MUFG Investors Day 2018

Main Q&A

Retail & Commercial Banking Business Group (R&C)

Q: Please tell us about your business planning for consumer finance businesses undertaken by MUFG Bank and ACOM, respectively. We also would like to hear about MUFG's intentions with regard to ACOM's overseas expansion as a parent company

A: We have positioned the sum of personal card loan balances recorded by ACOM, the Bank and the Trust Bank as a KPI. Looking at each component, we don't expect significant increase of the balance of BANQUIC, a card loan brand handled by the Bank. On the other hand, ACOM's loan balance is expected to grow in step with market growth. As for ACOM's overseas operations, we have seen that operating assets held by EASY BUY in Thailand have grown to nearly ¥200 billion. We anticipate that this subsidiary will continue to grow in the future.

Q: Please tell us about the positioning of Jibun Bank, a joint venture MUFG has established with au.

A: MUFG and KDDI have a 50% equity stake each in this joint venture. It's been 12 years since the founding of Jibun Bank. We will engage in discussions with regard to its positioning as part of our business planning for mobile banking.

Q: Expenses are expected to grow over the course of the three-year period of the current medium-term business plan. Could you tell us specific ideas about forward-looking investment you intend to execute in those three years? Also, please tell us about other factors, if any, leading to overall growth in expenses.

A: We expect expenses to grow a total of ¥70 billion under the current medium-term business plan. Of this, approximately 60% will be appropriated for forward-looking investment. The other 40% will be largely attributable to growth in performance-related expenses. Current forward-looking investments include a major project aimed at integrating systems in place at Mitsubishi UFJ NICOS. This will entail significant costs. However, we believe that the integration of three brands will eventually help us enhance the top line and curb expenses. Once this project is completed, we expect that NICOS will be positioned to achieve profit growth in the tens of billions of yen during the years leading up to fiscal 2023.

Q: We have seen that payments have contributed to growth in profit. In what ways are you going to achieve further growth in this field?

A: Currently, cashless settlement accounts for 23% of total settlement transactions. Cash settlement comprises the other 77% and is three times larger than cashless settlement. We believe that we can exploit this situation to expand our NICOS credit card business. A growing trend toward the use of cashless settlement is also serving as a tailwind to driving revenue for NICOS and is expected to provide abundant business opportunities. Accordingly, we will continuously monitor the volume of card shopping as one of KPIs.

Q: Please tell us about your branch and channel strategies over the six years going forward.

A: As we push ahead with a strategic shift in channels, we recognize that creating channels capable of winning customers' hearts is a matter of the utmost importance. Efforts are now under way on various fronts to conduct trial operations and verify new channels. Our overall policy is to diversify our channels, believing that the conventional approach of maintaining a nationwide network of 500 to 600 branches, all equally equipped with extensive facilities, is outdated. At the same time, we aim to satisfy the needs of customers who chose to shift from physical channels to digital channel. To this end, we need to improve the UI/UX of our internet banking service for individual customers while enhancing its functions.

Q: How do you estimate the reduction in branch operation costs following the channel shift?

A: In the course of decreasing the total number of branches with bank counters, we aim to have cut costs approximately ¥30 billion over six years.

Q: Please provide your forecast of the decrease in revenues from the physical channel due to the decrease in the number of branches. Also, please give us your thoughts about how much you can supplement this decrease with growth in transactions through digital channels.

A: Although we intend to decrease the number of branches with a bank counter, we believe that this decrease will not significantly affect our revenues and market shares, provided that we have succeeded in maintaining contact points with customers via, for example, internet banking. We will therefore enhance our internet banking functions based on the premise that a growing number of customers will select online transactions. At the same time, we are not going to pursue a simple strategy of downsizing our branches equipped with extensive facilities in number. Instead, we will work to create a variety of innovative branches. Through these efforts, we aim to secure a greater number of contact points with customers.

Q: Please tell us about the overall strategies for the Retail & Commercial Banking Business Group in the medium to long term.

A: Despite securing an extensive customer base, the business group is currently able to reach out to only a limited number of customers. Having integrated management resources held by the retail and commercial banking segments, however, we are now better positioned to reach out to business owners and seize opportunities arising from business relations with employees of our corporate clients. Thus, we will develop a robust operating platform by leveraging our customer base. Meanwhile, our securities units have maintained a business model employing brokerage accounts at the Bank. In this field, we introduced a new business model in April by shifting management resources from the Bank to the Securities. The new model is aimed at referring a greater number of customers to securities subsidiaries, and to date, the number of customer referrals is 10 times larger than anticipated. We are confident that the model will yield solid results. As for trust banking, the value of testamentary trusts under management has grown into ¥8 trillion. We believe that this attests to the Trust Bank's distinctive strengths, which lends MUFG unique advantages no other financial group is capable of acquiring.

Q: Could you elaborate on RM-PO* model strategies now under way at the Retail & Commercial Banking Business Group?

A: Take the real estate business for example. In this field, all relevant MUFG business units are engaged in collaboration that transcends the boundaries of business entities. Going forward, we will step up this collaboration, with our RMs and POs working as one to promote product- and entity-neutral cross-selling. This applies not only to the commercial banking segment but also to the retail banking segments. RMs and POs will work together to push ahead with our wealth management business.

*Note: RM-PO: Relationship Manager-Product Office

Q: According to your business plan, both net operating profits and ROE are expected to remain virtually flat from fiscal 2017 to 2020. Do you have no intention to increase assets to achieve growth in these indicators? Also, could you tell us your medium- to long-term prospect?

A: We have no plan to increase our assets. We will supplement decreases in revenues of yen loans and deposits with revenues from payments and consumer finance businesses. Furthermore, we will steadily raise asset management revenues over the course of the three-year period following the current medium-term business plan. At this moment, our ROE stands at 9%. This is, however, in excess of capital costs with only a little margin. We are determined to achieve a double-digit ROE going forward.

Japanese Corporate & Investment Banking Business Group (JCIB)

Q: You've told us of your plan to accelerate the reduction of equity holdings. From a medium- to long-term perspective, do you think that the amount you've targeted for reduction is sufficient?

A: In the final year of the current medium-term business plan, we aim to reduce our equity holdings to approximately 10% of our Tier 1 Capital on an acquisition-cost basis. So far, we have succeeded in entering into agreements with a number of our corporate clients with regard to the reduction of our equity holdings, with around two thirds of our equity holdings that need to be sold to achieve this target. Going forward, however, we expect that we will find it difficult to progress further. We, the Japanese Corporate & Investment Banking Business Group, aim to "Be the First Call Business Partner for customers". With an eye to establishing win-win relationships with our corporate clients, we are striving to win their trust so that we always be the one that they call first when they need a solutions for an issue they are facing. To this end, our fundamental thoughts on the reduction of our equity holdings are centered on ensuring that our corporate clients are fully on board with us before reduction is carried out. Recently, Japan's Corporate Governance Code has been revised and expanded. We hope that this move will help prompt a shift in the way our corporate clients think about equity holdings. Moreover, we believe that the revision of the Corporate Governance Code may facilitate a shift in Japan's industrial sector with regard to equity holdings. Given the current business environment banks are facing, and the possible impact of stock price fluctuations on revenues and capital, we are acutely aware of the need to reduce equity holdings as much as possible. With this in mind and a sense of urgency, we will engage in sincere dialogue with our corporate clients and push ahead with our current efforts to achieve the aforementioned target of reducing equity holdings to around 10% of Tier 1 Capital in the three years.

Q: Please tell us a definition of business group ROE. Also, as a Group Head do you think that an 11% target for business group ROE is sufficient?

A: Business group ROE is calculated by multiplying its return on risk-weighted assets (RORA) by certain leverage factors. RORA itself is calculated by dividing business group net profits (the numerator) by the risk-weighted assets including loan assets, equity holdings and others (the denominator). We aim to secure RORA of approximately 1.3%. By doing so, we will achieve our business group ROE target of 11% while also working toward ongoing improvement in this indicator. To this end, we will promote a shift in our business model from a conventional asset accumulation approach to an origination and distribution approach. We will also employ our extensive network at home and abroad in an effort to promote deposits as well as settlement and other transaction businesses. In this way, we will increase the volume of revenues from non-asset business.

Q: Please expand on the details of the O&D business in terms of pricing and structuring aimed at distributing to investors. In addition, we would like to hear about the status of specific initiatives in this field, such as those focused on utilizing MUFG's customer base among institutional investors.

A: Most loan assets held by the JCIB have been non-negotiable. Moreover, conventional pricing has not been robust enough for us to distribute our loans assets to investors. In the course of the three-year period under the previous medium-term business plan, we strove to pursue initiatives centered on optimal pricing for non-JPY loans. In the field of structured finances, such as project finance, we were able to make a certain progress in our shift to the O&D business. In the course of the current medium-term business plan, we will step up the promotion of the O&D business by, for example, expanding focus on general corporate loan assets such as non-JPY loans. In the United States, we have started to initiate distribution to local banks on a trial basis and we have learned their demand levels of pricing for the distribution. Building on these efforts, we will promote origination and, furthermore, roll out the O&D business on a global basis. In addition, the institutional investors business is positioned as a pillar of our structural reforms. Accordingly, we aim to step up O&D in that field, with an eye to promoting distribution targeting this investor group.

Q: What are your forecasts on growth in loan balances and the expected lending spreads under the current medium-term business plan?

A: We assume that our assets will remain virtually unchanged in Japan and overseas. Revenues from domestic JPY loans are likely to continue declining, while revenues from overseas non-JPY loans are expected to grow and both of them are due to the current trend in lending spreads. For domestic loans, lending spreads for newly executed loans have now grown higher than the average lending spread. Nevertheless, the overall lending spreads for these loans will decrease slightly due to progress in the repayment of existing loans with higher lending spreads. On the other hand, we are now able to execute overseas loans with robust lending spreads well in excess of the average lending spread with reflecting mid to long-term foreign currency funding costs. Taking these factors into account, we expect the average lending spread to improve to 0.65% in fiscal 2020, up four basis points from 0.61% in fiscal 2017.

Q: MUFG's new RM-PO model is seen as an initiative that allows the Bank to better utilize its customer base when marketing trust and securities products. As compared with before, how does this model help accelerate MUFG's business expansion?

A: In wholesale banking transactions, a large number of the Bank's clients and the Trust Bank's clients are duplicated. However, there are differences in the depth of the relationships. Thanks to the RM-PO model, the Trust Bank is now better positioned to expand into overseas markets, in which it previously had little foothold, and utilize the Bank's settlement platform to strengthen its own business. On the other hand, the Bank is already benefiting from this model, with a growing number of banking staff becoming well-versed in corporate agency and pension businesses and capable of suggesting a number of solutions for management issues customers are facing. Above all, we have seen the model exert an even greater effect on collaboration between the Trust Bank and MUMSS. Previously, such collaboration had been unusual for these two entities; however, the RM-PO model has allowed them to accelerate business collaboration. In anticipation of a growing call for robust equity governance, this increased collaboration will help MUFG expand business supported by the Trust Bank and MUMSS by, for example, upgrading functions associated with shareholder relations (SR) and investor relations (IR) consulting.

Global Corporate & Investment Banking Business Group (GCIB)

Q: Please tell us your projection of changes in the balance of risk-weighted assets (RWA) over three years going forward. In particular, we would like to know how MUFG's initiatives to exit from transactions with low returns and introduce transactions with higher returns are expected to affect the current RWA balance.

A: Let me begin with the effect of an exit from low-profitability transactions. Currently, about 370 clients are classified as "monitoring areas." Of these, we have placed 85 to 90 on an "exit list" as they are judged to have little potential of reclaiming profitability. In this regard, we are aware of the importance of accurately assessing their profitability. Accordingly, we spent about two years developing a deal screening model in the United States. This model has ensured that we are now better positioned to take a disciplined approach as it helps us measure profitability by a customer group. In addition, our account plan identifies approximately 170 out of the aforementioned 370 clients as potential high-performers that earmarked for transition to A-quadrant, that is, the area with both high profitability and high profit amount. Reduction in RWA due to the exit from transactions with low returns will total approximately ¥500 billion. On the other hand, RWA to improve returns from existing transactions will amount to approximately ¥1.5 trillion to ¥1.6 trillion. Furthermore, introducing new transactions with higher returns, with around 150 clients, will result in growth in RWA totaling ¥1.7 trillion. We have enough opportunities to raise the top line revenues. Consequently, our initiatives over the course of the next three years will result in a net increase in RWA. At the same time, we will be able to improve ROE as we take a disciplined approach to screening clients in light of their profitability.

Q: Your plan regarding net operating profits aims for ¥38 billion in growth via the O&D approach. Could you explain how you are going to change your approach?

A: The ¥38 billion in growth will be composed of fee income by products. Among these products, syndicated loan & DCM will account for ¥17 billion, project finance will account for ¥5 billion, securitization ¥4 billion, and aviation finance ¥3 billion. Shifting from a conventional region-based approach, we will adopt a more global, customer-/ business-based approach, believing that this will help us eliminate redundancies. In line with this belief, we will horizontally roll out our best practices in the United States. As for O&D, we have worked to do in meeting the demands for high-return and unique assets by institutional investors such as hedge funds and insurers in the secondary market. Looking ahead, we aim to remove regional boundaries and silo-based business approach, so that we better connect the opportunities arising from primary businesses to those who engage in secondary sales and are well-versed in investor needs. This will be key to the success of our plans to raise net operating profits. Regarding expenses, we anticipate no significant growth in personnel expenses. On the other hand, we need to develop a management information system for deal screening, a practice that is expected to become ever more important. Although the costs entailed in developing this system will not be insignificant, we believe that this expenditure will prove worthwhile.

Q: What are MUFG’s strengths in CIB business?

A: MUFG boasts two strengths in this field. First, we have an extended global network. A number of European and U.S. financial institutions are shifting their focus to markets in their home countries. Because of this, we are seeing an ever larger potential space to penetrate. We are confident that the quality of MUFG’s services, backed by a global network encompassing a number of business bases in Asia, is among the best. Furthermore, our partner banks operating in Asia boast strengths in transaction banking and trade finances. Supported by these partner banks, we are able to serve European and U.S. multinational corporations, especially clients seeking to expand into Asia, via our partner bank network in a quite effective manner. Thus, we feel that MUFG’s global network is capable of creating even greater value than before. Second, we have distinctive strengths in specific asset classes. In the past three years, we have secured the first place in the global project finance league table twice. We were ranked third, fourth and eighth in the fields of project bond, ABCP and ABS, respectively. We will strive to harness our strengths in these asset classes as we believe that they will better position us to capture investor needs.

Q: What is your assessment of gaps between European and U.S. peers and MUFG in terms of profitability?

A: Our relatively lower ROE is attributable in part to our business structure in which we entrust Morgan Stanley with ECM and M&A advisory functions. These operations typically boast higher capital efficiency, and many of our peers in Europe and the United States are equipped with these functions in-house. Meanwhile, MUFG’s Global CIB is aimed at providing a debt house function while effectively utilizing the partnership with Morgan Stanley. Given these factors, we don’t think that our current ROE falls too far short of the expected level. That being said, in no way are we content with the current level, and we intend to raise the ROE of the business group in order to enhance MUFG’s consolidated ROE.

Q: It can be said that the success of CIB business hinges on human resources. What are your plans to attract excellent candidates?

A: Currently, our ongoing efforts to hire top-notch talent continue to yield a number of strong teams in regions around the world, although our HR management structure used to be on region-based. Going forward, as we have established a new human resource management structure, supported by personnel who are assigned “dual-hatted” positions across the Bank and the Securities, I, as CEO of Global CIB Business Group, evaluate key personnel and preside over staffing on a global basis. In addition, we are striving to assign talented individuals hired in countries abroad to optimal positions across regions by paying attention to their motivation. This helps us take an efficient approach in recruitment and staffing, occasionally resulting in lower personnel costs as well as reducing leaver risks. Also, our talent pool has expanded exponentially since we adopted a region-neutral, global-based approach in the management of the Global CIB. We have also begun to see a number of other positive developments in terms of human resource management.

Q: We see business group ROE as being 7% is lower than expected. Do you intend to continuously utilize RWA to maintain presence as a global lender? What are your future plans to improve ROE? Please also tell us ultimate goals of this business group.

A: In the course of executing the current medium-term business plan, we cannot ignore the importance of the U.S. market. Although we are capable of reaching out to a number of institutional investors, we have not supplied enough assets to the secondary market. There's no reason not to utilize our relationships with institutional investors. With this in mind, we will endeavor to leverage underutilized resources so that we will contribute to higher ROE for MUFG. Turning to our future initiatives under the next medium-term business plan, we think that treasury services will become a key area. With European and U.S. corporations looking to expand into Asia, MUFG is expected to play a significant role in the field of treasury services. MUFG is no longer a Japan-based bank. Rather, we are an Asia-based bank boasting advantages backed by a robust network of partner banks. Therefore, we will strive to help customers understand our distinctive strengths as a bank equipped with an extensive network.

Q: To what areas are you going to allocate the RWAs you free up via the exit from transactions with low returns?

A: We have shown global sector strategy and acquisition finance as examples of growth areas. In order to promote O&D we must engage in businesses that secure a certain level of margin. To this end, we will enhance our secured loan transactions while promoting the O&D business backed by these assets. Of course, we will not sell every portion of the assets we have originated as we have trusts of our customers and sponsors. We will instead hold a portion of these assets. With this business model contributing, in three years we aim to achieve CAGR of 15% in net operating profits. In addition, we have made it a rule to immediately charge front business units for non-yen medium- to long-term funding costs. Having introduced this procedure, we have seen business units begin considering the divesture of low-return assets. Looking ahead, we will push ahead with the replacement of assets through these and other initiatives.

Global Commercial Banking Business Group (GCB)

Q: Please tell us your view on MUAH's net operating income target for fiscal 2020.

A: Although MUAH's fiscal 2017 net operating income was down year on year, it was due mainly to the impact of its initiatives to reduce exposures in the energy-related sectors and curb real estate-related lending, and we anticipate improvement going forward. MUAH boasts robust foundations consisting of individual deposits as well as distinctive strengths in real estate-related operations, and mortgage loans. Furthermore, this subsidiary boasts a solid customer base in SMEs of middle class. On the other hand, MUAH is in a developmental stage in terms of the balance of unsecured consumer loans relative to other banks proactively engaging in the business. Nevertheless, we believe that MUAH is capable of achieving a certain degree of growth in these loans while maintaining robust risk management. Also, although MUAH isn't particularly strong in the card business, we have seen that measures we have implemented to supplement this shortfall are beginning to yield positive results. Moreover, we will migrate MUAH's systems to a new platform to enhance operational efficiency, thereby addressing an issue of the higher expense ratio MUAH is now confronting. In short, we will strive to help MUAH achieve profit growth through measures to strengthen operations in its areas of weakness.

Q: Do you intend to acquire a broader range of Islamic financing know-how via strategic investment in Bank Danamon?

A: Bank Danamon handles Islamic finance, but the size of its operations in the field is not significant. MUFG is engaged in Islamic finance in Malaysia and Dubai. Although we have positioned these two countries as key markets for Islamic finance, we also aim to collaborate with Bank Danamon and achieve growth in this field in Indonesia.

Q: It is assumed that GCB Business Group would shift away from a Japanese-led management structure. If so, how do you plan to proceed with that?

A: We are aware of the need to entrust the management of this Business Group to those who are well-versed in local practices. Shifting away from a Japanese-based management team will be essential to pursuing locally rooted operations. Accordingly, we have developed a plan to nurture a range of non-Japanese employees from managers to staff members while proactively offering such individuals higher positions. Also, MUFG no longer clings to a centralized decision-making structure in which those at Tokyo Head Office preside over everything. We are considering situating an MUFG center of excellence in the fields of business development and risk management in, for example, Bangkok, instead of Tokyo.

Q: Could you name some management challenges GCB is now confronting?

A: Our operations include a number of business lines that need to be carefully attuned to local needs. Therefore, we must employ the strengths of members at each Partner Bank and proactively appoint them to managerial positions. In this regard, we have succeeded in creating a solid workforce in Thailand, with Thai staff and Japanese expatriates effectively complementing each other with respective expertise. Although the CEO of our Thai operations is Japanese, we may in the future assign this position to a Thai individual with robust competencies. We believe that it is important to develop and maintain a succession plan by securing excellent candidates for top and senior management. In the fields of risk management and internal control, on the other hand, MUFG's Japanese workforce is expected to play a key role in the transfer of knowledge to local business units. In sum, we are taking on the challenge of optimally combining the strength of Japanese and non-Japanese employees.

Q: MUAH's most recent operating results included a fairly low net-interest-margin. What's the future outlook for MUAH's initiatives to capture deposits and promote unsecured consumer loans?

A: At MUAH, loans with fixed interest rates account for a relatively larger proportion of the loan balance. Deposits, on the other hand, include a number of floating interest rate deposit accounts. Because of this, MUAH is at a relatively disadvantage compared with other banks when interest rates rise. Going forward, MUAH will develop highly profitable operations by raising its balance of unsecured individual loans. In addition, although the performance of the PurePoint online banking service is solid in terms of securing deposits, we will further raise the deposit balance while paying attention to growth in loans as well as cost factors. Currently, efforts are under way to reform MUAH's asset liability management structure. We are thus confident that it won't take so long for net interest income to improve.

Q: Please explain the strategic significance of maintaining a minority, not majority, equity stake in partner banks such as in Vietnam and the Philippines.

A: First, one of our objectives in strategic investment is to capture the market growth. Vietnam and the Philippines boast growing markets. Second, we aim to deliver services of higher quality to our customers—we can no longer depend on a network of MUFG Bank branches alone. In fact, partner banks are essential to meeting customer needs for supply chain finance and payroll transfer. We have seen that MUFG benefits from the provision of services via partner banks in terms of growth in revenues and corporate value. In addition, our main competitors in Asia have become local rather than global banks. In Asian countries, settlement in local currencies is mainstream and, therefore, customers' funding needs are centered on local currencies. Taking these factors into account, we believe that maintaining relationships with partner banks capable of funding in local currencies is essential. That's why we consider our partner bank network strategically important.

Q: MUFG's operations in Thailand have yielded greater-than-expected profit growth and synergies. What's your outlook for Bank Danamon in Indonesia?

A: Our plan was to better serve local businesses in Thailand via MUFG's global service and network while delivering locally rooted services to Japanese corporations expanding into the Thai market. This approach resulted in more favorable outcomes than we've expected. We intend to draw on this best practice in Indonesia. That said, the two countries have very different market characteristics. Therefore, we don't take it as a simple task. We are also well aware that policies held by respective governments and other authorities are not the same. So, we don't expect that we can develop our Indonesian operations in a same manner we developed those in Thailand. However, we are confident that we will eventually achieve stable growth in Indonesia by applying our wealth of experience and by flexibly adapting to new situations.

Q: Do you intend to maintain your current stance of undertaking investment whenever an opportunity arises? Also, have you put in place measures to facilitate human resource collaboration with partner banks at multiple levels?

A: Our investment in Indonesia was a landmark project. We will take a pause for the time being. However, in such business lines as asset management we will remain attentive to new opportunities and open to discussing possible new strategic investment. As for partner banks, we have already developed organizational structures that facilitate peer-to-peer interactive communication and collaborative relationships on various levels.

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

Q: We would like to hear about your inorganic growth strategies. Specifically, is your focus active or passive management? Please tell us the status of discussions on how to achieve inorganic growth.

A: We place no particular emphasis on active or passive management. Our aim is to partner with businesses equipped with capabilities to win over competition. However, in the field of passive management we don't think we can partner with those capable of dominating the market because, if we apply such criteria, there are no candidates but a handful of major global corporations. That's not a realistic choice. Therefore, we aim to partner with asset managers handling active management and boasting multi-boutique investment portfolio and unique products. Meanwhile, major asset managers with comprehensive portfolios typically use passive management to handle their product lineups. We may benefit from these firms by utilizing their passive management vehicles. Currently, asset management firms generally have high valuations. With this in mind, we will carefully examine acquisition candidates while considering whether they have potential for growth after M&A.

Q: Which customer segments in the institutional investor business are you targeting?

A: Although our institutional investor business targets customers both in Japan and overseas, the AM/IS Business Group sees greater potential in the field of global investor services. Specifically, we have positioned major global asset managers and sovereign wealth funds as potential clients. Previously, MUFG's organizational structure for serving major asset managers was not fully integrated. While the AM/IS Business Group was in charge of fund administration, the Global Markets Business Group and the Global CIB handled trading transactions in secondary market and lending for these clients, respectively. Our recent reorganization rectified this. Looking ahead, we will set target clients and serve them exclusively, thereby expanding relations with institutional investors. This will allow us to promote cross-selling and boost revenues.

Q: Your plan shows a decrease in ROE despite an expected increase in net operating profits. Why is that?

A: The expected decrease in ROE is attributable to growth in the denominator outpacing growth in the numerator. In line with the current medium-term business plan, we will focus on fund finances in the field of investor services. Growth in finances will, in turn, lead to growth in risk-weighted assets. This is why we expect ROE to decrease. However, we believe that our ROE, which surpasses 20%, is robust enough and comparable to asset management firms or financial institutions which provide fund administration services.

Global Markets Business Group

Q: Please elaborate on your projection on treasury revenues under the current medium-term business plan.

A: Given recent circumstances, we plans to reconstruct the volume of risk associated with foreign bonds following the upcoming U.S. interim election up to the fiscal 2019. Although recent U.S. long-term interest rates have been unstable, we forecast that the uptrend of interest rate will eventually invert once levels reach 3% or so even though there is the possibility of a temporary blip in topping that level.

Q: In connection with foreign currency funding, we would like to hear your assessment of the "stickiness" of customer deposits. Although stickiness must differ by depositor, will you explain the current depositor composition?

A: In the United States, we have a number of asset manager deposit accounts. There, depositors are quick to withdraw from these accounts when conditions get stressful. In contrast, Japanese corporations' deposits tend to be sticky. Accordingly, we need to endeavor to secure these clients. In addition, we carry out stress tests in anticipation of foreign currency funding and deposit liquidity risks. Although we can attract more depositors by setting higher interest rates, we consider increasing sticky deposits more important. Currently, we provide staff in charge of customer segment operations with incentives to better attract depositors of this kind.

Q: We've heard that MUFG intends to increase credit assets in line with the current medium-term business plan. Could you elaborate on how this policy came about and name specific initiatives to this end?

A: We engage in treasury operations in a way that assembles an optimal portfolio via the combination of assets in various asset classes. This means that our policy isn't to simply increase credit assets. While the Bank's portfolio has traditionally centered on interest-rate assets, the recent transfer of the Trust Bank's corporate loan-related business to the Bank resulted in a policy of promoting credit investment to strike an optimal balance. To this end, we have positioned high-liquidity vehicles meeting the criteria as investment grade as main outlets. Although we may also invest in specific types of emerging assets, we will place emphasis on ensuring that the entire portfolio is manageable whenever considering such investment.

Q: MUFG is now rebuilding its foreign bond position. In this regard, do you think that MUFG may have to take a loss-cutting approach if U.S. interest rates reach above 3%?

A: To ensure that we will remain responsive if U.S. long-term interest rates surpass 3%, we are engaging in appropriate risk hedging. We see little likelihood of major loss cutting in the future. MUFG has been focused on striking a balance between realized and unrealized gains, embracing a comprehensive perspective on gains and losses. Accordingly, we believe that taking a far-reaching and forward-thinking approach is more important than focusing on quick results in the immediate fiscal periods. In addition, our unrealized gains total approximately ¥300 billion. We have concluded that we are currently in a relatively favorable position based on comprehensive consideration, such as preparedness for possible adversities in the future.

Q: You mentioned that the Global Markets Business Group aims to earn approximately 30% of the MUFG Group's net operating profits. Please explain how you decided on this target.

A: This target is not based on a Company policy. Rather, we have set this target level as a business group. We believe that curbing volatility and contributing to long-term profit is of importance, and we operate accordingly. Although revenues from sales & trading and treasury operations may be affected by market trends in the short term, we have by and large been able to contribute to the Group's performance. That's how we understand our positioning in the Group. In fiscal 2017, however, we saw a downturn in revenues after reducing our position. The reduction was needed in preparation for U.S. interest rate hikes. We think we've made appropriate judgments vis-à-vis the operating environment.

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