introduce anti-takeover measures and strengthening corporate governance. Moreover, the development of the RM-PO model resulted in the streamlining of staffing. On the other hand, we have been facing a pressing need to reinforce PO staff in step with an increase in the number of deals. Accordingly, we must address ongoing issues associated with how to increase the number of RMs equipped with strong skills in trust-related operations.

Q : Currently, MUFG faces burgeoning funding demand, including demand for fundraising assistance. What is your vision for the future of the Company's lending business as you look forward to an evolving operating environment in the post-pandemic period?

A : Looking back at the last several years, we have seen steady growth in funding demand among large corporations. This is attributable to two things. First, expansion overseas represents one of the few valid options for large Japanese corporations seeking growth fields. This kind of endeavor requires funds. Second, such corporations are also engaged in structural reforms at home, employing a selection and concentration approach. Accordingly, they are also seeking funds for operational reorganization. We believe that going forward, demand for funding associated with these endeavors will remain strong and bring us business opportunities.

Global Corporate & Investment Banking Business Group (GCIB)

Q : Please elaborate on aviation finance-related credit risk.

A : With regard to aviation finance, we originally expected credit costs ranging from ¥10.0 billion to ¥20.0 billion. However, due mainly to the prolongation of the COVID-19 pandemic, we are currently expecting that credit costs may amount to around ¥30.0 billion to ¥40.0 billion. However, most of our aviation finance portfolio is secured by robust collateral that mainly consists of newly manufactured aircraft and narrow-body aircraft, both of which are highly demanded and highly valuated as collateral. Also, Loan to Value (LTV) ranges from 60% to 70% for majority of loans. Therefore, we believe that our portfolio is significantly resilient against plunges in collateral value. Moreover, in conjunction with the acquisition of aviation finance business from DVB Bank, we have taken over a team of specialists capable of market analysis and boasting valuable expertise in handling aircraft collateral. This workforce, in turn, significantly contributes to minimizing credit costs arising from the aviation finance business.

We consider aviation finance an important asset class supporting the promotion of the origination & distribution (O&D) business. Accordingly, its positioning within and importance among GCIB business will remain unchanged. While attention should be paid to the impact of COVID-19, the airline industry is essential as a social infrastructure, and we will support the industry with our expertise.

Q : What advantages does MUFG's GCIB have against its competitors?

A : There are mainly four advantages against our competitors.

First, we have alliance with Morgan Stanley. In fiscal year 2019, MUFG was ranked fourth on the global league table in the Investment Grade field. This status was due to the strategic alliance with Morgan Stanley for more than 10 years since initiated, helping us strengthen our ability to capture large event finance deals under competition with European and U.S. peers.

Second, we have attractive asset class. In terms of project finance, we have remained at the top position in the global league table for a long while. Similarly, we have been ranked among the top players in terms of securitization. And on top, we hold aviation finance assets as well.

Third, we have both global and local network. We have local franchises in rapidly growing Asia and the United States. Taking full advantage of this network, we have developed a unique business model capable of delivering services to global corporate clients and their overseas subsidiaries.

Fourth, we have an extensive customer base diversified by in terms of geographic distribution and business sectors.

These four points, we believe, represent MUFG’s unique strengths and set us aside from any other global peers including Japanese megabanks.

On the other hand, we are far behind European and U.S. peers in terms of profitability and efficiency. Clearly, we are aware of the necessity to tackle these issues. To date, GCIB has been acting as MUFG’s growth driver, taking full advantage of our balance sheet capacity, which has been our competitive advantage, but the challenge is profitability and efficiency of the business. We will promote the integrated operations among the Bank and the Securities while strengthening collaboration between GCIB, Global Markets and AM/IS. By doing so, we will accelerate the development of the O&D business based on investor needs. Furthermore, we will strengthen cross-sell and increase fee revenue to transform our business to a model that is not too dependent on the balance sheet. We will transform our business model to a new stage that pursues profitability and efficiency in a thoroughly manner.

Q : To strengthen cross-sell, different business group will be serving the same client. In this case, who will supervise the client relationship?

A : Myself, as Group Head of GCIB, maintain frequent communication with the Group Heads of AM/IS and Global Markets. We have in place an operational framework for managing the institutional investors business in a way that integrates the involvement of multiple business groups and entities where issues are shared, target customers are selected, and account plans are developed. Under this framework, target and KPIs are shared among all parties. Next MTBP aims to expand cross-selling by further strengthening the capabilities of this team.

Q : What is the expected contribution of "creating new value" featured on page 21 of the presentation material to top-line revenues and net operating profits?

A : As stated in our press release, we are planning to invest US$80 million in Mars Growth Capital, and we expect this joint venture to contribute approximately ¥1.0 billion to our annual profit. We will also consider to grow the fund if needed. However, the aim of this project is not limited to monetary return. Rather, through this project, we expect to grow a number of unicorns and platformers capable of delivering unique services. Although MUFG has not been involved in financing startups and venture companies, we take on challenges in this field. In addition, we will support the growth of the startups as one MUFG including our partner banks such as Krungsri and Bank Danamon. This is our commitment to contributing to Asia's economic growth.

We will handle this project with a broad vision, expecting that this will bring us great outcomes not just investment returns in the future.

Global Commercial Banking Business Group (GCB)

Q : Please explain the status of credit costs at each partner bank (PB) and future outlook.

A : Until the end of the second quarter, each PB had taken a prudent approach to posting their allowance for credit losses. Thus, we believe that our plans vis-à-vis PBs' credit costs, which are factored into MUFG's total credit cost forecast for fiscal 2020, will not be subject to significant revisions going forward.

In particular, MUAH's portfolio is more conservative than those of other regional banks in the United States as it mainly consists of residential mortgage loans. MUAH's record regarding the low level of proportion of loans written off shows a sounder history as well. Given this, we consider the allowance recorded by MUAH as of June 30, 2020, to be sufficient even compared with the allowances recorded by competitor banks. We have thus concluded that we won't need to revise our credit cost forecast for MUAH unless a radical fluctuation in the U.S. economic environment occurs.

At the same time, Krungsri has recorded a sufficient volume of additional allowance and otherwise formulated robust forecasts based on what it is hearing from clients in the large corporation field and employing historical data analysis in the retail field. Therefore, we are not planning any revisions to our forecast for this PB either.

Bank Danamon has also recorded an additional allowance and formulated credit cost forecasts based on the analysis of individual clients and reports from overdue borrowers. In addition, this PB has benefited from faster-than-expected repayments of auto loans, which constitute the largest proportion in its retail operations. Accordingly, we do not expect this PB to confront a need to upwardly revise its credit cost forecasts.

As for fiscal 2021, we are not positioned to state specific figures as our credit cost plans for said fiscal year are in process of formulation. However, although the U.S. economy may act as a variable, we anticipate that MUAH's credit costs will fall significantly short of the level recorded in fiscal 2020. In sum, we don't expect Krungsri to increase the volume of the allowance as it has already made a sufficient additional allowance. We also expect that credit costs recorded by Bank Danamon will be lower than those recorded in fiscal 2020 due to progress in the repayment of auto loans.

Q : Please explain the current status of and progress in the cost reduction measures being undertaken by MUFG Union Bank (MUB) and its balance sheet reconstruction initiatives aimed at improving profitability. Please also share your future outlook on these matters.

A : I will explain the outcomes of the one-year reformulation efforts under MUB's new strategies in three points.

First, MUB enhanced its human resources. Mr. Greg Seibly, who has experienced in business turnaround of U.S. regional bank, was appointed as head of the Regional Banking. Mr. Rohit Khanna, who has been head of corporate strategy and planning at Krungsri, was dispatched to MUB as its head of Strategy. Also, Mr. John Elmore, former vice chairman of U.S. Bank, took over as director at MUB to help strengthen corporate governance. The result is a roster of highly reliable individuals in senior management.

Second, MUB formulated "Back to Basic" strategies that start with addressing customer needs. These strategies are based on an analysis of MUB's history and are designed to take advantage of its branch network. Shifting away from traditional dependence on residential mortgage loans, MUB is now poised to strengthen SME transactions, deposit transactions and retail transactions. As for SME transactions, MUB will review its customer segment portfolios to define optimal screening and sales policies for each. Furthermore, sales- and product-related departments will act in close collaboration to expand transactions.

Lastly, MUB is poised to step up governance. To this end, MUAH executives of the U.S. business will assist MUB in the execution of new strategies in the fields of human resources, administrative operations, IT systems, screening and sales. In addition, MUFG's management in Tokyo will receive follow-up reporting on progress under the new strategies via quarterly business results meetings and monthly regular meetings. In this way, we will strengthen governance for MUB and help it push ahead with new strategies, rallying the entire strength of MUFG.

Also, we have launched a cost structure reform project to overcome the lingering issue MUB has been confronting in terms of cost reductions. These reforms also entail facility relocation aimed at reducing rents and personnel costs, workforce downsizing via the review of reporting lines and job assignments, and reductions in procurement costs through the introduction of more stringent criteria. Efforts are also under way to streamline and automate operational processes, curbing growth in personnel costs. MUB is also restructuring its branch network and downsizing PurePoint-related operations. We have actually seen steady progress in the execution of these individual cost reduction measures.

Q : Please elaborate on credit costs at Krungsri and Bank Danamon and how they compare with the levels sustained by their local counterparts.

A : Since MUFG's investment, Krungsri has steadily improved its lending portfolio. As of the end of June 2020, its non-performing loan (NPL) ratio remains more favorable than that of any local banks. This is, we believe, thanks to Krungsri's risk management team, which boasts top-notch capabilities among its peers in ASEAN.

Although the NPL ratio recorded by Bank Danamon was 3%, a level that put it on par with its competitors as of the end of December 2019, its NPL ratio edged up to 4.2% as of the end of June 2020 due to the emergence of non-performing auto loans. However, the collection of non-performing loans is currently under way at a faster pace than expected, causing the NPL ratio to decline.

Q : Group CEO Kamezawa cites an "engagement-oriented management approach" as one of his policies. At overseas subsidiaries with large workforces, what initiatives is MUFG actually implementing?

A : We think that, at PBs, initiatives to enhance employee engagement must be implemented by both MUFG and the PBs themselves.

As for Krungsri, it has seen higher employee engagement ever since MUFG's investment thanks mainly to the positive effects arising from integration with the Bank's Bangkok Branch and a steady improvement in operating results. Looking ahead, we will work to further enhance employee engagement by inviting Krungsri staff to join training programs offered by MUFG and facilitating the exchange of human resources between Krungsri and the Bank.

With regard to Bank Danamon, we are aware of the need for further efforts to be made on the parts of both MUFG and this PB. In this regard, MUFG is offering opportunities to participate in its training programs while facilitating human resource exchange. We also consider that sharing MUFG's ways of thinking with Bank Danamon staff through robust communication is essential.

On the other hand, Bank Danamon has hosted town hall meetings in which a total of 4,800 employees sat in dialogue with top management following the appointment of Mr. Yasushi Itagaki as the company's new CEO. This PB is enhancing its training programs while developing a structure to support young employees and introducing flexible wage systems aimed at rewarding individuals with excellent competencies. Thanks to these measures, ratings given by employees via recent employee awareness surveys were higher than ever for many survey items. These surveys also indicated that Bank Danamon staff has a higher degree of engagement than their peers at other local banks. Although there had been anxiety about a rise in the rate of turnover, the rate has eventually declined, suggesting that the engagement-oriented initiatives discussed above certainly yielded positive results.

Asset Management & Investor Services Business Group (AM/IS)

Q : What is the current status of FSI's profitability vis-à-vis the initial plans MUFG formulated prior to acquisition? Also, please explain the risk of impairment losses considering such status.

A : Due to market stagnation in the first half of 2020, we have seen decreases in both the balance of assets under management (AuM) and profits. However, we have been able to curb costs. With market conditions currently recovering, FSI's profitability did not fall significantly short vis-à-vis plans formulated at the time of acquisition. Accordingly, we don't expect to face significant risk of impairment losses in fiscal 2020. Although we can counter the negative impact of market conditions on profits by reining in costs, we recognize that the most profound risk lies in human resources. The resignation of fund managers can result in customer defection and a decline in AuM, thus leading to impairment losses. With this in mind, we strive to improve human resource retention.

Q : Please explain MUFG's target regions and product fields in terms of its future M&A strategies for the overseas asset management (AM) business. Also, please discuss your stance on investment profitability.

A : We aim to take advantage of FSI's platforms to achieve growth in the overseas AM business. We focus on two points in this endeavor. First, we will allocate resources to high growth fields. Currently, we consider infrastructure and alternative investment to be promising markets with robust growth potential. Second, we aim to incorporate excellent AM teams and firms that are drawing solid customer support into our platforms. Although we are in no position to name specific acquisition candidates, we will consider acquisition should there be an outstanding candidate operating in, for example, an alternative investment field in which FSI is not active.

In addition, our investment screening is focused on assessing the possibility of securing returns within a certain period of time at a robust level consistent with market requirements. To this end, we pay close attention to capital costs and investment premiums. Moreover, we have in place a structure for the ongoing monitoring of investee profitability after the execution of investment.

Q : Although MUFG's fund administration business is steadily expanding, could you explain the future strategies for the overseas investor services (IS) business?

A : Our global IS business has been growing via the acquisition of fund administration functions. Currently, we are ranked sixth among our global peers in this field and are poised to secure fifth place. We are willing to consider engaging in an M&A if we come across a sufficiently excellent opportunity. However, right now we are prioritizing improving profitability over achieving growth in size via acquisition. As part of these efforts, we are promoting a cross-selling approach as well as the provision of banking services. Furthermore, we are striving to improve the efficiency of IS-related back-office operations while upgrading the functions of our IS portal website.

Q : In terms of the practice of the cross-selling approach involving GCIB and Global Markets, what roles is AM/IS expected to fulfill?

A : Roles to be fulfilled by each business group in the course of cross-selling are determined via discussion between business groups. When it comes to roles played by asset managers, those at AM/IS are often tasked with taking key roles in handling IS products as their needs are particularly strong among our offerings in the asset administration service lineup.

Q : Please explain your mid- to long-term outlook on FSI's bottom-line profits.

A : The overseas AM business boasts higher growth potential than the domestic AM business. Accordingly, we expect FSI's profitability to increase at a pace above market average. To this end, we also intend to consider such measures as those aimed at helping it secure inorganic growth. Although the acquisition of an AM business often entails significant costs arising from the amortization of goodwill and other intangible assets, we expect FSI to achieve steady growth and serve as a profit contributor.

Q : Could you share your thoughts on how to enhance the presence of MUFG's global AM business? Please elaborate on the current market share secured by MUFG and discuss the targets to be achieved by the end of 2024 in terms of market share and global presence.

A : We aim to become a player boasting unparalleled strength in Japan and significant global presence. When it comes to the definition of "significant presence," the top firm in this industry commands approximately 8% of the global market share in terms of AuM value. On the other hand, a firm ranked 15th in this industry has an approximately 1% market share. Although the market share currently secured by MUFG ranges from 0.8% to 0.9%, we would not deem our presence to be significant even if the Company succeeded in raising its share to around 1.2%. Therefore, our immediate focus is on enhancing

MUFG's industry recognition and reputation in a specific category, even as we hope to one day secure a significant presence on a basis of AuM value.

Q : With regard to the AM business in the Asia Pacific region, do you intend to promote operations in the alternative field, in which FSI boasts strengths, with the aim of achieving business growth in these regions?

A : The majority of FSI's AuM, excluding short-term bonds, are accounted for by assets in Asia and Australia. With this in mind, we intend to steadily seize opportunities arising from market growth in these regions. In addition to emerging equities and other alternative instruments, which perform robustly in Australia, we are now positioned to handle region-specific products, such as equities in growing Australia-based corporations. With FSI playing a central role, the MUFG Group thus aims to enjoy growth in the Asia Pacific region, including Australia.

Q : Could you explain the ten-year trend in the AuM balance, including factors contributing to increase or decrease?

A : The acquisition of FSI resulted in a ¥17 trillion increase in AuM. Other than that, we have not seen any acquisition-related changing factor. Trends in our AuM balance are largely parallel to domestic market trends. Looking back at market trends over the last 10 years, the balance of AuM associated with investment trusts targeting corporate clients increased, while that of AuM entrusted by individual customers declined. In addition, pension-related businesses were negatively affected by the dissolution of Japan's Employee Pension Funds. Against this backdrop, we have been striving to restore our AuM balance to the level it enjoyed 10 years ago and, to this end, raising the balance of investment trusts mainly via growth in the balance of private placement investment trusts targeting domestic corporate clients, with the aim of offsetting a decline in the balance of pension assets.

Global Markets Business Group

Q : In terms of managing non-JPY liquidity, are you considering further reduction in the volume of mid- to long-term market funding to improve profitability? If so, please also explain your expectations regarding reductions as well as a possible decrease in funding costs.

A : In line with our former conventional approach, we had been increasing mid- to long-term funding via the market whenever the balance of lending grew. That was how we stabilized the non-JPY balance sheet. Currently, we are exercising a prudent stance on lending while successfully raising the deposit balance. Also, a shrinking trend in deposit-lending gaps has better positioned us to reduce the volume of mid- to long-term market funding. In fiscal 2019, we reduced the volume of such funding by around US$30.0 billion, and we believe that we still have a room for further reduction in fiscal 2020. Moreover, we are striving to increase the balance of highly "sticky" deposits and thereby enhance the quality of overall deposit portfolio. Through these initiatives, we aim to achieve improvement in profits by ¥10.0 billion to ¥20.0 billion in fiscal 2020.

Q : Provided that MUFG places emphasis on profitability in managing non-JPY liquidity, what risk management approach do you intend to take?

A : We will not focus solely on profitability. Rather, we will strive to achieve both profitability and stability. To this end, we will refrain from overexploiting gaps between short- and long-term interest rates. We will also work to reduce the volume of mid- to long-term funding while enhancing our customer deposits on a quantitative and qualitative basis. As of today, customer deposits account for 90% of the overall deposit portfolio and the majority of them are deposits with a robust retention rate of one year or longer. We need to raise the ratio of these deposits. In terms of liquidity management, it is important to formulate an even more precise forecast on the year-end status of the balance sheet. With this in mind, the Bank is holding periodic discussions in which representatives from relevant departments gather to examine the balance sheet status.

Q : Please share your evaluation of the performance of sales & trading (S&T) operations in the first three months of fiscal 2020.

A : The three-month results of S&T do not appear to grow substantially on a year-on-year basis. However, this is merely attributable to differences in the fiscal year-end dates. Although overseas securities subsidiaries achieved robust results in interest rate-related and credit businesses during the April – June period, these have not been factored into MUFG's consolidated results of the first quarter, fiscal 2020. In Japan, however, our performance has not been favorable compared with overseas operations even though domestic results for the first quarter have been in line with estimates. This was due to such factors as stagnation in forex-related operations reflecting less-than-robust transactional flows. In terms of full-year operating results, we expect that the results of our overseas operations are likely to remain robust despite our projections that they could stagnate somewhat. In addition, although we have determined that our domestic performance bottomed out in the first quarter and expect it to benefit from recovery in transactional flows, our forecasts for domestic operations still remain more conservative than those for overseas operations.

Q : In step with a decline in U.S. dollar-denominated interest rates, there is anxiety over the shrinkage of carry income over the medium to long term. Given this, please explain MUFG's foreign bond investment strategies going forward.

A : If we were to reconstruct our foreign bond portfolio in the current environment, with its prevailing low interest rate trend, we would not be able to secure carry income at the level we had been used to enjoying. Nevertheless, we will maintain our traditional stance focused on securing proceeds from both sale and carry in a balanced manner. Although we have no intention to radically change our approach to treasury operations going forward, we are considering incorporating new methodologies for long-term diversified investment as part of our long-term efforts aimed at establishing an asset portfolio consisting of diverse components.

Q : With regard to the possible launch of new long-term diversified investment initiatives with an eye to adapting to the prolonged low interest rate environment, could you elaborate on the investment methodologies you are planning to employ?

A : We are considering investing in government bonds issued by Asian countries as well as in some high-yield corporate bonds. In fact, our overseas branches and subsidiaries have already invested in Asian government bonds in terms of asset-liability management. We will take advantage of their expertise. With regard to high-yield corporate bonds, we will take a more selective investment approach while leveraging the Trust Bank's expertise in credit investment.

Q : The success of S&T operations is said to depend on the recruitment and development of excellent human resources. What structures and frameworks does MUFG have in place for these purposes?

A : We believe that human resources with specialized skills indeed represent the most essential management resources supporting market operations. Striving to nurture such human resources, each year the Bank has been selecting approximately 20 young employees to be assigned to global market-related departments. Once these individuals acquire sufficient experience, they are trained to become core human resources in a way that aligns with their individual aptitudes. In the field of financial engineering, we annually hire human resources with the potential to become quants. They are then tasked with model development and derivative trading to acquire experience. In addition, we promote the exchange of human resources within the business group. This transcends boundaries between the Bank, the Trust Bank and the Securities.

Q : Could you go into further detail regarding the expected effects of the "Global Markets 3.0" initiative?

A : We anticipate that this initiative will yield a ¥20.0 billion increase in fiscal 2020 net operating profits. This includes an expected increase in gross profits totaling ¥15.0 billion, which will derive from the enhancement of the derivative-related business and foreign bond sales. Also included are the effects of business reinforcement measures that involve the expansion of our equity stake in our overseas securities subsidiaries. Simultaneously, we expect cost reduction effects totaling ¥5.0 billion. This includes the effects of streamlining measures executed by the Securities in the second half of fiscal 2019 in connection with its Asia-based stock-related operations.

Q : I assume the Trust Bank's asset management policy is different from the Bank's approach. Please tell us about it.

A : The Trust Bank is engaged in diversified investment on a global basis. Its portfolio encompasses such government bonds as U.S. treasuries as well as corporate bonds, equities and REITs. Also, gains on the valuation of securities constitute a large portion of its profits as they are recognized as interest income upon reclassification into realized gains. Net gains on securities, however, remain an insignificant contributor to overall profits. On the other hand, the Bank maintains a balanced approach with regard to posting net gains on securities and interest income. However, we have no intention to call out either of these approaches as being superior to the other. As both entities are equipped with distinctive strengths and accumulated expertise, we will allow them to continue their current approaches.

Digital Strategy

Q : Please explain MUFG's strengths and weaknesses with regard to its digitalization initiatives. Also, could you name areas in which the Company is ahead of or lags behind its industry peers?

A : One of our strengths is our extensive business network. Taking full advantage of this network, we are tackling the challenge of creating a next-generation financial service in collaboration with Grab, Liquidity Capital and other partners. We are at the vanguard of initiatives of this kind. We are also relatively more progressive than other banks in terms of startup investments involving open innovation. On the other hand, a large network comes with a lot of costs. This means we face a number of challenges associated with the expense ratio as well as the overall volume of expenses. That's why we consider the steady implementation of operational process reforms to be essential.

Q : Could you elaborate on the positive effects expected from collaboration with Grab in terms of business development and profit growth over the next 10 years?

A : For the first several years, we aim to develop a novel financial product and service framework capable of serving drivers, merchants and other Grab app users, who currently number in the several tens of millions, by leveraging Grab's extensive ecosystem. Looking at a 10-year span, our focus will be on updating financial services provided by Krungsri, Bank Danamon and other partner banks as well as MUFG's domestic financial services in ways that take full advantage of the next-generation financial service capabilities spawned by this collaboration.

Q : Do you expect the emergence of a "challenger bank" in Japan going forward? Does MUFG itself intend to launch of a digital bank?

A : Although what constitutes a "challenger bank" is hard to define, we currently have no plans to launch a digital bank given the unique business environment in Japan, including negative interest rates, that would make it difficult for us to operate a bank of this kind with full-line functions on a standalone basis. Accordingly, if we were to launch a digital bank, we would also consider an option to partner with an external entity to launch a bank with special functions.

Q : In the next five years, what profit effects do you expect from various initiatives undertaken in line with MUFG digital strategies?

A : At the time of the formulation of the current MTBP, we set a target of achieving a positive effect of approximately ¥200.0 billion in net operating profits via the execution of digitalization strategies, including those aimed at reducing the workload by the equivalent of 9,500 employees. To date, we have made steady progress with each digitalization initiative we've undertaken and have seen them begin to yield effects. However, quantitatively measuring the effect of these initiatives is innately difficult as the extent of their contribution to productivity is often not readily identifiable. Therefore, what we consider to be the essential indicator of successes is how much the expense ratio improves as a result of curbing total costs and raising gross profits. Looking ahead, we will consider disclosing a clearer picture of the overall effects while closely assessing what we can accomplish via digitalization efforts under the next MTBP.

Q : Could you explain cost reduction effects deriving from the update of digital services? Also, could you specifically name a few such services being updated?

A : I'll name Mitsubishi UFJ Direct, an internet banking service representing our service brand for individual customers. We believe that we must accelerate our efforts to align this service with the latest customer needs and expand the scope of transactions that can be completed remotely via smartphone or otherwise. The same applies to Biz STATION and other services targeting corporate clients. We aim to upgrade their functions to deliver even better services to our customers. Although we have yet to finalize the calculation of financial effects, we believe that it is important to ensure that each and every initiative yields solid outcomes that, in turn, will help promote reductions in expenses and improvements in the expense ratio.

Q : Please explain the current status of GO-NET and MUFG coin.

A : We aim to release both services in the second half of fiscal 2020. As for GO-NET, our immediate target is to launch a payment network service for credit card users. Then, we will move on to expand this business and tap into IoT and other fields outside the payment service via the use of its blockchain platforms. As for MUFG coin, we are currently engaged in negotiations with Recruit regarding the establishment of a joint venture. Similar discussions are now under way with the aim of releasing a novel e-money service in the second half of fiscal 2020 via partnerships with multiple external business operators. Although there are diverse types of payment services and fund transfer service providers, we aim to deliver a service with unique and distinctive features.

Q : Please explain your business development plans for GO-NET, including a time frame.

A : GO-NET boasts the capacity to process more than 1 million transactions per second. However, if it is delegated to handling only credit card payment services, it does not need such a large capacity. Truly, the profound potential of its blockchain platform lies in value transfer services and the secure recording and processing of transactional data backed by anti-tampering functions. We therefore expect GO-NET to become not only a robust consumer payment service, but also a fairly user-friendly infrastructure capable of processing an enormous volume of diverse value transfer transactions. Even though we plan to start with credit card payment, we intend to expand the scope of GO-NET services over the next several years to include IoT and other fields outside conventional payment services.

Q : In the ASEAN region, do you plan to enter alliances with digital platform operators other than Grab? Also, please tell us your future outlook on possible partnerships, such as with super app providers, in the domestic market.

A : We believe that the Grab ecosystem is the largest of its kind in ASEAN. However, we may enter new partnerships in the region as there are a variety of other platform operators.

In Japan, collaboration with Recruit exemplifies our partnership initiatives. As we are aware of the significant strategic implications of expanding the scope of these initiatives, we will consider incrementally increasing the number of external partners.

Q : With regard to the expected profit contribution by digital strategies, could you share your vision with regard to proportions accounted for by growth in profits from new sources and cost reductions?

A : We assume that growth in gross profits via the development of new businesses will account for approximately 40% of overall profit contribution. The remaining 60% is expected to derive from cost reductions, such as those brought about by operational process reforms. The effects of business development will include those arising from the provision of data-driven financial services as well as growth in top-line revenues via collaboration with platform operators. However, we consider streamlining our operational process to be a matter of greater importance in light of the abundance of opportunities and the assuredness of outcomes.

Q : Do you think that the data elements constituting MUFG’s integrated data base have sufficient quality in terms of depth? In sum, do you believe that they can be readily used to perform meaningful analysis?

A : We have established a data base containing such structural data as customer information in addition to alternative data from external sources and non-structural data, including logs and voice data. It allows us to manage all of these data sets in an integrated manner. That being said, we have yet to establish a comprehensive workflow for utilizing various data gleaned via our daily operations in a way that enables high-speed data circulation and helps us finely tune our services. Also, with regard to the depth of data, although we are able to collect diverse types of macro data, such data is not readily usable due to its form. To secure the solid ability to deliver data-driven businesses and services, we must enhance our methods of data collection, storage and utilization as well as our procedures for obtaining customer consent. These are essential components of business operations that are genuinely data-driven. Accordingly, we are determined to robustly push ahead with these efforts.

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