

# MUFG Investors Day 2021

## Main Q&A

### **Retail & Commercial Banking Business Group (R&C)**

Q :Why did you fail to achieve the targets in the previous medium-term business plan (MTBP)? The outline of the key strategies of the current MTBP appears to be unchanged. Please tell us the basis for achieving the current plan from the viewpoint of executing the strategy and designing incentives for the organization.

A :Net operating profits in fiscal 2020 decreased by ¥85.0 billion from the fiscal 2017 level, well below the target. In particular, while we have set high targets in the wealth management strategy and asset management strategy, there were some issues in the shift to an advisory business model in the asset management strategy. At the same time, we accelerated cost structure reforms through the consolidation of branches and the optimization of personnel allocation, and also established a framework for the integrated management of the Bank, the Trust Bank, and MUMSS (Mitsubishi UFJ Morgan Stanley Securities). Under the solid business foundation established in the previous MTBP, the current plan calls for a total increase of ¥75.0 billion in net operating profits with ¥60.0 billion by gross profits and ¥15.0 billion by cost reductions. Subtracting credit costs, etc. from this, R&C aims to increase net profits by ¥60.0 billion. Out of the gross profits of ¥60.0 billion, base profit is expected to increase by ¥35.0 billion. The main breakdown is about ¥15.0 billion by increasing the stock balance of asset management from retail customers by ¥2.5 trillion and about ¥15.0 billion by recovering from COVID-19. We believe that cost reductions can be achieved through optimization of channel network and personnel allocations. In addition, MUFG Group has unified its evaluation system and shared commitments. Also, the company has introduced a long-term client coverage system by relationship managers that matches the shift to an advisor business model and is working to redesign the compensation system based on skills rather than posts.

Q :How do you evaluate R&C's ROE target of 5% in fiscal 2023 compared to competitors? In the medium- to long-term, MUFG's ROE target is 9 - 10%. Please tell us about the ROE target for R&C in the medium- to long-term.

A :ROE of 5% is merely an immediate goal. Our customer base is 1.6 million individuals and 200 thousand companies, and our personal profiling assets amount to ¥100 trillion. In the past, profits in the banking sector were generated by the growth of general corporate activities. However, the business environment has changed dramatically, growth of the

economy has stopped, and negative interest rates were introduced. On the other hand, MUFG's investment assets were less than half of its competitors, so we focused on profiling our customers' assets. Currently we have increased this amount to ¥100 trillion, and we aim to increase the amount to ¥130 trillion by fiscal 2023. We also believe that we can create new business opportunities for business succession. We aim to achieve ROE target of 8 %, not just 5%, to cover the cost of capital.

Q :How does R&C address the carbon neutrality declaration?

A :R&C is also in charge of the utility, railway, automotive and electric sectors, and the carbon neutrality declaration has a major impact on customers. Therefore, we will provide careful support in cooperation with the Japanese Corporate & Investment Banking Business Group. We also intend to select and develop ESG-related products within the asset management advice chain and propose them to customers.

Q :Given the differences in customer attributes and systems between Japan and the United States, can Morgan Stanley's know-how be utilized?

A :Morgan Stanley shares knowledge about wealth management with us and we receive support by their head of Wealth Management Alliance in APAC. On the other hand, not all of our models rely on Morgan Stanley's knowledge because Japanese customers differ from U.S. customers in terms of asset type and tax system. While looking at the moves of global competitors, we are creating a unique system that can respond to the various needs of high net-worth individuals and solve problems. We can also buy time by Morgan Stanley's knowledge of human resources development and field management. Shared knowledge from them is becoming pervasive and I am confident in the direction.

Q :In last year's Investors Day, there was an explanation that the number of wealth management-specialized staff at the Bank would be increased from 90 to 500 people. Please tell us whether this policy has been changed, the current progress, and the quality of human resources.

A :The number of wealth management-specialized staff has increased to about 260 people and is expected to increase to 500 people by the end of this fiscal year. Last fiscal year, the merger of MUMSS and Mitsubishi UFJ Morgan Stanley PB Securities made it possible to share know-how and skills among the whole securities firm. As a result, we won the top award of the Private Banking Division of Euromoney this fiscal year. In addition, the Bank will establish a frontline organization dedicated to wealth management for the purpose of supporting corporate owners with large assets. The Bank also established an organization in charge of large asset-owners, called The Family Office and

we have a good response from customers. We believe it will be possible to provide comprehensive solutions going forward.

Q : Are there decreases in efficiencies due to the separation with the Digital Service Business Group?

A : We have a co-managed organization in terms of the operation management of the Bank branches with the Digital Service Business Group. We believe that the integration of face-to-face and digital operations will enable us to further improve our profitability.

Q : Previous R&C has separated into two business groups, but is there a possibility of transferring customers between the two business groups due to an increase or a decrease in assets held by customers?

A : Customers may be transferred from Digital Service Business Group to R&C through inheritance of assets and increased corporate value through IPOs. In addition, we believe that this is our strength because we have created the incentives for both business groups to transfer customers from Digital Service Business Group to R&C.

Q : I think that the success of transformation of corporate culture will be dependent on how much the culture can be instilled in the managers who are between the top management and frontline workers. How do you feel the response right now?

A : I am communicating to the Heads of the branches and continuously disseminating the concept in each workplace. R&C is working to transform the corporate culture. We are making business opportunities visible at each branch, and we want to check whether we are delivering good services and value to our customers through the profits we receive. Looking at the management policies formulated by each branch manager, I feel that the concept is being shared and spreading within the company.

### **Digital Service Business Group (DS)**

Q : In the new MTBP, DS plans to increase net operating profit by ¥30.0 billion. Please provide a breakdown of the plan. Also, the ROE target is 4.5%, which is not sufficient. How will it be raised in the future?

A : Net operating profit is projected to increase by around ¥24.0 billion in gross profit and ¥22.0 billion in cost reduction effects from optimization of channel network. However, because we are forecasting more than a ¥10.0 billion increase in expenses from growth investment etc., the net increase in net operating profit will be ¥30.0 billion.

About optimization of channel network, we plan to reduce the number of branches from 425 as of the end of the previous fiscal year to about 320. About 160 branches will be downsized and feature-specialized, while the remaining half will be full-fledged. However, we will consider further optimizing the channel network and streamlining administrative functions in accordance with changes in customer behavior.

Since the ROE target of 4.5% is by no means sufficient, we would like to further improve ROE through further cost reductions efforts and so on.

Q :I would like to know if you have quantitative targets regarding contribution to earnings and expansion of customer contact points through alliance with NTT DOCOMO, INC. and Recruit Holdings Co., Ltd.

A :The number of Internet Banking users is increasing year by year, and MUFG intends to expand its customer contact points through its own channels. However, in response to changes in customer behavior, we will continue to consider expanding customer contact points and business opportunities using non-financial data through alliance with other companies.

Quantitative targets are still under consideration, but in our alliance with NTT DOCOMO, INC., for example, we have agreed to develop a promotional program that will automatically award loyalty points by paying mobile phone bills from our digital account. We are aiming to acquire millions of accounts as early as possible. We also expect to expand our online factoring business. In our online factoring business with Money Forward, Inc., we have agreed to purchase more than ten billion yen of receivables in several years.

Q :The large number of accounts is one of MUFG's strengths, but MUFG's services are scattered across the group companies. Please tell us how to deliver the services of each group company to customers, including functions of digital apps.

A :In launching the new business group, we have examined what kind of value can be provided to retail and corporate customers in mass segments. As Digital Service Business Group, our purpose is to eliminate customers' concerns about money, and we want to be a financial service expert that customers can depend on. To this end, we will take on the challenge of providing not only deposit accounts and mortgage loans, but also inheritance-related services of the Trust Bank and asset management products of MUMSS in a more comprehensive manner.

With regard to digital apps, we would like to improve usability so that customers can easily reach the services of group companies such as the Bank, the Trust Bank, MUMSS, NICOS, and ACOM in MUFG's digital channel, and at the same time further refine MUFG's services.

Q :What is your earnings potential for data marketing?

A :We would like to take on the challenge of personalizing marketing by leveraging data scattered throughout the Group, such as data related to bank accounts, data from credit cards and debit cards, data from securities business, etc., as far as we can.

While the regulation on the scope of businesses permitted to banking groups has been reviewed, the potential scale of profits has not yet been calculated. However, we hope to increase profit opportunities and increase base profits.

Q :We believe that DS is largely composed of profits in ACOM and NICOS. Please tell us how ACOM and NICOS will increase profits.

A :ACOM and NICOS together accounted for about ¥500 billion out of the ¥700 billion gross profits of DS in the previous fiscal year. So, both ACOM's and NICOS's growth are vital to DS.

ACOM has continued to grow steadily. Although ACOM's president recently changed, we are also considering further expansion of collaboration under their new management structure and are searching for more effective and efficient ways to do so, such as by the utilization of management resources, for example call centers and developing applications.

NICOS is allocating management resources to its system integration project. The volume of credit card transactions is growing as a whole industry with the progress of cashless society, so we would like to steadily capture market growth. In addition, as there is room for further collaboration with the Bank through sales promotion and cost reduction, etc., the Group as a whole will work together to achieve growth in NICOS's performance.

### **Japanese Corporate & Investment Banking Business Group (JCIB)**

Q :How do you design organization and incentive, and promote the fundamental initiatives such as re-education and re-skilling of bank employees in order to improve profitability?

A :Re-education of bank staff and organizational design are considered to be very important. At present, the company relies on a traditional business model centered on senior loans, and we are now passive. Customers are focusing on reviewing their business portfolios, advancing into new businesses, and addressing environmental and social issues amid the dramatic changes in the business environment. However, we have not been able to respond proactively to these issues.

So we have launched three programs to change our business structure, which I call "Karaoke." The first is "Strategic Karaoke," in which executives and above are asked to

give presentations freely on how to transform their business into a more profitable structure in front of top management. The second is "Business Reform Karaoke," in which employees in charge of business infrastructure talk about what they need to do to change the way they do their daily work. The third is "Investment Karaoke," in which middle-class employees are asked to express their opinions about what they can do if they manage their business, develop new businesses, or start a new business with customers. The "Investment Karaoke" has already been held several times. About 100 employees have applied and I have heard all of their presentations.

In addition to senior loans, we are thoroughly training bank staff in how they can exercise their wisdom as a banker to earn cash inflows and provide added value. Efforts are being made to actively incorporate external knowledge and these are positioned as the core of re-education.

Q :MUFG hasn't declared that it will target to reduce equity holdings to zero eventually. What is the bottleneck? Also, what is the meaning of equity holdings at present?

A :We believe that the significance of equity holdings from the past is being lost. However, we are aware some customers haven't come to that conclusion.

Although the remaining equity holdings are mainly those of customers with whom we can't easily reach agreement, we will carefully communicate with each company again. We are going to push forward from now, so I cannot say at this point that we will set the exact deadline or that we will reduce the balance to zero. However, as the Head of JCIB, we will confront equity holdings challenge head-on and make every effort to reduce them.

Q :Shouldn't the negotiation be even more difficult if you do not declare to reduce equity holdings to be zero?

A :In some situations we might negotiate with customers like that, but there is also the theme of how we and our customers can further expand and develop our medium-to long-term relationship. Because circumstances and ways of thinking differ from customer to customer, we will continue to closely communicate with them.

Q :Please provide an overall picture of the business impact by the deregulation of the firewall between banks and security companies.

A :In fiscal 2004, necessary laws were established to some extent. However, it was not possible to exchange nonpublic customer information between banks and the security companies under the supervision guidelines. We understand that it has been decided by the Japanese government that changes will be made to this guidance. On the other hand, a

two-step approach will be taken where the areas stipulated in the Financial Instruments and Exchange Act (FIEA) will be discussed in the Financial System Council toward the second half of this year, and then, at next year's regular session of the Diet, amendments to the FIEA will be made. If the FIEA is amended, banks and security companies will be able to fully integrate their frontlines. We hope this will lead to the creation of a single frontline that will meet customers' needs through a one-stop channel.

Q :What is JCIB's share of MUFG's sustainable financing target of ¥35 trillion? Where do you think there are business opportunities?

A :On the assumption that approximately ¥130-210 trillion of fund will be required, it is estimated that approximately 20% of them is debt financing, and our share is estimated to be approximately 15%. In addition to lending, we also offer a range of financing instruments, such as Green Bonds through our security company, to meet customers' needs.

Q :How many companies fall into the fourth quadrant of the profit improvement matrix? What are your thoughts on the feasibility of improving profitability at this point in time?

A :We will refrain from answering detailed figures, but some industries and customers that we provide long-term, large-scale credit are in this quadrant. While it is true that these customers are important to us and generate large gross profits, we will improve our profitability by focusing on each transaction in units of 1 basis point. For this reason, by incorporating capital costs into the performance evaluation system, the efforts to improve profitability in each deal and achieve the targets in the performance evaluation system are fully consistent.

In terms of the feasibility, the collection and repayment of negative Net Interest Margin (NIM) transactions have progressed at overseas branches, and there have been improvements in lending spreads and repayments of low-profitability loans in Japan. In both JPY and non-JPY, lending spreads improved by 4 to 7 basis points in the first quarter compared with the same period a year earlier. This is good progress.

Q :Regarding the enhancement of the performance evaluation system, are there any changes or responses from the frontline by changing the metric used as the basis for their evaluation from gross profit to ROE?

A :I received reports on the current status of each Corporate Banking Division (CBD) and exchanged opinions with each Head of CBD. I feel that they put more emphasis on RORA, recognize the importance of using RWA, and change the way of looking at lending spreads and profitability. I would like to emphasize this trend.

Q :Please tell us about the future outlook of credit costs. Do you expect a reversal?

A :At this point, we do not believe that large credit costs recognition will be necessary. If there are any risk factors, there may be a situation where COVID-19 is not under control in spite of vaccination, and a geopolitical risk about a dispute over Taiwan. However, there is no significant risk of additional credit costs. Since reversals can be expected from the recovery in business sentiment in the future, it is necessary for us to do our utmost to support our clients to restructure financial and business operations.

Q :Do you have the estimated number of ROE when equity holdings become zero?

A :It has not been specifically estimated yet. On the other hand, from the viewpoint of effective utilization of RWA, it is necessary to have more assets with higher RORA. If we cannot create new businesses, we will not grow as a business group, so we will operate with taking a balance between ROE and RWA.

### **Global Commercial Banking Business Group (GCB)**

Q :Can we expect loan margin improvement in MUFG Union Bank (MUB) when U.S. interest rate is on the rise? In addition, please tell us about the profit impact of the IPO of an affiliated company for Krungsri and the impact of the COVID-19 spread in Indonesia for Bank Danamon.

A :One year and four months have passed since MUB named Greg Seibly, who has a record of rebuilding U.S. regional banks, as its Head of Regional Banking, and we are now able to explain the results by figures. We expect that the U.S. interest rate hike steadily contributes to the improvement of loan spread of SME business and that Net Interest Margin (NIM), which has recently remained unchanged, also begins to increase in the future.

As for Krungsri, NTL, its affiliate, conducted an IPO. Krungsri expects to disclose the profit from the IPO in its second quarter results, and we evaluate it as a very good IPO.

The situation of COVID-19 in Indonesia is being continuously followed. More than half of Bank Danamon's net operating profits is accounted for by contribution from its auto loan subsidiary, thus sales of automobiles in Indonesia have a material impact on the performance of Bank Danamon. In its first quarter, auto loans have steadily recovered due to the government's luxury tax cut. At the moment, we do not expect to fall short of plan due to the impact of COVID-19, but the situation will be closely monitored.

Q :What are the advantages and disadvantages of doing financial business in India?



A :India can expect future growth in terms of population and GDP, but we have built an ASEAN commercial banking platform over the past decade or so. Krungsri of Thailand was the fifth largest bank in the country on net profit basis when we invested in them in 2013, but it is now in third place. In the future, we intend to expand this successful case to Bank Danamon of Indonesia.

Q :Is there any room to consider in-organic strategies in Asia, which you have not covered yet?

A :Commercial banking platform in ASEAN has been completed, and we do not consider acquisitions of the same size as those of Krungsri or Bank Danamon at this moment. Each partner bank is engaged in business acquisitions and development in the Mekong Delta region, and we believe that further growth can be expected by combining the growth of these countries with the expertise of the partner banks' management team.

Q :What kind of fruits can you reap over the long term by holding MUB? Some foreign banks are withdrawing from U.S. regional banking, so please tell us about the necessity of it.

A :MUB has a 150-year history and a very strong brand. Based on the “Back to Basic” strategy, it is working to expand transactions with SMEs and to increase low-cost deposits. However, we believe that it is important to steadily maintain the current positive trend and promote business.

Given the vast market size and growth potential, as well as the relationship between Japan and the U.S., we continue to see the U.S. as an important market.

Q :I want to know when MUB will be able to justify the investments you made to them.

A :Despite the severe top-line situation due to factors such as prepayments of housing loans under low interest rate environment, the situation of credit costs has improved due to the recovery of the U.S. economy. The new CEO, Kevin Cronin, is implementing a number of top-line growth strategies and, as he tries to cut costs, is also pursuing selection and concentration, including the sale of non-core businesses. Therefore, we expect profitability to improve this year. We will work with Kevin Cronin and Greg Seibly to demonstrate further improvements in profitability over the three years of the current MTBP.

Q :We heard that the MUFG Environmental and Social Policy Framework is not applied to Bank Danamon. Are there any hurdles in applying this framework to Bank Danamon?

A :Credit policy for particular industries is specified in the Environmental and Social Policy Framework, which the Bank, the Trust Bank, and the Securities HD follow when financing, and Bank Danamon also implements it as much as possible.

The MUFG Carbon Neutrality Declaration covers all group companies, including Bank Danamon and Krungsri. The mid- to long-term targets are currently being shared to them and we are considering how to address. We would like to support Indonesia's response to climate change through collaboration with Bank Danamon. Although there is no immediate plan to apply MUFG's Policy Framework to Bank Danamon, we will work together toward the common goal based on the Carbon Neutrality Declaration.

Q :Do you share experience and knowledge with Digital Service Business Group (DS) regarding the collaboration with Grab Holdings Inc.?

A :Collaboration with Grab Holdings Inc. is a joint project between Mr. Osawa, Head of DS, and myself and the related information is shared with DS.

We believe that it will be important for the Bank to provide credit based on customers' dynamic data and future cash flows. As this is a project that should be promoted by the Bank as a whole, the project is being worked on together with Mr. Osawa, Head of DS.

### **Global Corporate & Investment Banking Business Group (GCIB)**

Q :Please tell us how you can achieve a balance between reduction of RWA and increase of non-interest income. In particular, I would like to ask this question from the perspective of personnel, organization and transformation of corporate culture.

A :In the previous MTBP, unexpected changes in the business environment were one of the reasons why we struggled with fee income expansion. However, analyzing our business we have specified that there were organizational differences compared with our competitors. The biggest difference is that we have grown earnings mainly in IG segment, and so our resource allocation including human capital has been a bit overweighted to that segment. With this review, we have been focusing on how we develop business in Non-IG segment. To this end, we considered that strengthening business relationships with institutional investors, particularly with financial sponsors and asset managers, is the key. That's why we defined institutional investors business as one of the core strategic pillars of the new MTBP and promote the business in an integrated manner with GCIB & Global Markets Business Group and the bank & the securities. In addition, we established a more efficient framework which enables us to capture more businesses by sharing strategy and appropriate risk appetite between the frontline and the credit division.

Q :To what extent would Morgan Stanley's collaboration with GCIB increase GCIB's

earnings if Morgan Stanley's investment banking business were considered?

A : Collaboration with Morgan Stanley has synergies not only for MUFG but also for both parties. Under our estimation, when we take into account the portion of equity in earnings attributable to the ECM and M&A advisory businesses of Morgan Stanley or the portion attributable to the Institutional Securities segment which handles large corporate and investment banking business by Morgan Stanley, that makes a positive impact on GCIB's ROE to a certain extent.

Q : Please tell us your current thoughts on the disclosure of targets for sustainable finance initiatives.

A : We are committed to financing for renewable energy businesses and are consistently in the top position in the global league table for a long while. Currently, we focus on structuring green bonds and hearing the appetites of institutional investors, who are buyers of such bonds. Projects such as support for the COVID-19 response in collaboration with Afrexim that received the Deal of the Year award at the African Banker Awards 2021, and support for social infrastructure in Benin, are good examples of structured financing based on investors' appetites. We would like to increase the number of such projects in the social field.

Q : What areas have room for further growth after achieving ROE target of 7% in fiscal 2023?

A : As for RWA measurement, which is one of the components for calculating ROE, MUFG decided to use the RWA calculated by finalized Basel III reforms basis from fiscal 2021. This change has a negative impact on ROE, so the MTBP target of 7% is challenging, but we accepted the target to discipline ourselves. Syndication and DCM as well as fee income from institutional investors business and Non-IG field are keys for continuous profitability improvement.

Q : If you are to promote an integrated management of GCIB and Global Markets Business Group, is there any reason to leave the two business groups separate?

A : In EMEA, John Winter serves as the head of both the Bank and the Securities as well as the regional head of both GCIB and Global Markets Business Group. It means we have already implemented a single head structure as a frontrunner in EMEA. Through this experience, we will find the advantages and challenges, and develop a more efficient governance structure towards the final year of the MTBP.

Q : Please tell us how you will achieve both asset control and fee income growth.

A : The underlying principle of the strategy is recycling the portfolio to a more profitable one. We will build up a portfolio of approximately ¥0.8 trillion mainly with around 120 targeted institutional investor clients and the portfolio's ROE will be approximately 10%. We will rebalance our portfolio to higher margin transactions such as secured finance backed by investment assets of financial sponsors and asset managers. For the existing portfolio, we continuously improve our portfolio returns by reducing low-profitability assets by approximately ¥1.4 trillion as well as recycling the existing assets and client relationships with disciplined profitability management. With the successful reduction of low-profitability assets in the previous MTBP, we will continue to enhance our balance sheet optimization initiatives.

Q : What kind of ESG-related engagement will you specifically make with non-Japanese companies with which MUFG does not have top tier relationship?

A : We will support companies including corporate sectors related to climate change, which have a vision for future transition or which want to transform themselves into new companies responding to ESG. In European and the U.S. financial markets, it is common for several banks to sit in the 1<sup>st</sup> tier position, and we will work on reviewing and developing ESG policy of the clients together with their relationship banks.

Q : What is your view on the market share of B/S-related income and non-B/S income in fiscal 2023? What is the risk scenario in case of a failure to expand profits?

A : Under the current MTBP, the CAGR of B/S-related income and non-B/S income is 5.1% and 5.8%, respectively. Each product has its own competitive advantages or challenges to its competitors. We will catch up with them about less competitive products and strengthen our competitive edge further. Regarding risk scenarios, the biggest risk factor is the decline of the U.S. market. However, we do not expect a significant decline in the U.S. market during the period of the current MTBP, and the strategy is based on that assumption.

Q : Please tell us about the status of your business pipeline for the next year-and-a-half.

A : We have prepared and worked on the strategies of the current MTBP since the second half of fiscal 2020, and I feel confident in the progress so far. In terms of collaboration with Morgan Stanley, I regularly communicate with the head of the investment banking division, my counterpart at Morgan Stanley, and confirm the business pipelines. There are many areas where we can support them, and I have high expectations of capturing more opportunities for collaboration with Morgan Stanley in fiscal 2021. The business

pipelines are developing well especially in the U.S. market.

### **Global Markets Business Group**

Q : Treasury operations of the Bank and the Trust Bank are leveraging each expertise, and the policy is to maintain their respective investment styles. I would like to know if there are any plans to integrate treasury operations in the future.

A : The Bank and the Trust Bank have different operating styles.

The Bank has large interest rate risk and market risk associated with stockholdings on its balance sheet. Therefore, it has been trying to maximize the overall profits by managing interest rates in JPY & non-JPY and equity both domestic and overseas flexibly in a balanced manner. On the other hand, the Trust Bank has a different balance sheet structure due to the transfer of corporate loans to the Bank. Therefore, it has adopted an operating style that records treasury profits in a stable manner through globally diversified investment portfolio of credit, rates, and equity.

By leveraging the know-how accumulated by each company as a strength and adopting different operating styles, MUFG's overall performance can be stabilized. Therefore, we intend to firmly maintain this operating style.

Q : When U.S. dollar interest rates rise, treasury profits tend to decline. Please tell us how you will maintain treasury profit when U.S. dollar interest rates rise.

A : Our assumption for the time being is that short-term interest rates will stay low and long-term interest rates will rise. In such cases, while a certain amount of net interest income can be earned, an attention must be paid to changes in unrealized gains & losses due to changes in interest rates. Accordingly, unrealized gains & losses are controlled through hedging operations, etc. In addition, we will contribute to MUFG profits by leveraging the effects of diversified investment of MUFG as a whole.

On the other hand, when short-term interest rates rise, it is necessary to adjust the balance by reducing rates products and increase equity products. When stock prices decline, we will consider reducing overall treasury positions and invest in other asset classes, thereby changing the composition of the total portfolio balance.

Q : Please tell us your view on the timing of the U.S. dollar short-term interest rate to rise.

A : The rising pace and extent of the U.S. dollar short-term interest rate will be influenced by economic data to be published, etc., but at this point, it is expected to increase from 2023.

Q : Although there is a possibility that the credit market will fluctuate in the short term, do

you plan to increase the amount of credit investment in the new investment business?

A : We are considering long-term investment in the new investment business. The investment balance is estimated to be about ¥1 trillion in fiscal 2023, but the amount of ¥1 trillion is just a checkpoint. Although there are changes in the volume depending on the phase of the market, we will steadily increase the amount of investment while diversifying the timing of investment. The investment assets include CLOs and private equity, etc., but the aim is to achieve long-term stable profits by investing asset classes with different risk characteristics and by diversifying the duration and price. In addition, a risk management framework different from existing one has been established for the new investment business.

Q : Please tell us about your specific plan for ESG investing as part of your efforts in the sustainability field.

A : Before engaging in new investment business, both the Bank and the Trust Bank have been engaged in sustainable investing on a trial basis. In the future, however, we will enhance sustainability efforts by absorbing know-how through engagement with investment management companies. Although it is possible to consider sustainable investing in the treasury operations of the Bank and the Trust Bank as long as the risk-return is acceptable, we assume that sustainable investing will be centered on new investment business.

Q : Please tell us the risk management framework for the new investment business and the target for sustainable investing if any.

A : At the Bank and the Trust Bank, risks have been managed on the basis of Value-at-Risk (VaR), which is a statistical measure of market risk. In the case of new investment business, however, we have established a risk management framework that conservatively measures losses under stress conditions.

At present, no concrete targets have been set for sustainable investing. In the future, we will set the target, with considering engagement activities and the balance between risk-return and social responsibility.

Q : The treasury's ROE target is 7%, but I think it should be higher.

A : Unlike other business groups, Global Markets Business Group measures ROE using economic capital rather than regulatory capital as the denominator. Since regulatory capital requirement is not imposed on government bonds, and cannot properly evaluate ROE, Global Markets Business Group converts the amount of risk to economic capital and then calculates ROE.

The main reason for the low ROE of 5% in fiscal 2020 is that economic capital, the

denominator of ROE calculation, increased due to the increase in market volatility and the decrease in the correlation among assets amid the COVID-19 pandemic at the end of fiscal 2019. In fiscal 2023, the ROE is expected to increase because the effects of the said market fluctuations will not be considered in the observation period, which will reduce the amount of risk. The ROE is also expected to rise because of a decrease in economic capital through an upgrade in risk measurement method, etc.

Q : With regard to new investment business, how do you think about the fact that the Bank that holds customer deposits engages in riskier proprietary investments, although you need to pursue profit?

A : We discussed the new investment business with considering that the traditional banking business model, in which deposits are held and loans are made, is facing challenges as a starting point. As the excess of deposits over loans was further expanded due to the COVID-19 pandemic, we decided to start the new investment business to make effective use of this. In order to protect the deposits, it is necessary to operate conservatively and stably from a long-term perspective. Therefore, a framework suitable for this purpose has been established. At the same time, we are striving to fulfill both social responsibility and investment return since we should be fully aware of social responsibility as a long-term investment.

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

Q : Please tell us about your in-organic strategy and its amount in the current MTBP.

A : There are no projects currently under consideration, but there is a possibility that a bolt-on type M&A would be conducted in the asset class where growth is expected in the future. In Asset Management (AM) business, one of the criteria of investing is to be a field where we currently do not provide products or services. In the Investor Services (IS) business, it will be the area where we can create synergy through cross-sell. The amount is estimated to be several tens of billion yen.

Q : Please tell us what risk factors exist and how you will address them when expanding your business in the global AM/IS business, while you aim to achieve net operating profits of ¥100.0 billion in fiscal 2023.

A : Both global AM and IS businesses have a profit structure where management fee ratio is multiplied by assets under management (AuM) or assets under administration (AuA) respectively, and a decrease in AuM and AuA due to a decrease in market value and a net outflow of funds is a risk factor. In addition, the AM business has a risk of poor

performance and key person risk. Performance is monitored for each investment period, and counter measures are taken as necessary. To manage key person risk, domestically, we have introduced a unique compensation plan to increase the incentives for fund managers in the Trust Bank. FSI has established its own compensation system, and key persons have not left their jobs before or after the acquisition.

In the IS business, the assumed risk is that the fund will be closed or redeemed, or the existing fund being transferred to a competitor. However, although there are limitations to our measures to be taken about closing or redeeming of a fund, we believe that as long as we steadily respond to customer needs, we can gain trust and prevent the fund from being transferred to a competitor. We intend to focus on providing high-quality services that will be appreciated by customers, as gaining trust will also lead to the next opportunity.

Q : In the global AM business, I recognize that you will aim to be ranked 15<sup>th</sup> on AuM basis. Could you tell us about your future strategies and time horizon?

A : In the previous MTBP, we acquired FSI with the goal of reaching ¥100 trillion in AuM. At present, we are revising our strategy from simple AuM expansion to focus on winning customer satisfaction. We believe that winning customer satisfaction will result in an increase in AuM.

Q : What happens when participating in the Net Zero Asset Managers Initiative?

A : Participation in the Net Zero Asset Managers Initiative is currently under discussion and we will decide to participate soon. When participating, it is necessary to achieve net zero GHG emissions by 2050 and, as an intermediate goal, to establish concrete targets and initiatives for 2030. We believe it is more important to know what we can do through engagement with investee companies than whether we have participated or not, and we will work toward the goal of net zero with this awareness.

Q : FSI's financial results for fiscal 2019 are disclosed as 6 month results in accordance with the change in fiscal year. However, if we simply double them and compare them to the results for fiscal 2020, it seems that both net operating profits and net profits decreased significantly. Has PMI progressed in line with initial expectations even though the post-acquisition profits decline?

A : The financial plans and PMI of FSI are progressing as planned. Customer demands for Asian stocks and emerging markets stocks are high. In addition, demand for infrastructure equity products in FSI is especially high recently. The performance fees for infrastructure products have also contributed significantly to our earnings. The performance fees do not necessarily increase each year but occur when a certain threshold



is exceeded when selling assets of the portfolio towards redemption of the fund. Therefore, it is necessary to evaluate the total performance during that certain period, and we believe we can expect the growth of the performance fee going forward. At present, FSI's AuM is steadily increasing through cash inflows from customers, and overall progress has been made smoothly, including its PMI.

Q :Please tell us your share and ranking compared to competitors in the global IS business. Also, please tell us about the strengths of high value-added services of the MUFG-IS brand.

A :We rank sixth in the world in terms of AuA for alternative funds, but the top three hold a large share. Our strength lies in our ability to provide high-value-added services, such as fund finance, security lending, and fund FX, as the fund administration companies under the Trust Bank. In addition, we respond to the high expectations of domestic customers that have high demands for foreign investment trusts, by providing services integrally with the Master Trust Bank of Japan. We are also highly regarded for our operational service quality that overwhelms competitors.

Q :Please tell us about your cooperation with the Morgan Stanley Group in AM/IS.

A :In AM business, we provide Morgan Stanley Investment Management's products to our customers and they have been very successful. In addition, Morgan Stanley's acquisition of Eaton Vance, which has strengths in fixed income products, will give us more opportunities to offer these products to our customers.

Q :What are the roles of AM/IS in institutional investor business? Also, please tell us about the case of cross-sell in AM/IS.

A :The institutional investor business was one of the important initiatives in the previous MTBP. The aim was to dramatically improve the quality of MUFG's services by providing one-stop services and products. For example, MUFG provided not only derivatives and DCM products by Global Markets Business Group, but also custody functions and repo transactions from AM/IS. As an example of cross-sell within AM/IS, as I mentioned earlier, we provide one-stop value-added products, such as fund finance, security lending, and fund FX, based on fund administration, and have earned a high reputation among customers.

END