Building of a Strong and Flexible Financial Structure

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The Mitsubishi UFJ Lease & Finance Group has prioritized building a strong and flexible financial structure as the most important element of its financial strategy. Five measures are absolutely crucial to creating and properly maintaining this structure: diversifying funding methods; improving foreign currency fundraising; performing liquidity risk management; strengthening holistic relationships with investors in financial institutions and financial markets; and promoting strategic asset-turnover businesses. To lay the groundwork for these measures, we as management are focused on changes in three frameworks, namely, upgrading asset liability management* (ALM), enhancing our global financial system, and cultivating human resources who can respond to changing times. To achieve sustainable growth in a time when changes in financial conditions are complex and lightning quick, we intend to leverage these three frameworks toward building a resilient financial structure.

* Integrated management of assets and liabilities

Further Sophistication of Our ALM

Our efforts to promote ALM are focused on an accumulation of studies involving analysis of financial and economic conditions and a thorough discussion on the outlook of these conditions. For a full investigation of potential scenarios from every possible angle, we need to collect high-quality information. While our business activities span a variety of industries, we also maintain a deep involvement in finance, making it so we always have access to the latest information. Based on this steady stream of information, we can employ what we call a "scenario-based approach" to verify future market trends, in which we enact multiple scenarios with the flexibility to make steadfast adjustments to them as new information is released.

While the New Medium-term Management Plan highlights six global megatrends* set to manifest over a 10-year span, the scenario-based approach within ALM emphasizes global megatrends as well. At the same time, this approach is highly sensitive to various data, and we have refined its ability to look at a small change that has been discovered and to determine whether it is a sign of something bigger, or nothing but noise. We are making full use of the twin strengths of this approach—which can monitor conditions from a bird's-eye view with the observational strength to glean actual circumstances—to enhance liquidity risk management and our predictive risk management system, two priority issues within ALM.

* Identified as "rapid advancement of urbanization," "climate change and resource shortages," "demographic changes," "shifts in global economic power," "technological advancement," and "global multipolarization"

The combination of a scenario-based approach with a data-driven approach leaves us prepared for a full bevy of possible changes. In addition to interest rate sensitivity and credit analysis (analysis of the impact of interest rate fluctuations on earnings), the ALM Committee conducts a comprehensive verification that covers, among other things, market risks stemming from stress in financial or other markets, liquidity risk, and the impact of these factors on profit and loss. Moreover, the committee determines fundraising strategies and risk response policies in pursuit of greater Companywide strategies. Looking at risk management in particular, the ALM Committee operates in cooperation with the Risk Management Committee and adopts a Companywide perspective as part of integrated risk management. We are confident that, by strengthening our predictive management system and combining it with our contingency plans, we will be able to increase the flexibility and resilience of our financial structure in times of crisis.

The role of diversified funding is not only in helping form a stable funding base; it also serves to confirm signs of change. Beyond the aforementioned, such funding serves as an important measure that will improve resilience in the event of financial market turmoil or other forms of shock. In the domestic capital market, we are making efforts to issue wholesale bonds aimed at institutional investors and retail bonds targeting individual investors. With careful marketing, these bonds are expected to grow as a stable part of the funding market. In April 2018, we were the first leasing company to issue a green bond through a public offering in Japan. In overseas capital markets, we are working to expand our foreign currency financing methods, such as issuing 144A corporate bonds in the United States, U.S. commercial papers, and medium-term notes (MTNs). Furthermore, we would like to take some strategic steps forward in the asset-turnover businesses by taking advantage of various asset characteristics. In this and other ways, we will maintain the soundness of our portfolio, creating cash flows through sales, asset-backed securities (ABSs), and other liquidation measures, fixing profits, and making effective use of owned assets.

Enhancing Our Global Financial System

In recent years, the Group has been taking steps to globalize its business. Accordingly, we are going forward with the reconstruction of regional financial bases in order to increase foreign currency fundraising capabilities needed to support overseas expansion. As a first step, we have staffed a local subsidiary in New York responsible for certain corporate functions in North America. Beginning in April 2019, we charged this subsidiary with financial functions and made it a regional financial base, thus establishing a Group financial system in North America. In addition to indirect fundraising, this base will issue U.S. commercial papers and MTNs and carry out other forms of fundraising, while providing funding to Group companies operating in North America. We have also enhanced the base's monitoring functions over financial conditions, making it possible to gather information on the financial front. We are promoting knowledge and information sharing within the Group and working to create a system that will enable optimal operational support in North America.

Cultivating Human Resources Who Can Respond to Changing Times

Developing human resources who can put our financial strategy into practice is a pressing issue. What we ask of our human resources is about more than "assets" and "liabilities" on a balance sheet—it is about the ability to see what is happening across the entire Company; it is about the ability to read new developments in our financial condition as brought about by small changes; and it is about the ability to build relationships with a variety of stakeholders. We need to develop human resources who can intelligently increase and share their knowledge gained through these actions while being mindful of imparting their knowledge to the next generation of employees. We would like to initiate employee exchanges between those who see things from a financial perspective and those in the sales department to produce a steady stream of human resources with an ever-wider skill set.

Maintaining a Resilient Financial Structure

The rapid spread of COVID-19 at the beginning of 2020 affected financial markets and society in a variety of ways. However, thanks to our enhanced predictive management, we were able to address these changes relatively quickly at an early stage. We enhanced liquidity risk management to increase liquidity on-hand* while maintaining financial discipline. Furthermore, we quickly moved to acquire necessary long-term funds, which will be reflected in our consolidated financial results for fiscal 2020, and are continuing to secure such funds in a prompt manner. We have been making thorough preparations since April 2020 with actions that include the regular issuance of domestic and U.S. dollar bonds, as well as procuring long-term, stable funds made possible through repeated interactions with major financial institutions.

* Cash and cash equivalents as of March 31, 2020: ¥466.2 billion (compared with ¥195.8 billion as of March 31, 2019), net debt-to-equity ratio: 5.74 times (compared with 5.63 times as of March 31, 2019), equity ratio (calculated by subtracting the ¥270.3 billion increase in cash and cash equivalents from the previous fiscal year-end from total assets): 12.9% (compared with 13.0% as of March 31, 2019)

Since the global financial crisis of 2008, we have seen excess liquidity and excess debt, as well as so-called "green swan" events that occur when climate change risks are not factored into market value. The world is more volatile, more uncertain, more complex, and more ambiguous than ever. I am convinced that responding strongly to the times, staying ahead of changes in the operating environment, and maintaining a flexible and strong financial structure will lead to the sustainable growth that is the namesake of our Medium-term Management Plan~**Sustainable Growth 2030**~.