MUFG Investors Day 2022

Main Q&A

Digital Service Business Group (DS)

Q : Do you currently have any plans for a thorough review and shifting of the business portfolio in order to improve ROE?

A : Looking at our business portfolio over the time frame of the next several years, we have no intention to enact any large shifts.

For fiscal 2022, our plans call for consolidating our largest number of domestic branches ever in a single-year. This will yield cost reductions in fiscal 2022 and fiscal 2023 that are far in excess of those achieved in fiscal 2021. Giving due consideration to the demands of the public, we will strive to maintain the convenience of both physical and online channels. At the same time, we will aim to effect a gradual shift in our business portfolio.

Q : DS is also tasked with spearheading digital transformation (DX) across the board. Please describe DX-related achievements accomplished and progress made by the business group since its establishment.

A : In conjunction with the launch of the current Medium-Term Business Plan (MTBP), MUFG Group's overall functions for promoting group-wide DX were delegated to DS, which had been previously managed by the corporate center. This business group is also charged with responsibility for both the optimization of the domestic branch networks and the rationalization and streamlining of physical channels, and consolidating the aforementioned functions to this business group has enabled us to reposition DX as a central component of business strategies for both physical and online channels.

DS has also been assisting other business groups in their pursuit of DX. Thanks to this assistance, these business groups have come to autonomously incorporate DX into their own business strategies. For example, the Retail & Commercial Banking Business Group (R&C) is currently developing a wealth management (WM) digital platform and a digital-driven business platform for corporate customers, while the Global Commercial Banking Business Group (GCB) is striving to help partner banks promote DX. This also includes two new initiatives to support startups, Mars Growth Capital and MUFG Ganesha Fund, led by the Global Commercial & Investment Banking Business Group (GCIB).

Q : Please elaborate on the composition of Mitsubishi UFJ Direct service users. Are the majority of new users accounted for by existing MUFG customers or are they mostly new customers? Also, please name the positive effects arising from the increase in Direct users.

A : Year by year, customers who had no previous transactions with MUFG have come to account for a growing proportion of new Direct users, since many existing customers have been shifting to Direct thanks to various campaigns we have been undertaking to date. Moreover, in step with growth in the number of Direct users, the volume of online transactions is expanding while the frequency of ATM use had been declining. All these trends are serving as a tailwind to the consolidation of domestic branches as well as a reduction in the number of ATMs in Japan.

Q : At MUFG, the positions of Chief Digital Transformation Officer (CDTO) and Chief Information Officer (CIO) are assigned to separate individuals. Please describe the benefits and risks arising from the separation of these two posts.

A : CDTO is well-positioned to stay up to the minute on the status of frontline operations as CDTO spearheads DX-driven rationalization and the streamlining of business processes. This is a tangible benefit arising from its positioning. On the other hand, the separation of the two posts does risk hindering the optimal allocation of resources, especially when coordination between the CDTO and CIO is disrupted. However, we strive to ensure that the CDTO works in constant collaboration with the CIO to prevent this risk.

Q : Mitsubishi UFJ NICOS is currently facing issues such as a decline in market share and a high expense ratio. Please share your thoughts regarding this situation.

A : We are keenly aware of these problems. NICOS is currently implementing a massive system integration project. While this project is proceeding steadily on track, NICOS also needs to undertake investment to raise its competitiveness. Accordingly, we intend to enhance this subsidiary’s overall business structure. Moreover, we will be promoting payment business strategies for MUFG as a whole, including strategies for operations other than NICOS. This will also include system-related investments.

Q : As part of the review of fiscal 2021 operating results, the presentation material states that MUFG is “only halfway through the diversification of profit sources from the mass business.” Could you detail specific issues you are confronting in this area?

A : Income from residential mortgage loans, consumer financing and credit cards accounts for a large proportion of DS’s profits. Thus, we consider DS’s dependence on these existing businesses to be an issue. For DS to build a profit structure that is resilient against changes in the business environment, diversifying profit sources is essential. However, new businesses may not necessarily get on a profitable track within the first couple of years of launch. Therefore, we deem it important to constantly nurture new business seeds with an eye to fiscal 2023 and beyond through the next MTBP period.

Q : Currently, the Bank maintains a mutual agreement with Sumitomo Mitsui Banking Corporation (SMBC) wherein the two banks allow each other's account holders to use their off-branch ATMs. Are there positive effects arising from this arrangement? Also, do you intend to initiate similar agreements with other financial institutions?

A : We are gradually reducing the number of ATMs even as we give due consideration to customer convenience and engage in discussions with SMBC. Thus far these efforts are yielding cost reduction effects. However, arrangements of this kind sometimes entail issues arising from differences in ATM specifications. Nevertheless, we will consider signing mutual agreements with other partners when opportunities arise.

Q : While MUFG set a consolidated ROE target of 7.5% for fiscal 2023, DS's ROE target for said fiscal year amounts to only 4.5%. What are your future plans for improving the ROE of this business group?

A : During the period of the current MTBP, we intend to improve ROE by employing cost reductions as a driver. Given DS's current level of net profits, we need to achieve annual profit growth of ¥10.0 billion or more. Taking tax expenses into account, we need to secure an even greater increase in net operating profits. Although we will continue to optimize our networks under the next MTBP, we will also focus on raising net operating profits by placing emphasis on enhancing gross profits. In this way, we aim to raise our business group ROE to a level closer to the consolidated ROE.

Q : Please share your views on the current size of the pool of human resources specializing in DX. Do you consider it sufficient? Or do you think you need to further increase the number of specialists?

A : Our plan is to allocate DX-core human resources to all of MUFG's mainstay operational lines to facilitate autonomous DX efforts. In this light, the number of DX specialists is not sufficient. We think we need their number to increase around twofold. We are currently discussing tangible measures to be undertaken to that end.

Retail & Commercial Banking Business Group (R&C)

Q : Please describe the time frame for achieving an ROE of 7.5%, the consolidated ROE target for fiscal 2023.

A : In fiscal 2021, we raised our business group ROE from 2% to 4%. Throughout the course of the current MTBP, we will strive to raise gross profits by ¥60.0 billion as well as to curb expenses by ¥15.0 billion, with the aim of realizing the combined profit effect of ¥75.0 billion and thus achieving a ¥60.0 billion increase in net profits. This is how we aim to raise business group ROE to 5%.

To this end, in fiscal 2022 we will increase gross profits by around ¥20.0 billion. At the same time, in the same fiscal year we anticipate that expenses will decrease by about ¥20.0 billion via, for example, the downward revision of deposit insurance premiums along with a decrease in system-related depreciation costs reflecting the impairment of fixed assets. Our plans thus call for achieving an increase of around ¥40.0 billion in annual net operating profits. As we have already recorded a ¥35.0 billion increase in profits in fiscal 2021, we forecast that the projected increase in profits via our fiscal 2022 endeavors will bring the total volume of profit growth to around ¥75.0 billion. Depending on the volume of total credit costs, we might be able to achieve our ROE target of 5% a year ahead of fiscal 2023, the target year. Should this scenario come into play, it will still be possible for us to achieve our consolidated ROE target even before the next MTBP period is halfway through.

Q : Within the portfolio of risk-weighted assets (RWAs), which totals ¥17 trillion, some RWAs are considered incompatible with the WM business and, therefore, cannot be utilized to generate synergies with this business. Could you explain the approximate volume of such RWAs?

A : We currently have a total of 200,000 corporate clients. Of this number, approximately 2,500 are listed companies, with the remainder comprising unlisted companies, including approximately 60,000 SMEs. Our RWA portfolio of ¥17 trillion is mostly accounted for by lending extended to SMEs. On the other hand, the overall capital value of these and other borrowers amounts to ¥150 trillion. This figure is reliable because, through lending transactions with these clients, we are able to calculate the value of their net assets based on the accurate assessment of their balance sheets. Considering the potential value of our RWA-related clients, we are able to leverage our RWA portfolio in a way that differs from that used for conventional corporate transactions. This better positions us to promote corporate banking and WM solutions in an integrated manner. Accordingly, we believe that all the RWAs can be utilized in the WM business.

Q : Please describe how you came to the conclusion that there is room for expansion in capital-related businesses targeting corporate clients. Furthermore, please discuss the factors contributing to the robust performance of the real estate-related business, which starts with addressing inheritance needs, along with your future outlook for this business.

A : Our capital-related businesses include the provision of solutions for business and asset succession as well as leveraged buyout (LBO) starting with addressing business succession needs. The value of businesses and assets handled in the course of our succession-related services increased from ¥1.2 trillion in fiscal 2020 to ¥1.7 trillion in fiscal 2021. This includes lending transactions that started with addressing succession needs, which typically have higher profit margin compared with other lending in general. By replacing our lending portfolio with these high-profitability lending transactions, we raised the overall profit margin by approximately 4 basis points year on year in fiscal 2021.

In addition, while the value of businesses and assets handled through our succession-related services increased ¥500.0 billion in fiscal 2021, the overall capital value of our clients amounts to ¥150 trillion. This consists only of the value of their treasury stock. Therefore, if the value of their peripheral assets were to be included, the overall value of our clients would be even greater. With this in mind, we aim to robustly reach out to our clients to help them fully realize their potential value. We believe that, once we succeed in these efforts, R&C will not only be able to catch up with the consolidated ROE but also one day emerge as a driver for the entire Group in terms of ROE growth.

Currently, the number of individuals tasked with sales activities employing the WM digital platform (WMPF) is 10,000. Of these, approximately 2,500 are relationship managers (RMs) in charge of corporate clients. The introduction of the WMPF helped us increase the sophistication of our proposals regarding the succession of treasury stock and other undertakings. Because of this, we now believe that we may well be able to expand the scope of businesses in this area. With regard to the real estate-related business, the number of cases of effective information sharing resulting in potential WM deals has grown from approximately 8,000 in fiscal 2020 to approximately 14,000 in fiscal 2021. This is primarily due to the positive effect of the reorganization of informational coordination process, with staff at the Bank serving as RMs and staff at the real estate-related divisions of the Trust Bank serving as product offices (POs).

In addition, we have been entrusted with approximately 40,000 testament trusts. The number of such trusts is growing as we provide real estate-related solutions that start with addressing inheritance needs. Furthermore, we have made it possible for RMs and POs at the Bank, the Trust Bank and the Securities to utilize the WMPF. Thus, we are now capable of delivering comprehensive solutions backed by seamless informational coordination between the Bank, the Trust Bank and the Securities for every customer that agrees to use the WMPF. We are confident that the scope of capital-related businesses will expand.

Q : Could you name essential skills required of individuals charged with sales at R&C? Please also exemplify specific measures you aim to implement to ensure that these individuals are equipped with such skills.

A : While we have introduced the WMPF to upgrade our digital-based infrastructure, we also consider reinforcing our human capital a matter of importance. Accordingly, we are striving to expand the number of employees subject to job rotation among the Bank, the Trust Bank and the Securities. By doing so, we are enabling staff at the Bank to acquire asset management skills through secondment to the Securities or obtain real estate-related expertise through secondment to the Trust Bank. Also, we have standardized the proposal skills required of sales staff in conjunction with the introduction of the WMPF.

At the same time, we are endeavoring to diversify our human resources by stepping up the recruitment of mid-career hires and earmarking a certain number of new graduates for WM-related assignments. In the WM field, we have also introduced a system mandating that the same sales staff serve the same customers over the long term. Moreover, we have developed diversified wage systems aligned with our goal of nurturing professionals.

Q : Although R&C's fiscal 2022 plan calls for a ¥40.0 billion increase in net operating profits, could you please specify the expected volume of profit growth, excluding the effects of the downward revision of deposit insurance premiums and a decrease in system-related depreciation costs?

A : We expect the downward revision of deposit insurance premiums and the decrease in system-related depreciation costs to result in an approximately ¥15.0 billion reduction in expenses. Moreover, we will be able to further decrease expenses by around ¥5.0 billion through the consolidation of branches as well as reductions in in personnel and other expenses. Thus, the overall volume of cost reductions will amount to ¥20.0 billion. As we have seen ongoing improvement in fundamental indicators such as the spreads of loans and non-JPY deposits, we intend to secure the remaining ¥20.0 billion in the projected increase in profits by expanding gross profits.

In the asset management field, although the current weakness of stock market conditions is making the business environment harsh, our real estate- and capital-related businesses are not susceptible to market fluctuations. Therefore, we are convinced that the performance of these operations will offset external negative factors.

Our initial plan was aimed at achieving an increase of ¥75.0 billion in net operating profits over the three-year course of the MTBP. However, we are now intending to achieve an increase of around ¥100.0 billion in the same time frame. We may have to record a certain level of credit costs from fiscal 2022 through fiscal 2023, but we will nevertheless strive to achieve a business group ROE of 5% in fiscal 2022, ahead of schedule. After that, we will focus on securing robust growth in net operating profits in fiscal 2023. In these ways, we will strive to accomplish an ROE of 7.5% in the first half of the next MTBP period.

Japanese Corporate & Investment Banking Business Group (JCIB)

Q :JCIB's approach to the co-creation of value seems quite interesting. However, MUFG itself is facing the problem of low PBR. If MUFG considers its market capitalization to underrepresent its fundamental corporate value, what does it intend to do to remedy the situation?

A : A holistic assessment of our current situation makes clear that the root cause of our low PBR, falling short of 1.0 times, is none other than MUFG not sufficiently monetizing its extensive transactional base. For example, some of our corporate clients operating in the materials sector are struggling to increase their market value despite their outstanding track records in stably supplying essential goods to society. With this in mind, we deem it important to help our clients and other stakeholders gain a more accurate understanding of the initiatives undertaken by each Group company while publicly announcing our tangible actions vis-à-vis changes in society. Also, MUFG itself needs to step up its initiatives to enhance its market value. We are therefore determined to extend steadfast support to corporate clients facing issues that are the same or similar to our own.

Q : Other banks seem to be similarly focused on strengthening real estate brokerage and capital financing. Could you name MUFG's unique strengths in these fields?

A : For us to realize "staircase management" in fiscal 2023, improving deposit and lending spreads, as well as steadily divesting our equity holdings, is a matter of the foremost importance. With regard to collaboration among Group companies, one of the sources of MUFG's strength, each business group has so far been able to secure solid footing in their respective sectors. That being said, it is important to raise our ability to seamlessly deliver solutions. With this in mind, we are implementing a variety of measures, among them, the establishment of the Wholesale Coverage Division.

Q : MUFG has upwardly revised its target for the divestment of equity holdings. Please share the background of this revision. Also, do you intend to further accelerate the pace of divestment going forward?

A : We have seen changes in the perception of equity holdings among each of the stakeholder groups. When I assumed the position of Group Head of JCIB, I instructed all corporate banking group heads to undertake an overall review of equity holdings. At the same time, it was determined that MUFG would no longer keep any equity holdings that require the forfeiture of voting rights in exchange for business transactions. Due in part to a social trend in favor of this stance, we were able to make major progress in divestment efforts in fiscal 2021. We will consider the further acceleration of the divestment of equity holdings in fiscal 2022. On the other hand, we are aware that some corporate clients are still expecting us to maintain their equity shares. For these clients, we intend to first engage them in thorough dialogue and then provide them with our suggestions as a shareholder. Moreover, we may consider business or capital alliances with such clients through our equity holdings as we work in tandem with them to address social issues.

Q : Please elaborate on the positioning of the Wholesale Coverage Division. Is the establishment of this division intended to secure the Group's preparedness for the upcoming Firewall Regulations? Also, are you currently recruiting mid-career hires for this division?

A : The purpose of the establishment of this division is to better position the Bank, the Trust Bank and the Securities to deliver seamless solutions for issues customers are confronting. For example, there have been some instances in which customer issues identified by the Trust Bank via its shareholder relations (SR) activities were resolved with the application of solutions from the Bank and the Securities. We also intend to recruit mid-career hires so that we may leverage insights offered by individuals who have diverse experience in sectors outside the finance industry. We will thus combine these new inputs with MUFG's financial expertise and inherent capabilities to measure the genuine value of businesses.

Q : JCIB's net operating profits in fiscal 2021 are quite close to its fiscal 2023 target of ¥285.0 billion. Given this, please share your outlook on profits. Could you also specify the growth drivers you have in mind for achieving a business group ROE target of 9% in fiscal 2023?

A : We are striving to improve the spreads even as we maintain the volume of non-JPY deposits. We have positioned this endeavor as a profit driver that will, in turn, enable us to achieve our net operating profit target for fiscal 2023. We also consider our business group ROE target of 9% to be achievable, provided that we earn net operating profits of around ¥320.0 billion to ¥330.0 billion while keeping the volume of RWAs at approximately ¥32 trillion.

Q : Please explain the status of the upgraded employee performance evaluation system and the new policy of focusing on improving profitability by corporate group. Do you think you have secured a sufficiently robust employee understanding of the above system and policy?

A : Both the system and policy have been steadily embraced by employees at corporate banking divisions. Each division has now made it a rule to take capital cost into account in the course of evaluating employee performance. This, in turn, helps raise employee awareness of ROE, thus resulting in changes in the daily mode of employee behavior. Currently, all employees involved in these operations are steadfastly working to improve spreads to enhance profitability while maintaining thorough control on RWAs, which represent our valuable assets. For clients whose RORA is deemed insufficient, we communicate our policy of placing the utmost priority on helping them improve RORA. This includes our willingness to reduce the lending amount via repayment should it be instrumental to RORA improvement. In these ways, we are working to steadily improve the profitability of our portfolio.

Q : The recent divestment of equity holdings has resulted in a reduction in the RWA volume, freeing up some financing resources for MUFG. Could you describe areas to which you intend to allocate such resources? Should MUFG reallocate resources to high-profitability assets, can we expect the Group to achieve further improvement in profitability?

A : Resources freed up via the reduction of RWAs will be reallocated to areas deemed optimal based on a holistic view of MUFG's overall operations. We will also reallocate RWAs to support initiatives to resolve issues requiring a cross-sector approach. Through these reallocations, we will enhance our ability to responsibly fulfill our funding brokerage functions and thereby contribute to the resolution of social issues. For example, it was revealed via a certain government-led survey that each industry will need to invest several tens of trillions of yen to support an across-the-board transition toward a carbon-neutral society. Given this, the power, gas and other sectors will be in need of large amounts of funds to promote transition during the period leading up to 2030 and to 2050. We are striving to properly manage RWAs now so that we are fully prepared when these funding needs emerge. On the other hand, even if we were to extend funds to clients to meet their needs for transition financing, we would still need to maintain a firm grip on RWAs while clearly communicating our profitability criteria to them.

Q : Please outline the impact on net operating profits of the depreciation of the yen.

A : Based on a provisional calculation, if the value of all our non-JPY assets is linked to the value of U.S. dollar, a ¥1 decline in the JPY value against U.S. dollar will result in a ¥6.0 billion increase in MUFG's consolidated net operating profits.

Global Commercial Banking Business Group (GCB)

Q : Please explain the likelihood of, and a profit driver that will support, the achievement of GCB's net operating profit target for fiscal 2023. Also, please share the roadmap toward achieving MUFG's consolidated ROE target of 7.5%.

A : When the impact of the sale of MUFG Union Bank (MUB) is excluded, GCB's net operating profits amounted to ¥184.7 billion in fiscal 2021, and its net operating profit target for fiscal 2023 is set at approximately ¥200.0 billion. Net profits were ¥40.0 billion in fiscal 2021. For fiscal 2023, we aim to secure net profits of ¥81.2 billion. Considering ROE, fiscal 2021 was slightly below 4%, but we are aiming for 7% for fiscal 2023. Included in this target are the annual costs for the amortization of intangible fixed assets, which amount to approximately ¥20.0 billion. If this factor is excluded, our ROE target would be 9% for fiscal 2023. In addition, in light of its interim financial results, Krungsri (KS) has so far been performing steadily. We believe that the steady implementation of measures under the current MTBP will greatly increase the likelihood of GCB achieving its net operating profit and ROE targets.

Q : Should the sale of MUB not be completed by end 2022 calendar year, what implications do you see in terms of MUFG's financial results and capital management?

A : We have completed preparation works for the MUB sale, currently waiting for regulatory approvals and believe the transaction to be closed in the second half of 2022. From a financial perspective, page 27 of the presentation material touches upon the unrealized losses stemming from ② held-to-maturity bonds, etc. and ③ loans that are reflected within the quarterly income statements. Such will be recouped as extraordinary gains upon closing therefore will not have an impact in terms of annual financial results. If the sale of MUB is not completed by end 2022, these extraordinary gains will be recorded in fiscal 2023. Regarding capital management, we will decide on what to do upon taking into account the circumstances around then.

Q : Do you maintain your view that the sale of MUB will be approved by end 2022?

A : After the Federal Reserve Board (FRB)'s Vice Chairman role has been vacant for some time, the candidate has been officially confirmed by the Senate, therefore we assume the process to gain traction. We would like to complete the transaction by end 2022.

Q : Regarding the sale of MUB, please explain the timing of tax effect to materialize. I assume such to happen upon completion of the sale. Is that correct?

A : Regarding ① available-for-sale securities on page 27 of the presentation material, tax effect is applied resulting from unrealized losses at MUB, however such will not be applied at MUFG Americas Holdings Corporation (MUAH). Because of this, there will be a gap in between unrealized losses to be recorded at MUAH and post-tax unrealized losses to be recorded at MUB. Upon completion of the sale, the variance will be recorded as extraordinary gains by both MUAH and MUFG.

Q : I would like to ask about the medium- to long-term business outlook for GCB. If the business group is focusing on developing commercial banking operations in Southeast Asia, shouldn't it be aiming for an even higher ROE target for fiscal 2023?

A : After the sale of MUB, we will focus on business development involving partner banks located in four countries of Southeast Asia. KS plays a central role in executing strategies aimed at achieving business growth through M&A in the Mekong region, and we will continue with these strategies. In the next MTBP, we will aim for a higher business group ROE so that GCB can contribute to the improvement of MUFG's consolidated ROE.

Q : Have actual collaboration deals materialized with the ¥80.0 billion investment in Grab?

A : We are working in tandem with Grab on our shared initial objective, which is to offer new financial services in Southeast Asia by utilizing data of Grab. The collaboration initiatives featured in the presentation material embody this objective, and we believe that we have been able to contribute to financial inclusion through their provision. In addition, one of the pervasive effects of this collaboration is our partnerships with Shopee and other digital players. We aim to enhance MUFG's presence in the digital field by accumulating these experiences in collaboration with other digital players.

Q : What are your strategies for the collaboration with Easy Buy, an ACOM subsidiary based in Thailand, in the context of the consumer finance business in Asia?

A : The Digital Service Business Group is in charge of supervising ACOM. The target customers of Easy Buy and KS differ, thus, operations are managed separately in MUFG. To increase MUFG's market share in the country, we will maintain open communications with both Easy Buy and KS through MUFG Bank.

Q : Please share your economic outlook for China and Asia for the next one to two years. In addition, please share your concerns, if any, about a possible increase in credit costs for specific client sectors along with tangible countermeasures against such increase.

A : In Indonesia, exports are faring well due to the increase in resource prices. For Thailand, we expect for domestic consumptions to expand, along with the recovery of the tourism industry. Although we need to pay attention to the impact the ongoing inflation will have on personal consumption, we do not anticipate the radical currency depreciation or steep rate hikes. Due to the above-mentioned reasons, we forecast no major economic deceleration toward 2023. However, for China, we must stay vigilant against the impact of lockdowns on supply chains. Owing to the leeway in allowance, which was recorded in fiscal 2021, we have so far been able to maintain a firm grip on credit costs.

Q : Could you elaborate on your inorganic strategies? Especially, given the current situation where MUFG has some capital surplus, how will you maintain your investment disciplines?

A : We have positioned the Asia business as a key strategy under the MTBP, and we will pursue more opportunities in this area for our growth. When it comes to making investment decisions, we are closely and carefully assessing each deals, for example, comparing possible returns with the effect of share repurchases, estimating ROI, RORA and other investment return indicators, and determining expected synergetic effects we would enjoy over the medium to long term. This is how we maintain discipline in investments. As announced earlier, KS has decided to acquire a Thailand-based subsidiary of Nomura Securities Co., Ltd. This is aimed to seize growth opportunities arising from the growing Thailand securities market. Moreover, the acquiree ranks second in Thailand in terms of online marketing on investment trusts. We have thus concluded that the firm's strength in this field will supplement the capabilities of KS' securities subsidiary. We also expect the acquiree to be capable of substantially collaborating with KS' retail banking divisions. Looking ahead, we will aim to build up our portfolio through similar acquisition deals.

Global Corporate & Investment Banking Business Group (GCIB)

Q : GCIB has recorded profits while robustly controlling RWAs. Do you believe the business group can maintain this trend going forward? In addition, could you name key drivers supporting the improvement of GCIB's profitability?

A : During fiscal 2021, we have reduced low-profitability assets approximately ¥1.6 trillion (on an RWA basis) by strengthening portfolio management based on quad analysis. There still remains room for improving profitability and we will continue to enhance disciplined deal screening.
One of the key drivers for improving profitability is O&D/OtoD business and we have promoted talent development both in the 1st and 2nd line to enhance debt underwriting capability. Another one is secured finance for institutional investors. Providing diverse financial solutions capturing their financial needs, the balance of secured finance portfolio increased by approximately ¥1 trillion in fiscal 2021, which, in turn, has contributed to the improvement of profitability.

Q : Please share your analysis of factors behind the major differences between MUFG and its peers in Western countries in terms of profitability.

A : Unlike peers in Western countries, MUFG do not engage in ECM and M&A advisory services by our own, but leverage Morgan Stanley's strong capability in these areas. Under our estimation, when we take into account the portion of equity in earnings attributable to these business areas, that makes a certain positive impact on GCIB's ROE. Another difference is RWA measurement methods. We have applied the RWA calculated by the finalized Basel III reforms basis from this MTBP, and this revision has negatively affected GCIB's ROE. However, we are not satisfied with the current level of ROE in any case. Therefore, we will continue to maintain disciplined RWA control while accumulating higher return assets, promoting O&D/OtoD business and developing strategic relationships with institutional investors. With these, we aim to raise our ROE to a level closer to that of our peers in Western countries.

Q : Isn't there a possibility of decline in profitability due to a rise in non-JPY funding costs or the fierce competition among domestic banks?

A : Since the previous MTBP period, we have acquired deposits focusing mainly on profitability while we recognize the competition in acquiring deposits are being intensified due to the rapid changing market. In the past, we saw deterioration in profitability by overweighting quantitative growth over quality. To avoid such experience, we are enhancing our ALM framework collaborating with relevant divisions within MUFG. We will remain focused on pursuing the best balance between quality and quantity.

Q : Have the interest rate hikes made the business environment more favorable to promote lending business?

A : In terms of the bond market, the market wallet are currently decreasing both in the investment grade (IG) and non-investment grade (NIG) markets on a year-on-year basis. On the other hand, there are strong pipelines in the loan market such as project finance, aviation finance and so on. We see sluggish demand of the bond market will continue for a while. However, we aim to improve our profitability by accumulating higher-return lending assets and enhance asset velocity for longer tenor loans.

Q : GCIB's net operating profits and ROE could be positively affected by the depreciation of the yen and hikes in interest rates, neither of which were predicted at the time of the MTBP's formulation. When these factors are taken into account, to what extent do you think GCIB's net operating profit and ROE targets can be revised upwardly?

A : In fiscal 2021, we have achieved 7% of ROE target for the final year of the current MTBP, while we have to consider this was partly due to the reversal of credit costs. However, we believe that 7% is not sufficient, but just a stepping-stone for further return improvement. We will achieve over 7% at the end of the current MTBP and aim to reach double-digit ROE in the next MTBP. To this end, we will continue to maximize net operating profits by increasing higher return assets while controlling credit costs and RWA.

Q : Could you name specific portfolio management initiatives now under way based on the quad analysis illustrated in page 32 of the presentation material?

A : To improve the average ROE, it is important to reduce low-profitability assets classified in the C or D categories. To that end, we are strengthening disciplined deal screening process by raising our profitability hurdle continuously. On the other hand, some clients classified as C or D are expected to generate profit opportunities in the near future. To rationalize such opportunity cost, we are developing monitoring framework and reviewing each deal constantly with each regional business head. Through these efforts, we try to improve our portfolio return.

Q : Do you currently see your hiring activities in countries abroad being affected by the trend toward higher wages? If this is the case, how will you manage it?

A : There is no significant issue in retaining talent in our focus area such as institutional investors business, project finance, aviation finance etc. We have been able to manage sufficient human resources by increasing compensation based on their performance. Personnel expenses have been online with the plan. Through collaboration with relevant divisions, we have been able to reduce indirect expenses. This, in turn, has resulted in a decrease in our overall expenses in fiscal 2021.

Q : Please elaborate on secured financing. Could you name asset classes in which GCIB is currently strong or expects to achieve growth going forward? Also, please describe the risk management structure GCIB has in place for this type of financing.

A : One good example of our strength is providing subscription facility which is a financing product to various funds collateralized by capital commitment by investors. Having started providing this in the United States, we have gradually secured a market leader position rather than being a participating bank. Leveraging this position, we have rolled out this in EMEA and APAC while enhancing our product lineup.

The integrated management of GCIB and the Global Markets Business Group is key to ensuring risk management. We continue to enhance our deal screening framework leveraging expertise of Global Markets as well as second line risk partners. For example, considering current stock price volatility, we are cautiously monitoring equity margin lending together with the relevant divisions.

We intend to strengthen our position on sponsor-led real estate financing going forward and we continue to engage in discussions with the second line.

Q : Please describe strengths of Mars Growth Capital (Mars) as well as your medium- to long-term outlook for this firm.

A : Mars has contacted over 1,000 companies and 22 deals are closed at this point. To scale up the fund more, we would like to invite LP investors outside MUFG going forward. Through the next MTBP period, we aim to develop Mars into a profit contributor capable of generating several billions of yen on a net profit basis. In addition, we are focusing on enhancing both the accuracy and versatility of its AI model and consider utilizing its model in other business areas.

Q : Do you see any risk of growth in credit costs given the looming sense of anxiety regarding a possible global economic recession?

A : Currently, we do not expect credit costs to increase significantly. Leveraging our credit portfolio management (CPM) functions, we are hedging against risks attributable to a portion of our portfolio and otherwise practicing proactive credit cost management.

Global Markets Business Group

Q : The Global Markets Business Group (Global Market)'s net operating profit target for the final year of the MTBP is set at ¥370.0 billion. Could you name the drivers supporting profit growth toward the achievement of this target? Also, please share your thoughts on the likelihood of this target being achieved.

A : We have set ourselves no easy target for fiscal 2023 net operating profits. Nevertheless, we think that it is fully achievable. Regarding treasury business, we have adjusted our approach to deal with high volatility on the back of a structural shift in market conditions in order to raise the total yield, including profit from capital gains, over the course of holding period. As for sales & trading (S&T) business, our approach is to similarly seize opportunities arising from highly volatile market conditions while accurately accommodating customer needs to secure profit.

Q : With regard to the "new investment business," does Global Markets give consideration to correlation with the existing portfolio? Moreover, why have you not launched such business to date?

A : We, of course, duly consider how any new investment business correlates to the existing portfolio. We are building up our portfolio and expect it to grow to around ¥800.0 billion by the end of this fiscal year.

Previously, we prioritized securing quantitative growth in profit and the expansion of our portfolio through holdings of government bonds and other high-liquidity products because for a long time this investment approach proved efficient and suited to the prevailing market environment. That is why the new investment business had not until now been given high priority.

Q : Please share your outlook regarding the possible revision of Bank of Japan (BOJ)'s monetary policies.

A : Our outlook regarding the revision of BOJ monetary policies coincides with the mainstream scenario accepted by the market. We expect that the likelihood of major revisions will remain low during the term of Governor Kuroda. That being said, if the consumer price index (CPI) exceeds 3% due to such developments as a more rapid depreciation of the yen and/or deficit in Japan's current account, it is likely that monetary policies could be revised or adjusted, even if the increase in CPI is deemed unhealthy and is not accompanied by wage hikes.

Q : We would like to hear from you about the utilization of held-to-maturity bonds. Have these bonds been reclassified from your existing holdings of available-for-sale securities?

A : Under the Japanese GAAP, available-for-sale securities cannot simply be reclassified to held-to-maturity bonds. When adding new instruments to held-to-maturity accounts, we carry out sales/purchasing operations, that is, first we sell existing available-for-sale bonds, realizing gains or losses, and then acquire new bonds in held-to-maturity account.

Q : Please explain your approach to treasury operations aimed at countering hikes in U.S. interest rates.

A : We maintain quantitatively large positions on products and hedging tools designed to achieve higher value when interest rates rise (or market conditions deteriorate) and thus enable us to secure profit. Whenever we see interest rates rising or market conditions declining, we unwind these positions in order to realize gains. After doing so, we may repurchase these hedging instruments to restore our position to its original state. This is an ongoing cycle.

We also sell and replace bonds with unrealized losses to offset the realized losses with the realized gains. Furthermore, we have utilized our held-to-maturity account for bonds, undertaking reinvestments in bonds with higher yield. Through these endeavors, we insulate our portfolio from the impact of market fluctuations and resulting changes in unrealized gains and losses. This, in turn, enabled us to push ahead with the restructuring of our non-JPY portfolio to secure higher net interest income.

Since the end of March 2022, U.S. interest rates have remained on a rising track, causing unrealized losses on foreign bonds to deteriorate. However, we have flexibly carried out operations as explained above to keep the expansion in unrealized losses on foreign bonds below a certain level. Furthermore, we have been able to secure a robust volume of realized gains, including gains on the cancellation of bear-type funds, in excess of realized losses on sales of foreign bonds. In sum, losses arising from bonds with unrealized losses have been more than offset. Thus, we have steadily maintained the overall profitability of our portfolio of available-for-sale securities, including equity securities, via tight control on unrealized gains and losses on these instruments.

Q : MUFG Group includes au Kabucom Securities under its umbrella. Could you share your outlook for the online brokerage business?

A : Although Global Markets is not charged with managing the online brokerage firm, the digitalization of transactions has been progressing not only in the field of retail business but also the wholesale business field. We also believe that the further strengthening of a tech-driven platform supporting S&T operations is of similarly particular importance. Accordingly, we aim to strengthen our digital capabilities to update our mode of operations in both business fields.

Q : USD funding costs are rising. How seriously do you rate this trend?

A : The previous market environment was characterized by low interest rates, low inflation, low volatility and excessively high liquidity. But all these trends have now reversed. Most noticeably, the United States is expected to not only raise interest rates in a rapid and drastic manner but also to execute quantitative tightening which will, in turn, prompt a large proportion of USD liquidity to be withdrawn from the market. Under such an environment, managing USD liquidity is indeed quite a hard task for us, as we operate in the United States as a foreign bank. Based on the perspectives of securing profitability and maintaining soundness, Global Markets will work in collaboration with customer-segment to strengthen control on gaps between loan and deposit while otherwise upgrading its deposit-taking strategies. In addition, we have partially resumed medium- to long-term market funding aimed at lengthening the duration of our funding instruments. Moreover, we engage in collateralized funding utilizing our Japanese government bond (JGB) holdings, with the aim of diversifying our funding sources.

Q : How do you intend to maintain interest income while curbing risk volume amid an ongoing trend toward higher short-term interest rates?

A : We are striving to maintain and enhance our ability to secure net interest income by utilizing such instruments as held-to-maturity bonds. Albeit depending on the shape of the yield curve going forward, our provisional calculation suggests that, to say the least, USD net interest income will not turn negative in fiscal 2022 even under the negative yield environment.

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

Q : AM/IS has already achieved its net operating profit target for fiscal 2023 ahead of schedule. Please share your assessments of future factors affecting net operating profits and ROE.

A : There were three factors that contributed the robustness of the business group's fiscal 2021 operating results. First, we were able to expand the balance of assets under management (AuM) and assets under administration (AuA) on the back of strong stock market conditions. Second, FSI and other AM subsidiaries served as profit contributors by securing a good volume of performance fees. Third, we have seen an increase in net cash flows. In terms of fiscal 2021 operating results, however, net operating profits earned by AM/IS accounted for around 8% of MUFG's consolidated net operating profits. We will first aim to raise this ratio to 10% and intend to increase our contribution to the mid-10% range as we move forward. In AM/IS businesses, ROE is susceptible to fluctuations in net profits. With this in mind, we will formulate our future plans while paying attention to market conditions.

Q : Please outline your M&A strategies in the AM/IS field.

A : Our fundamental approach is to seize opportunities arising from each investee's growth. For both AM and IS, we are considering undertaking investment in the private asset field, which is expected to expand going forward. Moreover, through M&A we also aim to enhance our service lineup so that customers will be able to appreciate us as a company capable of providing full-line AM/IS functions.

Q : Could you please name specific initiatives that are generating synergies with FSI or future plans, if any, for collaboration with this firm?

A : We are engaged in the co-development of products with FSI. We are also leveraging the functions of Mitsubishi UFJ Trust Investment Technology Institute to develop new asset management methodologies in tandem with FSI.

Q : Please explain how you aim to achieve net-zero greenhouse gas (GHG) emissions from investees.

A : Our policy is to achieve net-zero GHG emissions from investees by 2050 in line with a framework defined by the Net Zero Asset Managers initiative (NZAM). Engagement with issuers is key to this goal and the starting point for our activities. Therefore, we will maintain ongoing dialogue with issuers to share the recognition of challenges they are confronting and work together with them to create solutions.

Q : Other than ROE, is there any KPI demanding your priority?

A : We also prioritize net cash flows, which indicate growth in the volume of AuM and AuA, for both AM and IS.

Q : What is your assessment of the business value of AM/IS?

A : While business value is calculated by taking into account indicators such as net profits and future growth potential, our AM, IS and pension businesses are combinations of various operations. It is, therefore, hard to precisely calculate the business value of each operation.

Q : Do you really think that a net operating profit target of ¥100.0 billion is achievable while stock market conditions remain stagnant?

A : Indeed, the stagnation of the stock market is making it difficult to raise AuM and AuA balances. On the other hand, the depreciation of the yen has been serving as a tailwind driving growth in the value of non-JPY denominated assets. In addition, when stock and bond markets stagnate, investors are prompted to direct their funds to alternative assets. Looking at the performance of FSI, the balance of infrastructure-associated AuM handled by this firm has almost doubled since the acquisition. This has resulted in a considerable increase in base fees, which is linked with the AuM balance, rather than performance fees, In addition, our overseas subsidiaries now enjoy a growing volume of net interest income due to hikes in U.S. interest rates. It is, of course, a fact that stock market conditions are weak right now, but we do not believe that we should be overly anxious.

Q : Please elaborate on the volume of fees you earn from the administration of private assets. How much higher than administration fees associated with traditional assets are these fees?

A : We provide high-value-added services, such as fund financing, to differentiate ourselves from competitors and avoid price competition. Because private asset administration encompasses a broad range of fields, we cannot definitively state the volume of fees it generates. However, we can more broadly note that the volume of administration fees being generated is three to five times as large as that arising from traditional asset administration.

Q : Please outline the proportional compositions of the retail and corporate customers of Global AM, along with your future outlook on fund inflows. How frequently do you expect to receive performance fees going forward?

A : Our primary sources of fund inflows are major institutional investors and pension funds, such as the Sovereign Wealth Fund (SWF). We are not directly entrusted with funds from retail customers. In line with our fee-setting system, we receive performance fees determined by the valuation of asset holdings at the time of their divestment. Accordingly, divesting assets in a timely manner as the redemption dates of funds approach, is a matter of importance. In this light, the lifetime of funds serves as a key factor. That being said, it is hard to specify when performance fees will be recorded, because, even if the lifetime of a fund is defined as, for example, two years, and the redemption date is thus scheduled, the exact timing of the divestment of the relevant asset holding is not fixed.

Q : Japan's Kishida Administration announced the "Doubling Asset-based Incomes Plan." In response to this announcement, what solutions do you intend to release going forward?

A : Providing our customers with excellent products is our foremost mission. We will therefore strive to enhance our lineup of products finely tuned to accommodate the risk preferences of our customers. In addition, we will strengthen the branding of eMAXIS, a no-load index fund series, so that it will be chosen by a growing number of customers as a tool for asset building and accumulation investing.

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