91-11-11268

Keio Business School

Mitsubishi UFJ Financial Group and Morgan Stanley (B)

Equity Stake in Morgan Stanley

On September 22nd 2008, Mitsubishi UFJ Financial Group announced it had decided to take an equity position in Morgan Stanley. In the same announcement's press release MUFG stated it would obtain approximately a 10 to 20% interest in Morgan Stanley's equity and would send at a minimum one executive director to be on Morgan Stanley's Board. According to various media sources the deal was decided in 4 days. Although, when the equity offer came in from Morgan Stanley on September 19th 2008, the firm's reaction was clearly different. The CEO of MUFG Nobuo Kuroyanagi, who was just settling into his position as head of the firm, stepped up to the negotiation table, and within the allotted response time, on the morning 22nd of September, before the New York Stock Exchange open eastern standard time, had came down with a conclusion with a select team of staff members, hammering out the amount of equity that could be provided to Morgan Stanley and decided that an inspection of more detailed due diligence condition could be ironed out later on.

MUFG had three main points in terms of how they came to the decision regarding the Morgan Stanley deal. The first was that the Federal Reserve (FRB) had decided to recognize and allow Goldman Sachs and Morgan Stanley in becoming Bank Holding Companies under the Bank Holding Company Act. By coming under the supervision of the FRB, if unpredicted conditions were to occur, the firms could be supplied easily with funds and for MUFG this meant the ability to have a form of governmental guarantee. The second point was that among the securities firms, Morgan Stanley had most precise and publicly announced data on its positions relating to sub-prime loans. The fact that although the firm was holding roughly \$10.3 billion in sub-prime assets, MUFG was comforted by the fact that these assets were seen as being completely hedged, something that was not the case when Merrill Lynch was absorbed into Bank of America, where the firm later posted \$8.89 billion in lost due to credit exposures.[1]

Kei Shotaka (M32), Robert Ings (M32) and Kotaro Inoue (Associate Professor, Graduate School of Business Administration, Keio University)prepared this case as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.

[1] HBR Case: "*Bank of America acquires Merrill Lynch (A)*", 2010.

And lastly, the firm had the investment surplus to be able to provide the funds. Through steadily accumulating its capital base, MUFG had wanted to target a deal that: firstly could, to a certain extent, participate in the management decision, and secondly that could strengthen the firms Investment Banking Division on a global bases. At the time, MUFG had approximately ¥8.2 trillion in Tier One capital, and a buffer of around ¥2 trillion that had been allotted to equity that would be for strategic investments.[2] In reality, Morgan Stanley actually had approached Mizuho Corporate Bank first, but due to the Merrill Lynch equity offering, it came to light that Mizuho had to decline the offer and this demonstrated the vast differentiation in capital resources between the two Japanese firms that had arisen over the past few years leading up to the financial crisis.

The Change to preferred shares

Unfortunately, between the time of the announcement of the equity offering to the time the funds were actually paid, Morgan Stanley continued to receive destructive damage as a result of the global financial crisis. MUFG at the time of the first announcement stated that the firm considered the conditions for common stake, voting rights and dividend payments of the preferred shares and yet under the situation of Morgan Stanley's share price taking on a different approach was necessary. But by the time the execution of the actual deal on October 13th, the deal was changed to an all preferred shares stockholding. Typically, preferred share are more resilient to decreases in price of share floated in the market and shareholder gains the benefit of being able to avoid having to post losses due to a drop in share price.

Originally, Mitsubishi UFJ Financial Group envisioned an all-common equity, voting share deal, but the day after the deal announcement, Morgan Stanley's share price continued to take a pounding and so MUFG faced a dilemma of upon taking the equity position, instantaneously receiving a large capital loss.

On September 29th, the firm restructured the deal so that MUFJ would get $3 billion in common equity at $25.25 per share, and $6 billion of preferred convertible shares at $31.25 per share.[3] This was a preferred condition scenario for MUFG because although the preferred shares had no voting rights, they would obtain preferred right to receive a 10% dividend off the shares, which allowed the firm to avoid any capital losses that may occur due a further drumming of Morgan Stanley's stock. However, with the market becoming increasingly wary of Morgan Stanley, and the market had already begun to reprise and readjust Morgan Stanley stock as if MUFG would withdraw the equity offering. Regardless of the best efforts of both firms to douse the flames of these rumors, by October 10th, Morgan Stanley's tumbled to end of the day trading price of $9.86. To MUFG this was disadvantageous environment, and insisted to Morgan Stanley that the terms and conditions be further restructured, which lead to the final conditions being decided upon on October 13th.

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[2] According to Nikkei Shimbum "*MUFG's resolve*", September 28th 2008.

[3] All figures taken from MUFG and Morgan Stanley's Press Releases

The contents of the final conditions were as follow: MUFJ would receive $7.8 billion worth of convertible shares at $25.25 a share. And an additional no voting right CB structured preferred shares of roughly $1.2 billion. Looking at it from MUFG's position, the equity amount, and future percentage of voting rights had not changed, but market to market impairment due to capital loss were avoided. On top of that, the firm expanded the amount that they would receive in terms of preferred dividends, and also had the advantage of being able to take in the profits upon converting the debt into shares. MUFG conditions had vastly improved, by contrast it can be said that Morgan Stanley was in a distressed position and was simply a case of no matter what the firm would have to give up they could not pass up this opportunity. At this point MUFG and Morgan Stanley relieved that there was a high probability that Morgan Stanley would receive bailout funds from the American government in order to promote stabilization of the firms capital and with the end conditions, even if this was to occur, under normal conditions the voting rights position would be diluted by the amount the government would insert into Morgan Stanley, and so it was to avoid this situation that MUFG stated was the main rationale for stepping up the deal in the shape of non-voting shares. Although within Japanese media circles, it was made clear that MUFG explicitly desired an arrangement by which the two firms would merger part if not all their Japanese securities' operations, the equity deal did not include any condition nor announcement that such a deal was in the pipe works.[4]

According to MUFG, they were going to execute the transaction on October 14th, but instead transferred the funds one day early on the 13th. It was due to this early completion that took the markets by surprise and helped in having the American Equity markets to recover with an aggressive upward reaction to the extent that Morgan Stanley's share price was up 87% in just the first trading day. In the eyes of MUFG, if Morgan Stanley could turn the firm around an improve its financial results in the near future, then the share price would further rebound and MUFG would convert the CB preferred shares and Morgan Stanley would - for all tense and purposes - become part of Mitsubishi UFJ Financial Group, completing the original vision MUFG had embarked upon entering into this deal.

Change in the Scenario

Since the time of the bubble in the Japanese economy, Japanese firms have continually attempted to purchase overseas assets, having had a long legacy of failures, which have been attributed to many reasons from not having the technical managerial knowledge to not being able to control local staff appropriately. The ultimate issue that remained for Japanese financial firms was with the Global financial crisis and a chance to reemerge on the global stage, could the firms actually extract the value from any of the deals they may perform whether it be in the form of equity stakes or full on acquisitions?

[4] FujiSankei Business. October 15th 2008. "*Mitsubishi UFJ, one step towards the World, Morgan Stanley Equity Executed.*"

It can be said for MUFG, being able to get “results” from this tremendous investment of $9 billion was the ultimate conundrum. To the firm, if they were unable to take away from the deal the know-how that a budge bracket investment bank and be able to leverage the synergy gain from it’s own brokerage unit, then the deal would go down in history of simply being a sponsorship of robust Japanese money. And with MUFG having long history of struggling to develop its brokerage and securities divisions being simply an equity participant in Morgan Stanley was not an option.

Under its umbrella was Mitsubishi UFJ Securities, which at the time of the deal was the fourth ranking domestic wealth management firm in term of client assets and the firm was a creation born out of multiple small cap brokerage firm and severely lack any network to overseas investor, particularly institutional investors. It was apparent that although the firm held a large customer base, there was a serious deprivation of being able to provide clients with not only the right volume of services but quality within its product lines. With the firm possibly merging it operations with Morgan Stanley, on most measurement, it would be able to achieve the position of top domestic securities firm. From a strategic standpoint, this merger was an absolute must and ultimately the firm was unwilling to concede on being able to deliver on its investment.

Unfortunately, the attack upon the world by the financial crisis, started to emit certain minuet changes in the coming to shore of world economic landscape. With this coming of the tides also caused MUFG to begin to alter its ideal scenario it had edged out originally. First and fore most, the bank neglected the effects of sub-prime on Japanese banking corporations. The scenario at the time of injecting Morgan Stanley with $9 billion in return for Convertible Preferred share was perfectly logical at the onset of the financial credit crunch. However, as the crisis continued, it became apparent that the credit problems and eventual contagion effect into the private sector, caused a massive break to be pushed on the world economy and the private sector started to show depletion of operating value and the eventual falling into the red of many firms. As a result, Japanese commercial banks and MUFG being no exception, which had a tremendous amount of cross-sharing of its clients equity, was forced to put up impairment losses on those equity positions. On top of this, Morgan Stanley in June of 2009, upon deciding it desired to pay back the TARP funds, did a public issuance of $2.2 billion, and in order for MUFG to maintain it’s 20% stake-holding was required to purchase 20% of the issuance, which put further stress on liquid capital within the bank. To resolve the situation and as an unexpected twist, MUFG was forced to have an equity issuance of its own of ¥1 trillion (roughly $16 billion) in November of 2009. As an even more ironic twist Morgan Stanley proudly took on the main book running for the deal, and pocketed millions in fees.

It was within this turbulent time, that MUFG officially announced in March of 2009 that the firm would consolidate Morgan Stanley's much desired Japanese operations. Shortly after, on June 30th of the same year, the firms announced a more concrete plan regarding an alliance within its international operations. The alliance had a four-pronged strategy: firstly the merger of the Japanese operations, secondly cooperation within their corporate finance division, thirdly customer referral program within the commodities area, and lastly talent exchange programs. In terms of the corporate finance area, MUFG and Morgan Stanley established an equal equity joint venture called Morgan Stanley MUFG Partners with the main objective of the project to have the two firms develop syndicate loans and underwriting in the North America and European markets. Regarding commodities, MUFG would leverage its strong customer basis in Japan to provide commodities products to retail investors where Morgan Stanley held a strong competitive advantage.[5]

This agreement and alliance was not limited to just MUFG and Morgan Stanley. Almost all of the large Japanese financial institutions were once again attempting to take a hold of overseas assets. And yet, by the time the firms had realized the change in currents, the positions of overseas institutions had already rapidly changed. By June of 2009, Goldman Sachs and JP Morgan among others had already proceeded in reimbursing the US government and paying off their TARP loans. With both, firms not only having a strong rebound in profits, but also having the capacity to issue new equity and still being able clearing regulatory restriction regarding capital, it would not be an overstatement to suggested that these firms were back to full capacity. When one compares the Japanese firms that took nearly 8 years to pay back their government bailout move in the late 90's to the American institutions during this crisis, the effectiveness and necessity for speed was completely different between the two markets. With the provocation of the global financial crisis, the European and American firms were pushed to the brink, but were bailed out before the firms even attempted to raise the white flags and this might have been one factor to why the effect of the crisis was relative weak on these financial institutions.

Mizuho's decision in January of 2008 handing over ¥130 billion to Merrill Lynch and with MUFG also coming in and injected ¥900 billion into Morgan Stanley in September, it was under this glimmer that the media started to rehash the idealism of the bubble era of the late 80's and early 90's where "Japan Money" had come to the rescue. However, this fantasy was quickly blow away by not only the rapid recovery of the American firms, but also by a newly adopted regulations on capital requirement by the Japanese authorities, that once again put the frailty of the Japanese financial institutions back into the spotlight.

Miscalculation of MUFG

Even though Morgan Stanley had an unexpected recovery to profits, MUFG's biggest miscalculation was how much pressure the after shocks of the sub-prime loan problem had on the quality of capital in

[5] Nikkei Shimbum, October 4th 2008. "*Mitsubishi UFJ Securities, Morgan Stanley Japanese Operations are considering merging,*" page 4.

the Japanese financial sector.

Approximately only a half a year after the Lehman shock, the six largest banks in Japan all fell into the red in their March 2009 yearly financial results. The most dominant cause for the large deterioration in profits was that the shock from Lehman's bankruptcy had extended not only through the financial markets but also to the real economy as if the breaks had been severely slammed onto the world economy. It was perceive originally that with Japanese financial institutes holding relatively low volumes of sub-prime loan assets the impact from the financial crisis would be relatively low. However with the world economy worsen, the financials of the firms that the commercial banks had financed also deteriorated and in turn these firms share prices began to decline. As an effect of this decline in financee's financials the amount of troubled assets that had to be accounted as write downs increase, but also the cross sharing of these firms began to eat away at the bank's capital. MUFG's bottom line comparative to the previous yearly results was a ¥893 billion yen wide decrease which resulted in losses of ¥256.9 billion. Furthermore, in terms of troubled assets, the amount compared to the previous year had balloon to 4 and half times to ¥390 billion yen, and a lose in invested stock of ¥566.4 billion yen. **(Exhibit 5)**

The miscalculation did not end here. As a result of the financial crisis, in order to maintain the stability of the global financial system, capital markets began to put extensive pressure on the health of assets of financial institutions. More specifically, at the focal point of this financial health analysis is a firm's Tier 1 Equity ratio, which is calculated by a firm's remaining common equity and retained earnings after removing preferred share securities (narrow definition of core tier 1). This definition began to change as the international rules and standards of what was regarded as "Core equity" were being reevaluated. In terms of the standardization of Core Tier 1, low quality equity such as preferred securities and preferred share holding that Japanese banks had grown over the years made these institutions to be perceived as having lower equity ratios compared to their overseas counterparts and as a result of this, many analysts and the market in general began to raise concerns over Japanese banks.

On top of this negative observation by the markets, MUFG also encountered an incident that blind sided the firm and rehashed concerns about Mitsubishi UFJ Securities internal executions. In April 2009, as MUFG was already preparing to completely merge Mitsubishi Securities operations with Morgan Stanley's Japanese unit, a scandal had percolated at Mitsubishi Securities. One of the employees at the firm illegally removed 1.48 million personal customer's information from the internal data system and had sold about 50,000 customer's private information to a third party. This resulted in the Securities arm of Mitsubishi to be severely reprimanded by the Financial Council and was ordered to improve its operational system. The firm responded to the scandal by giving a gift coupon of 10,000 yen (roughly $85) to every customer that had their information illegal taken and were unable to undertake transactions with institutional investors for an allotted period until the reliability of the firm could be returned.[6] This incident, which exposed the fragility of the compliance system of the Frankenstein like compilation of multiple small to mid size securities firms which was Mitsubishi UFJ Securities, but more concerning was within the clients information that was leaked were several clients that had been introduced to the securities arm by the commercial bank of MUFG and it began clear the lacking of responsibility between the connection of the bank and the brokerage units.

Finally as previously stated, when Morgan Stanley raised equity for the purpose of returning the TARP funds, MUFG in order to maintain their 20% equity position in Morgan Stanley had to further its investment in the giant US investment bank by an additional ¥42 billion. It was this combination of destruction of it's capital due to an unexpected decline in profits along with an unforeseen add-on investment expense and the pressure from capital markets regarding the firms quality of capital that lead the firm to have no choice but to raise capital. On November 30th of 2009, MUFG raised a staggering ¥1 trillion yen in equity in order to strengthen its financial position. Not only MUFG but also many of the other Japanese financial firms began to rush to raise addition capital in what the Economist called: " The doctor receiving treatment".[7] During the turbulence of the financial crisis after Lehman's bankruptcy, the decision to inject $9 billion dollar of preferred shares into the troubled Morgan Stanley was a sound decision. However with Morgan Stanley's dramatic recovery coupled with MUFG's internal and external dilemmas, created a large swing in the negotiation balance of power between the two firms.

Drastic Re-consolidation in the World Financial Service Market extending to a Shake up in the Japanese Brokerage Market

One of the largest movers during the last few years in terms of major international merger moves has actually of all firms been Barclays. The firm was one of the largest and oldest banks in England, and had slowly creped into the top tier region of major indexes for investment banking during the early 2000's. The firm longed to remove the stigma that it was a bond house and merely an old retail bank. Barclays decided to pull the trigger on going after ABN AMRO, a large Dutch retail bank, and mid-tier investment bank, on March 19th 2007. The firm offered a $91 billion dollar tender-off in an all stock-for-stock deal. The deal was also conditional on ABN selling off its LaSalle Bank unit for $21 billion to Bank of America. Barclays was concerned about the American bank of LaSalle and its exposure to the US real-estate markets.[8]

RBS's Chairman Sir Fred Goodwin reacted strongly to it's head rival in Britain but setting up a consortium in the form of a special purpose vehicle (SPV) that was jointly created by RBS 38.3%, Fortis

[6] Nikkei Shimbum, May 20th 2009. "*Large Banks three layered suffering*". Page 4.
[7] Financial Times, November 18th 2009. "*MUFG to issue new shares and delay US deal*"
[8] Daily Deal, July 24th 2007. "*Barclays Sweetens ABN bid*".

33.8% and 27.9% by Santander. Each member in the consortium wanted different parts of the ABN AMRO organization with RBS wanting to boast its European and American investment banking units, Santander wanting to grow a stronger market share in its Latin American retail business, and Fortis was hurrying to grow its asset base in Europe. Eventually, the shareholders of ABN AMRO accepted the consortiums' offer, which was almost 90% in cash for a staggering $100 billion dollars, becoming the largest financial merger in history.

Barclays although its ego was damaged for not being able to close the deal remained relative cash flushed and had the flexibility to issue fresh capital when needed. The so-called winners did not have such prosperous pastures. Firstly, RBS had to digest the massive amount of debt it had to put up in order to get ABN AMRO's investment banking unit, and when it came to light that ABN AMRO and its trading units had heavy exposure in CDS that eventually went sour, this coupled with RBS's own capital issues, the firm eventually could not keep solvent and had to except a 20 billion pound bailout from the British government and remains technically 76% nationalized and has not turned a profit since the merger. Fortis Bank met a similar fate, having large exposure itself to the financial carnage, the firm's stock price plummeted 63% over the next year after the merger and eventually needed to be bailed out by the Belgium government. In a deal hammered out with the governments of Belgium and Luxembourg, BNP Paribas paid 14.5 billion euros ($20 billion) for Fortis's operations in those countries, as well as its international franchises; which was ironically less then Fortis paid to land ABN AMRO. The banking and insurance operations of Fortis were spilt so that BNP could absorb only the still solvent banking units. By picking up the Fortis valuable units, BNP has now become the largest banking franchise in Europe by deposits. One cost to BNP is that under the terms of the agreement, the Belgian and Luxembourg governments became shareholders of BNP Paribas, with stakes of 11.6 percent and 1.1 percent, respectively. The Belgium government also gained two seats on the BNP Paribas' board.[9]

Barclays, after the AMRO deal went south, decided to become more focused on its strengths in investment banking, (typically well over 40% of revenues have come from BarCap (Barclay's Capital)). As previously stated, the consequences of not buying ABN AMRO left Barclays with an even more desirable suitor a year later, Lehman. When the prestigious investment bank began to hemorrhage capital over the summer of 2008, Lehman furiously opened up negotiations with multiple suitors, however with most firms beginning to feel the pressure of the reduction in asset prices, no one was left to save the 4th largest investment bank except Barclays and Bank of America. Bank of America deciding to cut off negotiations with Lehman and came to the conclusion that Merrill Lynch was a more appropriate partner, this left Barclays as the sole dance partner. Barclays made a calculated decision not to pick-up the exposure to all $600 billion of Lehman's assets because the US government was not willing to back-up and take on any of the firm's toxic-assets unlike the offer given to JP Morgan in purchasing Bear Sterns. Barclays only had to wait until the Tuesday the 16th of September after Lehman Filed for Chapter 11, to be able to buy-up

[9] New York Times, October 7th 2008. "*BNP Paribas to Buy Part of Lender*"

Lehman's American unit for a mere $2 billion and with almost no exposure to Lehman's imploded trading assets. Barclays became in reality one of Wall Street's top three investment banks overnight. The firm in effect, bought the Lehman's core business for 0.5% of the market value it had the previous year (2009) at £45 billion ($67.5 billion). It also meant taking over a balance sheet of just $75 billion rather than the $600 billion involved if it had taken over the whole of Lehman.[10]

The other benefactor to Lehman's debacle was Japan's largest securities firm Nomura. The firm was able to land both Lehman's equities and investment banking operation in the regions of Europe and Asia. In both deals, Nomura only acquired Lehman's business operations and employees, not its risky assets and debts. Which unlike the Barclays deal; without buying assets, Nomura could not take over Lehman's client accounts. It was estimated that the overall cost for technical systems and the salaries of the employees resulted in a cost of roughly $225 million.[11]

With the dust settling on the financial crisis over 2009 and into 2010, it seemed to be that the moral of the story was that "patience is a virtue". Barclays has seen revenues in America strengthen and the firm has become a mainstay on most league tables involving American transactions. On the other hand, the media's reaction to Nomura purchasing Lehman has been mixed to say the least. The firm did receive praise for pulling the trigger and in theory beating out Barclays and Standard Chartered for the European units, but has been scrutinized for not having the resources nor the competency to tackle personnel problems and to create synergy between London and Tokyo. The firm guaranteed salaries for 3 years to all ex-Lehman employees at a price of nearly $2 billion and has been able to make Nomura's equity-trading business to become the third biggest on the London Stock Exchange, although Lehman's unit had been for a long time on top of most trading league tables. There has also been pressure for the firm to integrate the employee's into the Nomura corporate decision-making process, such as putting an ex-Lehman western investment banker and appointing them to a managerial position. The firm perceived at the time of the transaction that with Lehman's vast network of client relationship over Asia and Europe, the ability to tap these corporate networks would be the most valuable asset that Nomura could reign in. Post Lehman, Nomura has been trying to also penetrate into the American market, the firm leveraged it media exposure and has recently, been increasing head-count in America furiously doubling it in just over a year from 755 to 1455 employees.[12] And yet with the firm being able to compete for a larger array of deals in the advisory services the firm has still continue to post losses from it's wholesale divisions (2010 2Q ¥33 billion, approx. $392 million) in 2010.[13] With Nomura desiring to push harder into the international arena, ironically the size of the firm's asset base by not having an established retail bank to help in coordinating financing could become Nomura's biggest issue. The deficiency in large balance sheets like a Bank of America or JP Morgan, has sparked the investment media community to suggest

[10] The Evening Standard, September 17th 2008. "*Barclays in swoop for the US arm of Lehman*"
[11] Deal Daily, September 23rd 2008. "*Nomura land Lehman's Asian Assets*"
[12] According to Nomura Securities Investor Relations page.
[13] Results according to Nomura's March 2010 Financial Reports

Nomura needs to link up with a strong bank, such as Mizuho, or a bank in the US to be able to utilize and truly execute the deals that the ex-Lehman investment banker are able to bring in with the proper support.

With Nomura pushing ahead in the firms aspirations to become a truly international player, the domestic players within the Japanese domestic financial services market have also gone through a massive readjustment and repositioning.

Japanese Financial Arena

Along with the internal changes that occurred since Morgan Stanley and MUFG decided to link hands, there have also been various external changes within the competitive environment of the Japanese domestic financial service industry, which has had a large impact on MUFG. The Japanese banking sector is in reality a three horse race. Under the umbrella of the three main financial groups: Mizuho Financial Group, Sumitomo Mitsui Financial Group, and Mitsubishi UFJ Financial Group, are the three core commercial banks of Mizuho Bank, SMBC, and Tokyo Mitsubishi UFJ Bank.

All three of the major banks have developed and operate trust companies and other non-bank units, but the face of domestic securities industry is greatly different then the commercial banking sector. The three largest securities firms in terms of asset under management have been traditionally the so called "independent" firms of Nomura, Daiwa, and until recently the subsidiary of Citi group Nikko Cordial, with the mega banks' securities division of Mitsubishi UFJ Securities, Mizuho Securities lagging behind this main pack. These along with strong international powerhouses like Goldman Sachs also in the mix, the three mega banking corporation have never really been able to create traction within this operating area. While Japan has always been an economy built on indirect finance, and with debt issuances or other debt like instruments competitive realm, the Securities arms of the banks have traditional been able to create significant presence, however in areas such as equity issuing, or M&A advisory service, global investment banks and the strong independent domestic securities firms have always been able to strong arm the big three out of these areas of business, and being able to penetrate into those lines of business has been a long standing issue to the powerful commercial banks.

With the raging storm of the global financial crisis, the presence of the Japanese banks relatively increased, and it was thought that with MUFG being able to tie itself with Morgan Stanley, that even within the Mega Banks, MUFG had been able to take a significant lead. But with the unexpected and rapid recovery of Morgan Stanley and the bank's own meltdown in capital and revenue, Sumitomo Mitsui Banking Corporation came out of the blocks with a strong offensive.

To almost symbolize how MUFG's issues had taken a turn for the worse, in May of 2009, SMFG announced that they had successfully acquired Nikko group from CitiGroup. (Actual completion was October 2009). Citigroup had announced in January as part of its restructuring plan, in the wake of the financial crisis, it desired to sell-off non-core operation due to its massive capital shortfall, which left the firm for all tense and purposes as a ward of the state. Within the Japanese assets that were to be divested, most significantly were the wealth management brokerage of Nikko Cordial, and the wholesale unit of NikkoCiti. With a competitive edge of having one of the most revered domestic customer bases, and with NikkoCiti having a well refined know-how and grooming retained from the advisory services of Citigroup on the block, a long hard fought battle incurred between the three dominant commercial banks, with SMFG coming out on top with the best offer. With a bid that was well above the original estimates for the Japanese unit, SMFG threw down an offer of ¥545 billion yen (roughly $6.2 billion). The firm explained the rational for the bid as "Based on historical pricing, they anticipated a net income of ¥30 to ¥35 billion yen ($340 million to $395 million dollars) per annum, and worked out with a comparative PER, this was an appropriate standard." [14] Originally out of the massive consolidation and multiple mergers that occurred in the early 2000's, SMFG, while being very efficient and profitable, it had a comparative large gap from the other two commercial juggernauts in terms of scale, and was often regarded as trailing third in the pack. The firm also had an almost non-existent scale in securities, and lacked a strong trust bank operation; where it had been laggard in establishing a comprehensive competitive advantage. It was for these exact reasons that when the Nikko deal came to the forefront, the firm wanted to at all costs, even if that meant having to putting up a seemingly out of budget bid, not to avoid the danger of letting this deal slip into the grasp of another group.

With the Nikko Group deal going to SMFG, MUFG took a hefty handed shock. Until 1998, when Nikko Group became a part of Citigroup, the firm had a very strong relationship with MUFG (specifically the former Mitsubishi Bank), and this led many analyst and spectators to believe with the history and capital firepower that MUFG possessed, the firm would have the upper hand in the auction for Nikko. With the inclusion of Morgan Stanley's Japanese operations, if MUFG had been able to include Nikko into it's group, the impact on the makeup of the domestic securities industry would have been unprecedented and just the thought of not being able to bring that to fruition was extremely disappointing to the group. At the same time, with this set back, the necessity for the completion of the merging of the Morgan Stanley Japanese unit became even more pressing.

On the other hand, SMFG also had a massive turn of events. Up until acquiring Nikko Securities, in order to supplement its weak position in the securities region, the group had been aligned with the second largest player Daiwa Securities. In 1999, with an equity position of 60% to Daiwa and 40% to SMBC, the two firms created a joint venture called Daiwa SMBC, which was mainly in charge of

[14] Diamond Weekly, July 4th 2009. "*Heated in the Fighting for Nikko, Major Battle by Banks and Securities Firms,*" pages 32-36.

covering wholesale clients. The ability of SMBC to introduce corporate clientele to Daiwa SMBC was absolutely pivotal to its success. It became clear with the purchase of NikkoCiti, that was primarily a player in corporate client coverage; SMBC had desired to obtain a security firm that it could hold as a 100% subsidiary. With the redundancy and overlapping of NikkoCiti and Daiwa SMBC, Sumitomo Mitsui had strongly intended to merge the two operations, and upon the absorption of NikkoCiti, they pressed Daiwa to rethink its equity position in the Joint venture.

But unfortunately, as a result of the pressure SMFG placed on Daiwa, the two firms announced the annulment of Daiwa SMBC on September 10th 2009.[15] The scheme ended with SMFG selling-back its 40% equity position to Daiwa, and Daiwa taking the unit on as a wholly owned subsidiary. Although, SMFG attempted and targeted a completion of the merger of Daiwa SMBC and Nikko to create the largest domestic investment bank in Japan, Daiwa rejected the idea. It was stated by Daiwa's management that, with remitting the wholesale investment banking unit, and having SMFG take on a majority stake hold in the joint venture, the firm felt that their was a dangerous chance that Daiwa would be entirely absorbed into SMFG.

As a result, Daiwa elected, after a 10-year marriage by joint venture, to call it quits with SMBC. Although, SMFG's hand was soared from the originally laid out plan having taken a setback, by looking at it on the flip side, the firm did indeed solve its long unfulfilled desire to have a subsidiary in the securities industry, and with having a 100% stake in Nikko, and in turn the chance for the firm to utilize the investment bank to it's strategic fullest. SMFG was also able to pocket ¥200 billion ($2.2 billion) for divesting in the Daiwa SMBC joint venture.

The outcome of the global financial crisis was a consolidation of the financial service industry, not just overseas, but within Japan itself, and lead to SMFG taking holding a consolidated subsidiary, and in effect greatly strengthen the management of the group as a whole. In contrast, MUFG had, which at one point been a fully consolidated subsidiary, began the process of tracing its securities platform back to a joint venture.

Morgan Stanley's Recovery and Change in Business Model

With the only two surviving Investment Banks, Morgan Stanley and Goldman Sachs, becoming bank holding companies and more so having the firms brand and pride tarnished due to having to not only take $10 billion in US tax payer's money, but also needing further funding from private enterprises. Goldman struck a quite lucrative and expense deal with Warren Buffett for $5 billion in preferred shares with a 10% dividend rate attached. To put it into perspective that would be by October 2010, Goldman

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[15] Financial Times, September 10th 2009. "*Daiwa SMBC – more consolidation in Japan*"

would have to pay roughly $1 billion dollars in dividends to Buffet alone. Morgan Stanley also having struck a similar deal with MUFG for a total of $9 billion with an almost identical 10% dividend kicker, leading these two firms to reevaluate and redesign its business model for the post-Lehman era.[16]

Morgan Stanley's movement towards more stable Cash Flow

Through the drubbing the firm undertook during the crisis, their was a strong movement within the firm to reevaluate how risk was perceived and to see if their were any opportunities to develop a business model that could create a more stable cash flow and one that it could leverage the firms strengths in commodities, corporate debt and equities cash.[17] Furthermore the firm had previously had the highest leverage on the street, even more so then the now non-existent Bear Sterns and Lehman Brothers with over 33% and 35% respectively. Although this high leverage was seen to be caused primarily by proprietary trade, where the firm along side the investor, invests it own capital to leverage trades and boast profits. As the newly appointed CEO of Morgan Stanley James Gorman stated: "Leverage kills", and this mind set seemed to become a standard that Morgan Stanley had taken away from the financial crisis.[18] In order to shift away from Proprietary trading and at the same time not to destroy shareholder's wealth by simply divesting and becoming a smaller the firm, the firm decided to take advantage of a change in the market positioning and to attempt to funnel and enhance its trading in commodities and fixed income. This move meant enhancing the fee driven business of Retail Brokerage.

The firm had since the merger with Dean Witter, had been a strong player within the Wealth Management industry, and by 2008 had created a brand and firm that included an army of brokers of over 8,000 strong and a total of $707 billion in client assets. The firm had been steadily ranked in the top 10 of wealth management funds over the past decade, and yet due to many competitor having gapping holes in their balance sheets' and demise of many key rivals, Morgan Stanley with the new invigoration of "Japanese money" and support of the US TARP money, sought to make stronger inbounds into this market. To get a sense of the market and it rivals and the necessity felt by Morgan Stanley to make a move in Wealth Management, according to 2007 ranking the top 10 wealth management firms in the USA included: Merrill Lynch, Smith Barney (Citigroup), BOA, Wachovia, Morgan Stanley, Wells Fargo, UBS, JP Morgan, Fidelity, Charles Schwab's, and Wells Fargo.[19] This meant that as of October 2008, the industries number 1 and number 3 had merged with the fire sale of Merrill Lynch to Bank of America, and the number 4 firms had been purchased by the number 10 largest, with the absorption of Wachovia into Wells Fargo as of October 3rd. Furthermore, JP Morgan had also strengthened its position through the acquisition of Bear Sterns and the birth of JP Morgan Securities. This meant a massive shift in the size and economies of scale of the major players within the industry. This shift also seemed to

[16] Forbes online, November 10th 2010. "*Why Goldman Sachs Can't Repay Warren Buffett*"
[17] According to CEO's comments at 2010 Annual Meeting with Shareholders
[18] Forbes online, November 8th 2010. "*Morgan Stanley CEO: 'Leverage Is A Killer'*"
[19] *Referenced from Wall Street Journal Report.*

have a strong signaling of investor's demand for a more balance and variety in portfolio diversification. In order to maximize portfolio allocation, investors weary of the real estate market and the volatility within the stock market, the need for portions of the portfolio made up of depository notes, or other fixed income instruments that could be provided cheaply by wealth managers had affiliation with strong commercial banks appeared to be the most vivid shift in the industry.

Although with the strong becoming stronger, a major consolidation had seemed to pass Morgan Stanley by due to its own financial difficulties, and yet the wealth management industry also created an opportunity that the firm could take advantage, this came in the form of Citigroups' Smith Barney.

Citigroup has been the un-refuted most famous banking conglomerate worldwide with operations in over 100 countries, and one of the largest balance sheets of any of the banks in America. Citigroup was probably the hardest hit within the financial crisis and received a total of $45 billion in bailout funds from the US government, which in terms of equity size meant that the government owned roughly 36% of the firm. On top of this, the firm by December of 2008 had accumulated a total of $100 billion losses in credit derivatives and write-downs and posted more consecutive losses.[20] With Citigroup's stock remaining stagnant at $2-3 compared from roughly $45 as late as the winter of 2007, coupled with pressure from the US government to stabilize the firm's balance sheet, Citi's CEO Vikram Pandit began to decide on which portions of the firm needed to be divested and the general strategy of the firm was to attempt to re-strengthen itself and to reestablish itself as the strongest global commercial bank in the world. This meant that firm's Smith Barney in America and the Japanese unit of Nikko Cordial brokerage arms became available for sale.

Purchase of Smith Barney

The purchase of the majority stake in Smith Barney was finalized and presented to investors on January 13th, 2009. Morgan Stanley took ownership of 51% and Citi remained a 49% stakeholder of the Joint Venture. This meant that Citigroup would receive $2.7 billion in cash that it desperately needs to increase its Tier 1 capital ratios.[21] Morgan Stanley to have a majority representation on the Board of Directors of the combined entity, with Morgan Stanley having four representatives and Citigroup having the remaining two. The deal structure was designed to give Morgan Stanley the opportunity to increase its shareholding and yet allowed for the firm to continue to offer products from both Citi and Morgan Stanley.

The joint venture meant that Morgan Stanley was to exchange its Core Retail, Private Wealth Management and International, and Private Wealth Management arm, while Citi would be including Smith Barney US, Quilter UK and Smith Barney Australia arms. The most intriguing portion of

[20] According to Report by Bloomberg, Revised July, 2010.
[21] According to Morgan Stanley Merge announcement presentation

the deal to the market at the time was the increase in equity stake option that was entitled to Morgan Stanley, the structuring meant that Morgan Stanley could take an additional 14% (increase stake of 65%) as of 2012, an additional 15% (increase stake of 80%) percentage as of 2013 and the remaining stake by 2014. The general market reaction was that the deal made sense from both sides. For a cash strapped Citigroup, it was able to obtain over $2.5 billion in cash, as well as being able to maintain a strong equity position in the firms meaning it would still gain from revenue increases that would occur due to any synergies that could possibly be born from forging with Morgan Stanley's brokerage arm.[22] On the Morgan Stanley side, the firm much like Citigroup had taken a hard hit from the crisis and clearly did not have the $5 billion or so that it would have potentially costs to purchase Smith Barney outright. And yet the firm was able to create the world's largest Wealth Management firm with over $1.7 trillion in client assets and overtook both Wells Fargo and Merrill Lynch (Bank of America) as number one in the market. The overall expense synergy estimates from the firms were said to be roughly $1.1 billion, but it was also estimated that merging costs could reach approximately $250 million or more.[23]

Raising Capital in Volatile Capital Market and Diversifying

Morgan Stanley with a daunting dividend payments looming due not only 10% due to the government, but a similar rate on the investment from MUFG, which unlike the government money, had various strings attached, utilizing strong 2009 quarter one earnings where the firms was able to create $3 billion in revenue, and the media exposure and positive reaction of the newly formed MSSB venture which upon completion would increase the Global Wealth Management unit's revenue stream by $2-3 billion per annum, to raise $4 billion in common equity. The firm originally planned to issue $2.2 in common equity, but according to the firm's press release, investors' demand was unexpectedly buoyant. This was also followed by an unsecured debt issuance of roughly $4 billion. This was the first major issuance by the firm since it became a Bank Holding Company and was part of a rush by most major financial institutions to re-stabilize balance sheets and as a partial reaction to the stress test by regulators, testing the appropriate amount of core capital that each of the 19 major institutions required in the event of a similar downturn to one they undertook less then 6 months earlier. This liquidity increase was in part to pay-off the TARP funds, but also in order to balance the lost in liquid cash through the $2.7 billion the firm would have to compensate Citigroup for the 51% share in Smith Barney. The firm then furthered it financial positioning by issuing roughly $5.5 billion in unsecured corporate debt. Through these capital raising actives and divestures in multiple divisions, the firm by the end of 2009 was able to lower its leverage position from the highs of roughly 33% to a trough of 11%.[24]

With the TARP money pay-off announcement on June 19th of 2009, the firm was not only to give

[22] Taken from Conference call to investor regarding Smith Barney Purchase. January 13th 2009.
[23] Bloomberg Businessweek, August 30th 2010. "*Merrill Mauls Morgan Stanley in Brokerage Titan Clash*"
[24] According to Conference call for Annual Financial Results, January 2010.

itself the breathing room it needed, but also and more relevant was its ability to settle markets uneasy regarding the whole reaction of the general public on how easily and without appropriate repercussions the big banks were bailout. According to Morgan Stanley's CEO, the government in the end pocketed a return per annum of roughly 21% for the government from its investment in Morgan Stanley. With the firm free to a certain degree from the shadow of the FRB, the firm turned to strengthen and reestablish where the firm's core business lay and attempted to strike a balance between risk, return and use of their balance sheet. The firm desired to take advantage of operations that it could leverage scale and effectively execute on a global level, while leaning up but dropping units that the firm felt it could not take advantages of its core strengths. This led to the firm's conclusion to cut loose the retail asset management unit. The retail asset management market had too gone through multiple shifts in the trend of the market and in reality although it used relatively little balance sheet exposure, in order to create a large enough profit margin to make operations feasible, a certain amount of scale was necessary. Morgan Stanley decided that it could not invest into the scale to rationalize attempting to create traction in its operations and in October of 2009, strategically divested in this unit to Invesco, a mid-size asset management firm, for $1.5 billion in cash and stocks. "I don't think the banks necessarily still needed the cash, but the combination of increasing capital and not viewing asset management as a core business meant these deals still made sense," was the statement by one analyst, and Morgan Stanley became the fourth large bank to exit the retail asset management segment of the market.[25] With Bank of America selling back the Columbia fund, and Barclay's sell-off of its well established Barclay's Investment Partners to Blackrock for a staggering $13.5 billion, the deal also include it much praised ETF unit of iShares.[26] The general market reaction was relatively positive, because Morgan Stanley by establishing itself as a dominant player in the wealth management segment with the acquisition of Smith Barney, the firm was maintaining it position and strategic direction to strive towards a increasingly stable and low leverage cash-flow business model.

When the dust settle on the year 2009, Morgan Stanley was able to in effect transition itself in terms of: divesting a total of 3 units, strengthened its capital position greatly and capture a strong partner in a market segment that from the effects of the crisis, had become an even more crowded space. And finally was able to in total raise $13.5 billion in debt and equity, using it to pay back the bailout funds, and stabilize its balance sheet to respectable leverage of roughly 18%. It appeared with all the transitions during 2009, the deal with MUFG seemed to be put on the side-lines, but with many economist calling for a "jobless recovery" and generally a long time before the engine of the American economy – "the consumer" - could begin to fire on all cylinders once again, it can go without saying that management at Morgan Stanley was conscientious of the relevance and potential in strengthen its operations in East Asia.

[25] Bloomberg, November 10th 2010. "*Morgan Stanley to Sell Invesco Stake After 28% Climb*"
[26] IBID

Background of the complex Joint venture scheme

On November 18th 2009, MUFG and Morgan Stanley announced a re-haul of the overall restructure of the Joint Venture. The new framework would be as follows: MUFG would establish a controlling interest and overlook the M&A advisory unit and underwriting divisions, with the firm being called MUFJ Morgan Stanley. The fixed-income and equity trading units would be removed from the scope of the deal altogether, and the remaining operation would be in theory a cooperative unit with Morgan Stanley Japan taking control of these operations. According to press releases, after the initial agreement between the two firms, due to considerations over the original scheme's structure, the organizations with guidance from the Japanese Regulatory bodies readjusted the shape of the entities and decided upon a framework of two independent units being a more effective direction.

MUFG insisted that in order to optimize the merits of aligning with the Morgan Stanley franchise that this change in the framework was necessary. It came to surface that the Regulator's dilemma was mainly driven by a problem of how to undertake and interpret risk management of the two firms. According to the November 18th Asahi Newspaper report, Morgan Stanley with its headquarters in New York as a main pillar, was running its trading book cross-border and operating all trading units under one system. The article emphasized that because the trading unit of Morgan Stanley was running a 24/7 unit throughout Japan, Europe and American capital markets, that if Morgan Stanley didn't retain managerial control of these trading books that risk management could be severely compromised. And with regulators tightening up as a reaction to the crisis, the firms came to the collective decision that in order to make the merger of the operations a reality readjusting this framework was necessary. Unfortunately, as a result, the original unity of the two securities became an overlapping of systems leading to possible competition in certain units. **(Exhibit 1)**

Future Issues and Developments

Although, the media was a buzz as the two joint ventures start operations officially in May of 2010, both firms have lingering issues that need to be resolved and hurdles that remain to be overcome. These key issues can probably be broken-down into two main fractions.

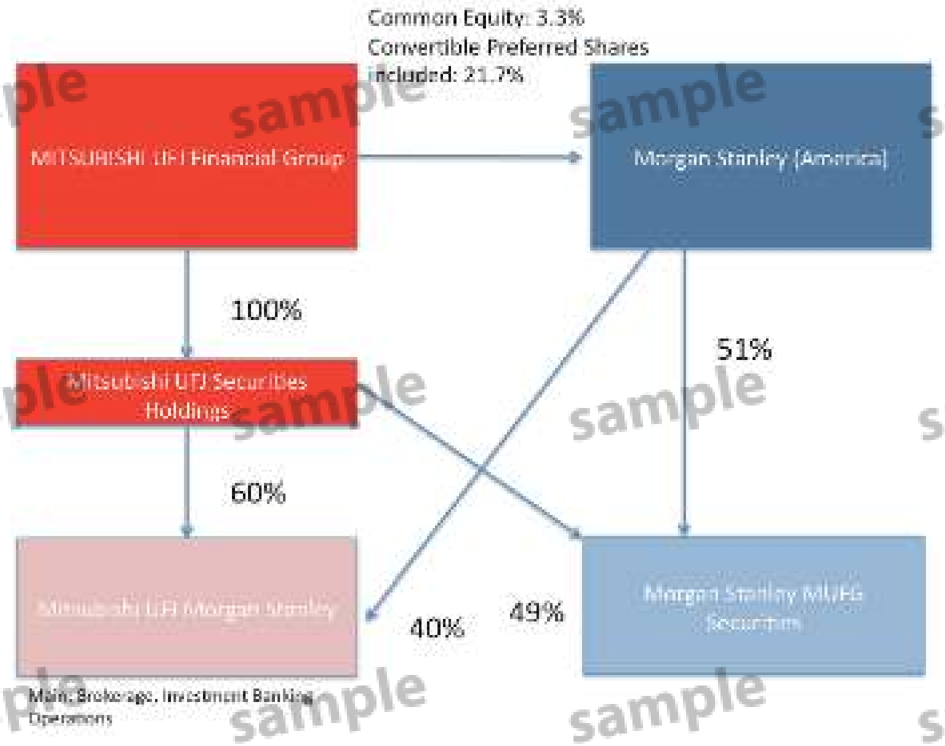
Firstly, the two firms ability to correct overly complex operational and redundant operations. The fact that the highly profitable equity and fixed-income trading units have exactly the same line-up and set-up previous to the merger still remains unsolved. Although, as the two operations cooperate with each other, Morgan Stanley trying to acquire public issuance deals overseas, their will certainly be unavoidable instance where customers will overlap and it remains unclear as to how they will handle deals when the two joint ventures compete. It can be pointed out that the chances of this creating an ineffective and redundancy from an operational standpoint are high.

The second source of concern is the Investment Banking unit. According to the May 7th Nikkei newspaper article, Mitsubishi UFJ Morgan Stanley would be receiving around 100 bankers from the old Morgan Stanley advisory service team, and with the approximate 300 or so bankers from the previous MUFJ Securities, the Investment Banking arm would become the largest domestic team in terms of scale. The problem lays in the fact that the bankers being sent over from Morgan Stanley have a massive gap in terms of compensation and pay structure compared to the MUFG bankers, and the firm's ability to adjust and maintain key personnel from both sides remains to be seen. It may not only be just an issue of pay structures, as the two firms appear to have large variations on inter-firm culture, approaches to deal structuring and lines of decision making. This is very much one of the major dilemmas that Nomura is suffering from after attempting to digest Lehman Brothers' European and Asia operations. As well as the situation the bankers at Nikko's Investment Banking unit face with the investment bank being slowly integrated into SMBC.

With the historical legacy of Japanese financial firm's attempts to move into foreign operations with lack luster managerial proficiency and not being able to maintain or control local bankers still hanging over like a dark shadow, the creation of a complex and confusing structure, many issues can be quickly and sharply point to. Furthermore, compared to at the time of taking an equity position in Morgan Stanley, the stock price has risen considerably. There are others that have pointed to a scenario of squashing the whole alliance, sell back the shares in Morgan Stanley and take in huge profits in capital gains. Or simply sitting on the equity position in Morgan Stanley and absorb a nice $900 million in dividend payment per annum along with Morgan Stanley's share price hovering above the strike price of $25.25, the bank has to decide where is the optimal price range to convert the preferred shares into common equity.

Lastly, with the extensive movement in many of the domestic and international players in the market, which strategy will be the most effective in creating a dent in the throne of Nomura within the domestic market and which domestic player will be able to make inbounds into the international market remains to be seen.

Exhibit 1a: Joint Venture Scheme



Source: Japanese Version taken from Morgan Stanley's Press Release and Translated by Author

Exhibit 1b: Joint Venture Business Operations

Mitsubishi UFJ Morgan Stanley		Morgan Stanley MUFG Securities
O	Retail, Small Business Brokerage	Cooperation, but also competition
O	M&A Advisory	
O	Equity/ Bond Underwriting	O
O	Equity/ Fixed-Income Sales	O
O	Research	O

Source: Nikkei Newspaper (2010/5/7)

Source: Nikkei Newspaper, translation by Author

Exhibit 2a: Morgan Stanley Financial Results Summary Q1 2010

	Quarter Ended June 30, 2010	Quarter Ended Mar 31, 2010	Quarter Ended June 30, 2009	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
Net revenues					
Institutional Securities	$ 4,522	$ 5,344	$ 2,967	$ 9,866	$ 4,968
Global Wealth Management Group	3,074	3,105	1,329	6,179	2,222
Asset Management	410	859	355	1,269	560
Intersegment Eliminations	-36	-24	-51	-60	-75
Consolidated net revenues	$ [illegible]	$ [illegible]	$ 5,197	$ [illegible]	$ 8,094
Income / (loss) from continuing operations before tax					
Institutional Securities	$ 1,570	$ 2,057	$ (236)	$ 3,627	$ (760)
Global Wealth Management Group	207	278	77	485	49
Asset Management	-86	173	-210	87	-483
Intersegment Eliminations	-15	-2	-5	-15	-7
Consolidated income / (loss) from continuing operations before tax	$ 1,676	$ 2,515	$ (384)	$ 4,194	$ (1,214)
Income / (loss) applicable to Morgan Stanley					
Institutional Securities	$ 1,382	$ 1,733	$ (122)	$ 3,115	$ 84
Global Wealth Management Group	116	98	20	214	149
Asset Management	-44	14	-99	-31	-334
Intersegment Eliminations	-11	-1	-3	-12	-4
Consolidated income / (loss) applicable to Morgan Stanley	$ 1,437	$ 1,845	$ (129)	$ 3,282	$ (140)
Earnings / (loss) applicable to Morgan Stanley common shareholders	$ 1,574	$ [illegible]	$ (1,256)	$ 2,984	$ (1,840)
Earnings per basic share:					
Income from continuing operations	$ 0.84	$ 1.43	$ (1.22)	$ 1.60	$ (1.82)
Discontinued operations	$ 0.36	$ (0.35)	$ 0.39	$ 0.21	$ 0.11
Earnings per basic share	$ 1.20	$ 1.07	$ (1.13)	$ 2.27	$ (1.71)
Earnings per diluted share:					
Income from continuing operations	$ 0.80	$ 1.03	$ (1.22)	$ 1.62	$ (1.82)
Discontinued operations	$ 0.24	$ (0.35)	$ 0.24	$ 0.26	$ 0.11
Earnings per diluted share	$ 1.04	$ 0.68	$ (1.10)	$ 2.28	$ (1.71)

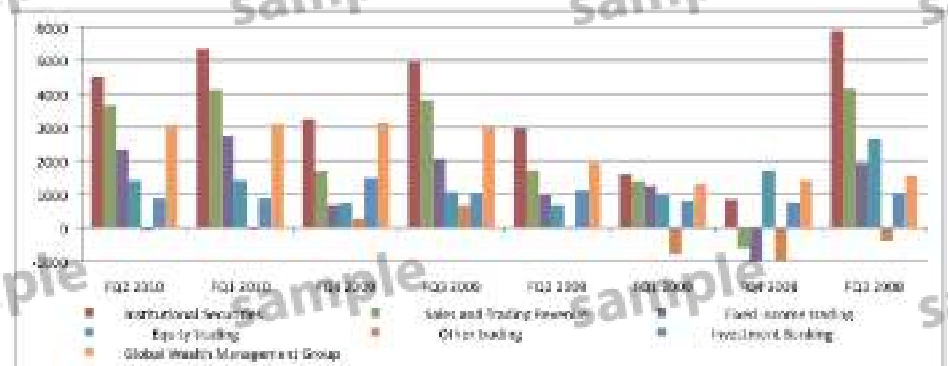
Source: Morgan Stanley Press Release

Exhibit 2b: Morgan Stanley Financial Results Summary Fiscal Year 2009

	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	Percentage Change
Net revenues											
Institutional Securities	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Global Wealth Management Group	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Asset Management	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Intersegment Eliminations	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Consolidated net revenues	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Income / (loss) applicable to Morgan Stanley											
Institutional Securities	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Global Wealth Management Group	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Asset Management	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Intersegment Eliminations	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Consolidated income / (loss) applicable to Morgan Stanley	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Earnings / (loss) applicable to Morgan Stanley common shareholders	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Earnings per basic share:											
Income from continuing operations	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Discontinued operations	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Earnings per basic share	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Earnings per diluted share:											
Income from continuing operations	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Discontinued operations	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Earnings per diluted share	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]			
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]			

Source: Morgan Stanley Press Release

Exhibit 3: Morgan Stanley's Revenue Stream Quarterly Breakdown



Source: Morgan Stanley Press Release

Exhibit 4a: Morgan Stanley Balance Sheet as of November 2008

	November 30, 2008	November 30, 2007
Assets		
Cash and due from banks	$ 11,276	$ 7,248
Interest bearing deposits with banks	67,378	18,350
Cash and securities deposited with clearing organizations or segregated under federal and other regulations or requirements (including securities at fair value of $33,642 in 2008 and $31,354 in 2007)	59,088	61,608
Financial instruments owned, at fair value (approximately $62 billion in 2008 and $131 billion in 2007 were pledged to various parties):		
U.S. government and agency securities	20,251	23,887
Other sovereign government obligations	20,071	21,606
Corporate and other debt	88,484	147,724
Corporate equities	37,174	87,377
Derivative and other contracts	99,766	77,003
Investments	10,375	14,270
Physical commodities	2,204	3,096
Total financial instruments owned, at fair value	278,325	374,963
Securities received as collateral, at fair value	5,217	82,229
Federal funds sold and securities purchased under agreements to resell	72,777	126,887
Securities borrowed	85,785	239,994
Receivables:		
Customers	31,294	76,352
Brokers, dealers and clearing organizations	7,259	16,011
Other loans	6,528	11,629
Fees, interest and other	7,034	8,320
Other investments	3,309	4,524
Premises, equipment and software costs (net of accumulated depreciation of $3,003 in 2008 and $3,449 in 2007)	5,057	4,372
Goodwill	2,243	3,024
Intangible assets (net of accumulated amortization of $200 in 2008 and $175 in 2007) (includes $220 and $428 at fair value in 2008 and 2007, respectively)	895	1,047
Other assets	15,347	8,851
Total assets	$658,812	$1,045,409

Source: Morgan Stanley Press Release

Exhibit 4a: Morgan Stanley Balance Sheet as of November 2008

	November 30, 2008	November 30, 2007
Liabilities and Shareholders' Equity		
Commercial paper and other short-term borrowings (includes $1,412 and $3,068 at fair value in 2008 and 2007, respectively)	$ 10,483	$ 34,495
Deposits (includes $6,008 and $3,769 at fair value in 2008 and 2007, respectively)	42,755	31,179
Financial instruments sold, not yet purchased, at fair value:		
U.S. government and agency securities	10,156	8,221
Other sovereign government obligations	9,360	15,627
Corporate and other debt	9,361	7,592
Corporate equities	16,547	30,899
Derivative and other contracts	73,521	71,604
Physical commodities	—	398
Total financial instruments sold, not yet purchased, at fair value	118,945	134,341
Obligation to return securities received as collateral, at fair value	5,217	82,229
Securities sold under agreements to repurchase	102,401	162,840
Securities loaned	14,821	110,423
Other secured financings, at fair value	12,527	27,772
Payables:		
Customers	115,225	203,453
Brokers, dealers and clearing organizations	3,141	10,454
Interest and dividends	2,584	1,724
Other liabilities and accrued expenses	16,445	24,606
Long-term borrowings (includes $28,830 and $38,392 at fair value in 2008 and 2007, respectively)	163,437	190,624
	607,981	1,014,140
Commitments and contingencies		
Shareholders' equity:		
Preferred stock	19,155	1,100
Common stock, $0.01 par value;		
Shares authorized: 3,500,000,000 in 2008 and 2007;		
Shares issued: 1,211,701,552 in 2008 and 2007;		
Shares outstanding: 1,047,598,394 in 2008 and 1,056,289,659 in 2007	12	12
Paid-in capital	1,619	1,902
Retained earnings	38,096	38,045
Employee stock trust	3,901	5,569
Accumulated other comprehensive loss	(125)	(199)
Common stock held in treasury, at cost, $0.01 par value; 164,103,158 shares in 2008 and 155,411,893 shares in 2007	(7,926)	(9,591)
Common stock issued to employee trust	(3,901)	(5,569)
Total shareholders' equity	50,831	31,269
Total liabilities and shareholders' equity	$658,812	$1,045,409

Source: Morgan Stanley Press Release

Exhibit 4c: Morgan Stanley Balance Sheet Asset Side as of Sept. 2010

	September 30, 2010	December 31, 2009
Assets		
Cash and due from banks ($245 at September 30, 2010 related to consolidated variable interest entities generally not available to the Company)	$ 6,936	$ 6,988
Interest bearing deposits with banks	26,179	25,003
Cash deposited with clearing organizations or segregated under federal and other regulations or requirements	20,273	23,712
Financial instruments owned, at fair value (approximately $147 billion and $101 billion were pledged to various parties at September 30, 2010 and December 31, 2009, respectively):		
U.S. government and agency securities	64,823	62,215
Other sovereign government obligations	38,210	25,445
Corporate and other debt ($3,917 at September 30, 2010 related to consolidated variable interest entities, generally not available to the Company)	93,096	90,454
Corporate equities	61,835	57,968
Derivative and other contracts	57,054	49,081
Investments ($1,656 at September 30, 2010 related to consolidated variable interest entities, generally not available to the Company)	10,033	9,286
Physical commodities	6,668	5,329
Total financial instruments owned, at fair value	331,719	299,778
Securities available for sale	24,254	—
Securities received as collateral, at fair value	17,062	13,656
Federal funds sold and securities purchased under agreements to resell	153,952	143,208
Securities borrowed	162,434	167,501
Receivables:		
Customers	33,140	27,594
Brokers, dealers and clearing organizations	9,866	5,719
Fees, interest and other	9,959	11,164
Loans	9,568	7,259
Other investments	5,712	3,752
Premises, equipment and software costs (net of accumulated depreciation of $4,322 and $3,734 at September 30, 2010 and December 31, 2009, respectively) ($485 at September 30, 2010 related to consolidated variable entities, generally not available to the Company)	6,032	7,067
Goodwill	6,766	7,162
Intangible assets (net of accumulated amortization of $542 and $275 at September 30, 2010 and December 31, 2009, respectively) (includes $139 and $137 at fair value at September 30, 2010 and December 31, 2009, respectively)	4,808	5,054
Other assets	12,712	16,845
Total assets	$841,372	$771,462

Source: Morgan Stanley Press Release

Exhibit 4d: Morgan Stanley Liabilities and Equity Side as of Sept. 2010

	September 30, 2010	December 31, 2009
Liabilities and Equity		
Commercial paper and other short-term borrowings (includes $2,220 and $791 at fair value at September 30, 2010 and December 31, 2009, respectively)	$ 4,649	$ 2,378
Deposits (includes $4,214 and $4,967 at fair value at September 30, 2010 and December 31, 2009, respectively)	61,202	62,215
Financial instruments sold, not yet purchased, at fair value:		
U.S. government and agency securities	25,092	20,503
Other sovereign government obligations	23,154	18,244
Corporate and other debt	10,363	7,826
Corporate equities	28,987	22,601
Derivative and other contracts	54,988	38,209
Total financial instruments sold, not yet purchased, at fair value	142,584	107,383
Obligation to return securities received as collateral, at fair value	17,062	13,656
Securities sold under agreements to repurchase (includes $266 at fair value at September 30, 2010)	167,111	159,401
Securities loaned	31,123	26,246
Other secured financings (includes $8,481 and $8,102 at fair value at September 30, 2010 and December 31, 2009, respectively) ($2,970 at September 30, 2010 related to consolidated variable interest entities and are non-recourse to the Company)	9,826	8,102
Payables:		
Customers	124,185	117,058
Brokers, dealers and clearing organizations	3,447	5,423
Interest and dividends	2,813	2,597
Other liabilities and accrued expenses	15,297	20,849
Long-term borrowings (includes $40,809 and $37,610 at fair value at September 30, 2010 and December 31, 2009, respectively)	196,491	193,374
	725,790	718,682
Commitments and contingencies		
Equity		
Morgan Stanley shareholders' equity:		
Preferred stock	9,597	9,597
Common stock, $0.01 par value;		
Shares authorized: 3,500,000,000 at September 30, 2010 and December 31, 2009;		
Shares issued: 1,603,913,074 at September 30, 2010 and 1,487,850,163 at December 31, 2009;		
Shares outstanding: 1,512,989,777 at September 30, 2010 and 1,360,595,214 at December 31, 2009	16	15
Paid-in capital	13,389	8,619
Retained earnings	38,056	35,056
Employee stock trust	3,549	4,064
Accumulated other comprehensive loss	(116)	(560)
Common stock held in treasury, at cost, $0.01 par value; 90,923,297 shares at September 30, 2010 and 127,254,949 shares at December 31, 2009	(4,066)	(6,039)
Common stock issued to employee trust	(3,549)	(4,064)
Total Morgan Stanley shareholders' equity	56,876	46,688
Noncontrolling interests	8,706	6,092
Total equity	65,582	52,780
Total liabilities and equity	$841,372	$771,462

Source: Morgan Stanley Press Release

Exhibit 5a: MUFG Balance Sheet as of March 2009

Consolidated Balance Sheets

(in millions of yen)	As of March 31, 2008	As of March 31, 2009
Assets:		
Cash and dues from banks	10,281,603	6,562,378
Call loans and bills bought	1,293,705	293,415
Receivables under resale agreements	7,099,711	2,544,848
Receivables under securities borrowing transactions	8,240,482	6,797,028
Monetary claims bought	4,593,198	3,394,519
Trading assets	11,898,762	17,452,426
Money held in trust	401,448	326,298
Securities	40,851,677	48,314,122
Allowance for losses on securities	(30,166)	(37,104)
Loans and bills discounted	88,538,810	92,056,820
Foreign exchanges	1,241,856	1,058,640
Other assets	5,666,981	7,795,056
Tangible fixed assets	1,594,214	1,380,900
Buildings	364,819	339,096
Land	775,670	763,647
Lease assets		2,631
Construction in progress	8,533	1,811
Other tangible fixed assets	447,192	259,413
Intangible fixed assets	975,043	1,208,783
Software	372,538	485,611
Goodwill	336,240	570,664
Lease assets		181
Other intangible fixed assets	268,265	153,326
Deferred tax assets	773,688	1,235,139
Customers' liabilities for acceptances and guarantees	10,652,865	9,534,900
Allowance for credit losses	(1,080,502)	(1,185,266)
Total assets	192,993,179	198,733,906

Source: MUFG Press Release

Exhibit 5b: MUFG Balance Sheet Debt Side as of March 2009

(in millions of yen)	As of March 31, 2008	As of March 31, 2009
Liabilities:		
Deposits	121,307,300	120,149,591
Negotiable certificates of deposit	7,319,321	7,570,547
Call money and bills sold	2,286,362	2,272,292
Payables under repurchase agreements	10,490,735	11,926,997
Payables under securities lending transactions	5,897,051	4,270,365
Commercial papers	349,355	141,436
Trading liabilities	5,944,552	9,868,818
Borrowed money	5,050,000	7,729,258
Foreign exchanges	972,113	804,425
Short-term bonds payable	417,200	323,959
Bonds payable	6,285,566	6,495,158
Due to trust accounts	1,462,822	1,798,223
Other liabilities	4,386,814	6,634,917
Reserve for bonuses	49,798	42,615
Reserve for bonuses to directors	434	150
Reserve for retirement benefits	64,771	84,820
Reserve for retirement benefits to directors	2,100	1,958
Reserve for loyalty award credits	8,079	8,654
Reserve for contingent losses	133,110	277,608
Reserve for losses relating to business restructuring	22,865	
Reserves under special laws	4,639	3,339
Deferred tax liabilities	84,185	28,993
Deferred tax liabilities for land revaluation	198,402	194,226
Acceptances and guarantees	10,652,865	9,534,900
Total liabilities	183,393,470	190,163,264
Net Assets:		
Capital Stock	1,383,052	1,620,896
Capital surplus	1,865,698	1,898,031
Retained earnings	4,592,960	4,168,625
Treasury stock	(726,001)	(6,867)
Total shareholders' equity	7,115,707	7,680,685
Net unrealized gains (losses) on other securities	595,352	(776,397)
Net deferred gains (losses) on hedging instruments	79,043	111,001
Land revaluation excess	143,292	142,502
Foreign currency translation adjustments	(52,566)	(302,352)
Pension liability adjustments of subsidiaries under US GAAP		(51,822)
Total valuation and translation adjustments	765,121	(877,067)
Subscription rights to shares	2,509	4,650
Minority interests	1,716,370	1,762,072
Total net assets	9,599,708	8,570,641
Total liabilities and net assets	192,993,179	198,733,906

Source: MUFG Press Release

Exhibit 5c: MUFG Income Statement Fiscal Year 2008

(in millions of yen)

	For the fiscal year ended March 31, 2008	For the fiscal year ended March 31, 2009
Ordinary income	6388051	5677450
Interest income	3867924	3448391
Interest on loans and bills discounted	2302324	2204409
Interest and dividends on securities	785581	877778
Interest on call loans and bills bought	21514	14068
Interest on receivables under resale agreements	218138	182831
Interest on receivables under securities borrowing transactions	58130	20002
Interest on deposits	231080	110814
Other interest income	251165	250468
Trust fees	151720	119474
Fees and commissions	1249480	1138306
Trading income	385315	253069
Other business income	319530	536305
Other ordinary income	439080	181924
Ordinary expenses	5364935	5594852
Interest Expense	2027079	1473042
Interest on deposits	881483	601726
Interest on negotiable certificates of deposit	148124	102020
Interest on call money and bills sold	40829	24406
Interest on payables under repurchase agreements	338068	249360
Interest on payable under securities lending transactions	60270	23169
Interest on commercial papers	18047	3301
Interest on borrowed money	80742	97011
Interest on short-term bonds payable	3018	4418
Interest on bonds payable	178121	159898
Interest on bonds with warrants	8	
Other interest expenses	285167	206626
Fees and commissions	175921	168229
Other business expenses	239540	581921
General and administrative expenses	2157843	2104589
Other ordinary expenses	763763	1266869
Provision for allowance for credit losses	28789	192281
Others	734963	1074588
Ordinary profits	1028013	82907
Extraordinary gains	110388	159070
Gains on disposition of fixed assets	34532	13347
Gains on loans written-off	38875	38267
Reversal of reserve for contingent liabilities from financial instruments		1304
Gains on sales of equity securities of subsidiaries	16075	32472
Gains on business divestitures of subsidiaries	10810	
Gains on changes in subsidiaries' equity	8985	
Reversal of reserve for contingent losses	2120	
Prior year adjustments		58904
Impact upon accounting standards for lease transactions		6186
Others		8087
Extraordinary losses	118533	126816
Losses on disposition of fixed assets	15142	27008
Losses on impairment of fixed assets	14719	15842
Provision for reserve for contingent liab. From financial instruments	752	
Provision for reserve for losses related to business restructuring	64049	6
Prior year adjustments	23869	
Expenses relating to systems integration		83958
Income before income taxes and others	1020079	115061
Income taxes-current	100128	85908
Income taxes-deferred	201091	216131
Total taxes		301939
Minority interests	88034	70073
Net Income (losses)	636624	-256952

Source: MUFG Press Release

Exhibit 6a: MUFG Income Summary as of March 2010

(in billions of yen)

	For fiscal year ended March 31, 2010	For fiscal year ended March 31, 2009	Increase (Decrease)
Net Business profits	3800.4	3272.9	327.5
Gross Profits	2084.8	2083.7	1.1
General and administrative expenses	1515.5	1189.1	326.4
Credit costs	−825.2	−608.4	−216.8
Net gains (losses) on equity securities	32.4	408.7	−376.3
Other non−recurring losses	−177.1	−89.1	−88
Ordinary porfits	545.6	82.8	462.8
Net Income (losses)	386.7	−258.9	645.6
Total credit costs	−825.2	−608.4	−216.8

Source: MUFG Press Release

Exhibit 6b: MUFG Business Segment Summary March 2010

For the fiscal year ended March 31, 2010 (in millions of yen)

	Banking	Trust Banking	Securities	Credit card/loan	Other	Total	(Eliminations)	Consolidated
Ordinary Income From customers	3,371,761	505,044	383,702	606,260	165,704	5,040,580		5,040,200
From internal transactions	111,921	25,713	20,000	18,020	234,822	410,306	(416,509)	(0)
Total	3,483,682	530,558	413,703	620,280	400,326	5,450,588	(410,209)	5,040,281
Ordinary Expenses	3,004,888	478,153	355,463	677,457	171,525	4,697,814	(200,222)	4,434,582
Ordinary profits	478,794	57,404	54,236	(57,168)	228,500	751,771	(210,075)	545,696
Assets	189,126,082	22,823,378	21,544,823	4,012,838	6,285,526	210,900,443	(16,283,906)	204,106,081
Depreciation	141,907	33,840	24,410	37,875	8,357	239,106		239,109
Capital expenditures	148,728	33,370	10,124	24,632	49,328	245,127		245,127

Source: MUFG Press Release

Exhibit 6c: MUFG Debt holdings

Fair Value Information on Securities (in millions of yen)

		As of March 31, 2010				As of March 31, 2009			
		Amount on consolidated balance sheet	Net unrealized gains (losses)	Gains	Losses	Amount on consolidated balance sheet	Net unrealized gains (losses)	Gains	Losses
Debt securities being held to maturity		8417795	82764	84380	1706	8200878	5885	34584	28728
	Domestic bonds	1540438	30068	30068		1537065	16013	30773	1760
	Government bonds	977312	15673	15972		1245065	15617	17571	1758
	Municipal bonds	42348	565	585		51661	751	751	0
	Corporate bonds	220740	3511	3511		243033	2443	2450	7
	Other	2177358	62715	64612	1796	1713338	−13178	12730	28387
	Foreign bonds	1021385	8738	8301	1663	815741	−4130	3799	7929
	Other	1155370	55017	55120	142	1051558	−5048	9991	18037

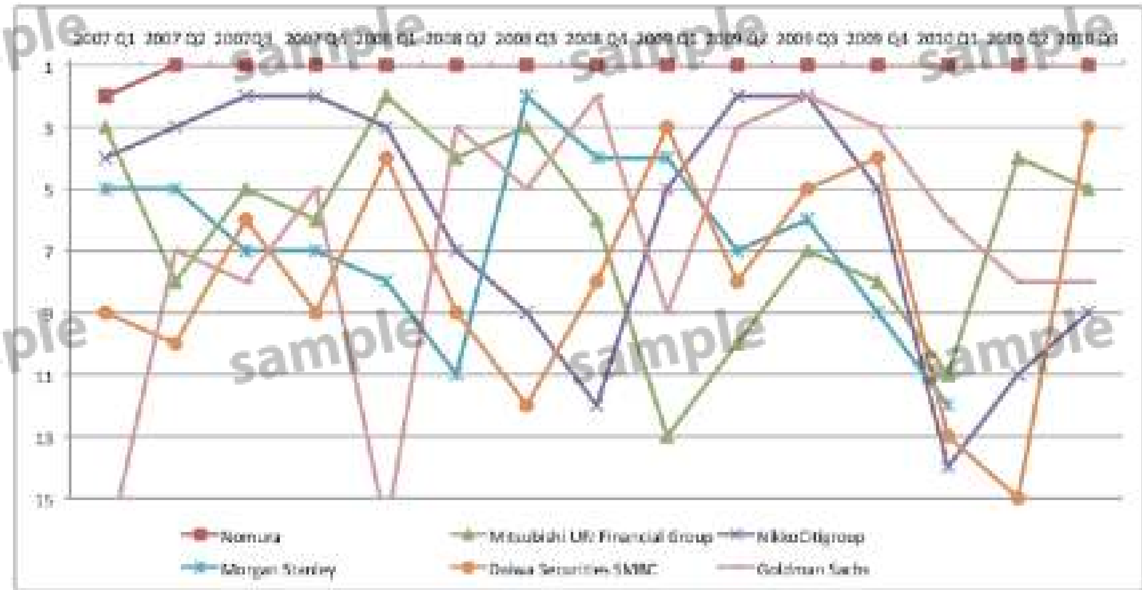
Source: MUFG Press Release

Exhibit 6d: MUFG Tier 1 Capital Summary for 2010

	As of March 31, 2010 (A)	Increase (Decrease) (A)-(B)	As of March 31, 2009 (B)
(1) Risk adjusted capital ratio	14.07%	3.10%	11.77%
Tier 1 ratio	10.63%	2.87%	7.76%
(2) Tier 1 capital	10,009.60	2,434.50	7,575.10
(3) Qualified Tier 2 capital	4,449.60	233.50	4,216.10
(4) Deductions from total qualifying capital	467.50	154.70	312.80
(5) Net quality capital (2)+(3)+(4)	13,991.70	2,513.30	11,478.40
(6) Risk-adjusted assets	94,081.30	(3,412.10)	97,493.40

Source: MUFG Press Release

Exhibit 7: M&A Advisory Rankings from 2007, Transactions Involving Japanese Firms



Source: Data Taken from Thomson Reuter's Quarterly Reports and author's rearrangement

Exhibit 8: Financial Advisory M&A, Debt Issuance, and Equity Issuance Volume Trends

M&A

Financial Advisor	2007	2008 Q1	2008 Q2	2008 Q3	2008 Q4	2009 Q1	2009 Q2	2009 Q3	2009 Q4	2010 Q1	2010 Q2	2010 Q3
Mizuho Financial Group	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Nomura	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mitsubishi UFJ Financial Group	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Citigroup	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Morgan Stanley	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	
Daiwa Securities SMBC	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Deutsche Bank	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Goldman Sachs	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Merrill Lynch	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Debt Issuance

Financial Advisor	2007	2008 Q1	2008 Q2	2008 Q3	2008 Q4	2009 Q1	2009 Q2	2009 Q3	2009 Q4	2010 Q1	2010 Q2	2010 Q3
Mizuho Financial Group	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Nomura	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mitsubishi UFJ Financial Group	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Nikko Citigroup	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Morgan Stanley	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]			
Daiwa Securities SMBC	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Deutsche Bank	[illegible]	NA	NA	NA	NA	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Goldman Sachs	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Merrill Lynch	[illegible]	NA	[illegible]	NA	NA	NA	[illegible]	[illegible]	[illegible]			[illegible]

Equity Issuance

Financial Advisor	2007	2008 Q1	2008 Q2	2008 Q3	2008 Q4	2009 Q1	2009 Q2	2009 Q3	2009 Q4	2010 Q1	2010 Q2	2010 Q3
Mizuho Financial Group	[illegible]	[illegible]	NA	NA	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Nomura	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mitsubishi UFJ Financial Group	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	NA	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mizuho Securities	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Morgan Stanley	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	NA	[illegible]	[illegible]			
Daiwa Securities SMBC	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Deutsche Bank	NA	NA	[illegible]	[illegible]	[illegible]	NA	NA	NA	NA	[illegible]	[illegible]	[illegible]
Goldman Sachs	NA	NA	NA	[illegible]	[illegible]	NA	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Merrill Lynch	[illegible]	NA	NA	NA	NA	NA	NA	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Note: M&A and Equity Issuance Values in Millions US dollars. Debt Issuance is in Millions of Yen.
Source: Thomson Reuters, Author's arrangement

Exhibit 9: Historical M&A Transactions Involving Japanese and Overseas Banks

		Japan			America
Bubble Era	1984	Former Mitsubishi Bank	Acquisition	→	Bank of California
		Former Fuji Bank	Acquisition	→	Heller Financial
	1986	Former Sumitomo Bank	Equity Position	→	Goldman Sachs
		Former Sanwa Bank	Acquisition	→	Lloyds Bank California
		Former Japan Kogyo Bank	Acquisition	→	Schroder Bank
		Former Japan Kogyo Bank	Acquisition	→	A.G. Lanston
	1988	Former Tokyo Bank	Acquisition	→	Union Bank
	1989	Former Daiichi Kangyo Bank	Acquisition	→	CIT Group
	1999	Former Daiwa Bank	Acquisition	→	Lloyds Bank
1998 All 15 of Japan's biggest bank receives public bailout money					
Post-bubble era	1999	Former LTC Bank	←	Acquisition	Ripplewood
	2003	Sumitomo Mitsui Bank	←	Equity Position	Goldman Sachs
	2006	3 remaining Mega Banks payoff bailout funds			
Global Financial Crisis	2007	Nikko Cordial Group	←	Whole-subsidiary	Citigroup
	2008	Mizuho Corporate Bank	Equity Position	→	Merrill Lynch
		Mitsubishi UFJ FG	Equity Position	→	Morgan Stanley
		Nomura	Acquisition	→	Lehman Brothers (Asia, European Unit)

Source: Diamond Weekly, October 4th 2008 Edition, translation by Author

Exhibit 10: Summary of Japanese Three Mega Banks Operations and Size

	MUFG Mitsubishi UFJ Financial Group	SMFG Sumitomo Mitsui Financial Group	MIZUHO Mizuho Financial Group
Commercial Banking	¥1801.4 Billion MUFJ Bank	¥1505 billion SMBC	¥827.7 Billion Mizuho Bank
Investment Banking			¥528.2 Billion Mizuho Corporate Bank
Trust Banking	¥326.4 billion Mitsubishi UFJ Trust Bank	N/A	¥130.1 billion Mizuho Trust Bank
Securities Firm	¥229.9 Billion MUFJ Securities	¥158.9 billion yen Nikko Cordial Securities	¥226.5 billion Mizuho Sec., Mizuho Investor's Securities
Non-bank	¥830.4 Billion MUFJ Nicos, JAXS, Acom	¥866.4 Billion yen SMBC Card, Sedina, Promise, Orix Credit	¥247.2 Billion Oriental Corporation
Total	¥3188.1 Billion	¥2550.2 Billion	¥1959.7 Billion

Source: Weekly Diamond 2009/7/4 edition

Exhibit 10: Citigroup Sale of Japanese Operating Units

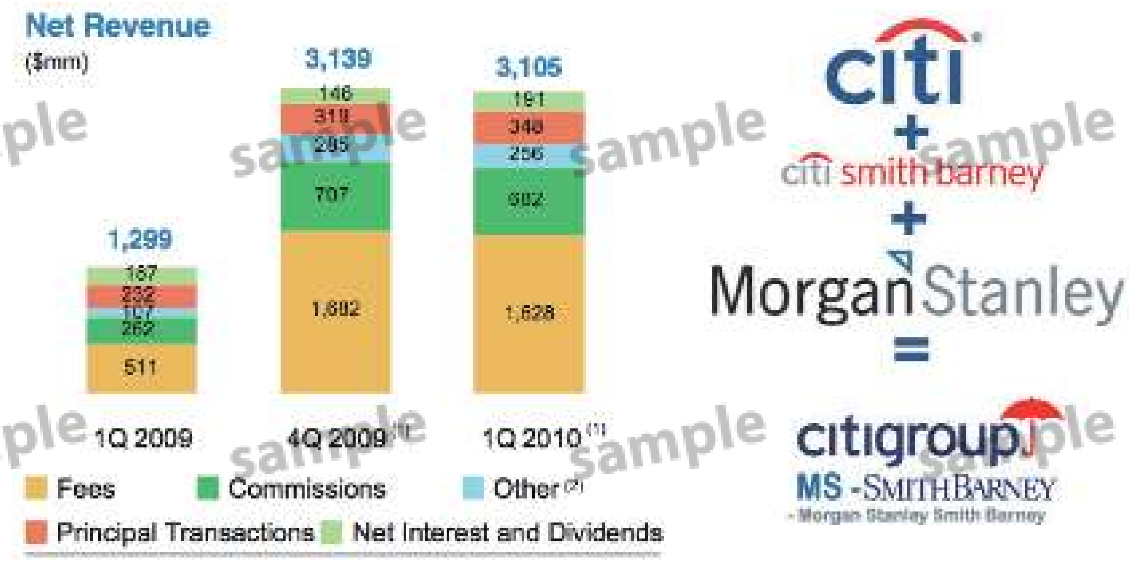
Source: Nikkei News 2009/7, Author's Partial Changes

Exhibit 11: Series of Events involved in this Case

Chain of events leading up to Merging of Operation between MUFI and Morgan Stanley

Date	Contents
September, 2008	MUFG announces equity stake in Morgan Stanley
March, 2009	Announcement of Merging of Japanese Operations
June, 2009	Morgan Stanley completes refunding of TARP money and issuance of new equity
	Announcement of 4 tier International Alliance
November, 2009	Announcement of reconsideration of Merging Units completely
	MUFG announces their largest equity offering, ¥1 trillion (roughly $90 billion)
May, 2010	Operations of the two Joint Venture commences

Exhibit 12: Smith Barney Merger Expected Revenue to Wealth Management Segment and Merger Scheme



Source: Morgan Stanley Press Release

Exhibit 13: Morgan Stanley Share Price post Sept. 1st 2008

Source: Bloomberg

Exhibit 14: Comparative Stock Price, September 1st 2008 Base date

Source: Bloomberg

Exhibit 15: Comparative Share Price of Japanese Financial Firm, Sept. 1st 2008

Source: Bloomberg