Operating Principles for Impact Management

Disclosure Statement

30th March, 2023

MUFG Bank, Ltd.
A member of MUFG, a global financial group

Overview

MUFG Bank, a consolidated subsidiary of Mitsubishi UFJ Financial Group ("MUFG"), became the first Japanese private financial institution signatory to the Operating Principles for Impact Management ("the Impact Principles") which was developed by the International Finance Corporation ("IFC") and other leading impact investors.

The Disclosure Statement affirms that MUFG Bank's policies and practices are aligned with the Impact Principles.

MUFG has issued Green Bonds and the net proceeds from the Green Bonds are onlent to MUFG Bank. MUFG Bank allocates amounts equivalent to the net proceeds of the Green Bonds to MUFG Bank's eligible renewable project finance transactions ("Eligible Projects"). Total of the Green Bond assets under management in alignment with the Impact Principles ("Covered Assets") is US$ 2,018 million[1] as of March 31st, 2022[2].

(Note) 1. EUR/USD = 1.0607, AUD/USD = 0.6741
2. https://www.mufg.jp/english/ir/fixed_income/greenbond/index.html

Principle 1

Define strategic impact objective(s), consistent with the investment strategy:
The Manager shall define strategic impact objectives[1] for the portfolio or fund to achieve positive and measurable social or environmental effects, which are aligned with the Sustainable Development Goals (SDGs), or other widely accepted goals. The impact intent does not need to be shared by the investee. The Manager shall seek to ensure that the impact objectives and investment strategy are consistent; that there is a credible basis for achieving the impact objectives through the investment strategy; and that the scale and/or intensity of the intended portfolio impact is proportionate to the size of the investment portfolio.

- MUFG identified 218 issues by assessing environmental and social issues with reference to the United Nations Sustainable Development Goals ("SDGs") and has defined 10 priority issues that must be addressed to help achieve environmental and social sustainability[2].
  - Climate Change Measures & Environmental Protection
  - Response to Aging Population & Low Birthrate
  - Inclusion & Diversity
  - Developing Social Infrastructure
  - Supporting Industrial Development & Innovation
  - Response to Poverty
  - Reduction of Educational Disparities
  - Ensuring Equal Access to Financial Services
  - Promoting Workstyle Reforms
  - Overcoming Threats to Health
- As part of Climate Change Measures & Environmental Protection initiative, two key impact metrics: annual energy generation and CO_2 emission reductions[3] are calculated and disclosed. According to the latest annual Sustainability Report (P.66)[4], MUFG discloses target amount of CO_2 emission reductions; 70 million tons[5] to be achieved from FY2019 to FY2030.[6]

Metric	The amount of CO_2 to be reduced through renewable energy project finance
Target	Reduction of CO_2 emissions by 70 million tons (cumulative total from FY2019 to FY2030)
Results	Reduction of CO_2 emissions by 26.83 million tons (cumulative total from FY2019 to FY2021, approximately 38% of the Target)

- In May 2021, MUFG also announced its "MUFG Carbon Neutrality Declaration", a commitment to achieve net zero emissions in our finance portfolio by 2050 and in our own operations by 2030[7]. And the following month MUFG became the first Japanese financial institution to join the Net Zero Banking Alliance ("NZBA"). In November 2021, MUFG was selected to lead the Financing & Engagement Work Track ("Work Track") of NZBA, which is tasked to create a robust framework for transition finance[8].

(Note) 1. Impact objectives can be defined as the intended impact that contributes to financial, institutional, social, environmental, or other benefits to a society, community, or group of people via one or more investment. Adapted from OECD-DAC (www.oecd.org/dac/).
2. https://www.mufg.jp/english/csr/groupcsr/materiality/index.html
3. https://www.mufg.jp/english/ir/fixed_income/greenbond/index.html
4. https://www.mufg.jp/english/csr/report/index.html
5. Cumulative total of CO_2 reduction effect for one year, calculated from the amount of electricity generated by renewable energy projects underwritten in each fiscal year, facility utilization rates, and emission factors. The values take into account MUFG's contribution in the underwriting phase.
6. MUFG Sustainability Report 2022 Page 66 (https://www.mufg.jp/dam/csr/report/2022/sr2022_en.pdf).
7. https://www.mufg.jp/english/csr/environment/cnd/index.html
8. https://www.mufg.jp/dam/pressrelease/2021/pdf/news-20211122-001_en.pdf

Principle 2

Manage strategic impact on a portfolio basis:
The Manager shall have a process to manage impact achievement on a portfolio basis. The objective of the process is to establish and monitor impact performance for the whole portfolio, while recognizing that impact may vary across individual investments in the portfolio. As part of the process, the Manager shall consider aligning staff incentive systems with the achievement of impact, as well as with financial performance.

- MUFG has two key portfolio-level and investment-level impact metrics (annual energy generation and CO_2 emission reductions) and annually discloses the two portfolio-level performance metrics.

- As of March 2022, the outstanding amount of MUFG Green Bonds stood at USD 2,018 million[1]. Under certain assumptions, during the year from April 2021 to March 2022, MUFG Bank's Eligible Projects are estimated to have contributed to generating 40,623,795,758 kWh energy, which led to avoided CO_2 emission of 20,474,394 tons.

Issuance date	USD Amount (Mio)		Annual energy generation (kWh)	Annual CO2 emissions avoided (t-CO2)	Annual CO2 emissions avoided (t-CO2) MUFG Bank's proportion
9/13/2016	500	Solar photovoltaic power	1,622,449,937	817,715	215,779
		Wind (Offshore)	1,163,328,000	586,317	58,632
		Wind (Onshore)	588,650,976	296,680	136,645
1/26/2018	530	Solar photovoltaic power	4,429,970,378	2,232,705	500,147
		Wind (Offshore)	0	0	0
		Wind (Onshore)	7,780,561,920	3,921,403	1,795,329
12/18/2018	120	Solar photovoltaic power	575,779,470	290,193	58,484
		Wind (Offshore)	0	0	0
		Wind (Onshore)	2,371,507,200	1,195,240	179,892
7/19/2019	530	Solar photovoltaic power	407,723,793	205,493	49,197
		Wind (Offshore)	13,350,240,000	6,728,521	518,323
		Wind (Onshore)	1,931,800,752	973,628	132,842
10/1/2019	270	Solar photovoltaic power	955,016,812	481,328	110,436
		Wind (Offshore)	1,707,148,800	860,403	33,527
		Wind (Onshore)	3,006,957,600	1,515,507	232,172
10/1/2019	67	Solar photovoltaic power	165,012,120	83,166	41,938
		Wind (Offshore)	0	0	0
		Wind (Onshore)	567,648,000	286,095	40,871
Total	2,018		40,623,795,758	20,474,394	4,104,214

- MUFG has revised its executive compensation system to achieve the medium-term business plan and to implement sustainability management and has installed a heightened metric for ESG-related external ratings as a medium- to long-term performance-linked indicator for stock-based compensation. The system is designed to reflect the degree of improvement found through in the external ratings granted by five major ESG rating agencies (MSCI, FTSE Russel, Sustainalytics, S&P Dow Jones, and CDP) in determining executive compensation. The intention is to align MUFG's corporate activities with the interests of its diverse stakeholders.

(Note) 1. The green bond issued in January 2018 matured in January 2023.

Principle 3
Establish the Manager's contribution to the achievement of impact: The Manager shall seek to establish and document a credible narrative on its contribution to the achievement of impact for each investment. Contributions can be made through one or more financial and/or non-financial channels[1]. The narrative should be stated in clear terms and supported, as much as possible, by evidence.

- MUFG Bank is a signatory to the Equator Principles since 2005. When financing large infrastructure and industrial projects, MUFG Bank conducts environmental and social impacts review in accordance with the Equator Principles. All the Eligible Projects are subject to this Equator Principles review prior to execution of the financing agreements.

(Note) 1. For example, this may include improving the cost of capital, active shareholder engagement, specific financial structuring, assisting with further resource mobilization, providing technical/market advice or capacity building to the investee, and/or helping the investee to meet higher operational standards.

Principle 4
Assess the expected impact of each investment, based on a systematic approach: For each investment the Manager shall assess, in advance and, where possible, quantify the concrete, positive impact[1] potential deriving from the investment. The assessment should use a suitable results measurement framework that aims to answer these fundamental questions: (1) What is the intended impact? (2) Who experiences the intended impact? (3) How significant is the intended impact?[2] The Manager shall also seek to assess the likelihood of achieving the investment's expected impact. In assessing the likelihood, the Manager shall identify the significant risk factors that could result in the impact varying from ex-ante expectations. In assessing the impact potential, the Manager shall seek evidence to assess the relative size of the challenge addressed within the targeted geographical context. The Manager shall also consider opportunities to increase the impact of the investment. Where possible and relevant for the Manager's strategic intent, the Manager may also consider indirect and systemic impacts. Indicators shall, to the extent possible, be aligned with industry standards[3] and follow best practice[4].

■ To align with the Impact Principles, MUFG Bank confirms the positive impacts of some of the Eligible Projects among the Covered Assets by sending a questionnaire to the clients. The indicators for the positive impacts are selected from the Joint Impact Indicators.

- *The number of direct jobs supported locally (operations and maintenance)*
- *The number of construction jobs (temporary construction) locally hired by the project*
- *The number of full-time equivalent female employees in senior management roles working for the borrower.*

(Note) 1. Impact is considered the material effects on people and the environment resulting from the investment, as outlined in Principle 1. Impacts assessed under Principle 4 may also include positive ESG effects derived from the investment.
2. Adapted from the Impact Management Project (www.impactmanagementproject.com).
3. Industry indicator standards include HIPSO (https://indicators.ifipartnership.org/about/); IRIS (https://iris.thegiin.org/); GIIRS (https://b-analytics.net/giirs-funds); GRI (www.globalreporting.org/Pages/default.aspx); and SASB (www.sasb.org), among others.
4. International best practice indicators include SMART (Specific, Measurable, Attainable, Relevant, and Timely), and SPICED (Subjective, Participatory, Interpreted & communicable, Cross-checked, Empowering, and Diverse & disaggregated), among others.

Principle 5

Assess, address, monitor, and manage potential negative impacts of each investment:
For each investment the Manager shall seek, as part of a systematic and documented process, to identify and avoid, and if avoidance is not possible, mitigate and manage Environmental, Social and Governance (ESG)[1] risks. Where appropriate, the Manager shall engage with the investee to seek its commitment to take action to address potential gaps in current investee systems, processes, and standards, using an approach aligned with good international industry practice[2]. As part of portfolio management, the Manager shall monitor investees' ESG risk and performance, and where appropriate, engage with the investee to address gaps and unexpected events.

- MUFG Bank assesses Environmental and Social risks using a standardized assessment template anchored in the Equator Principles, which incorporates assessment in line with the IFC Performance Standards and is employed to screen out prospective investments with potentially significant negative impacts (i.e., Category A defined under the Equator Principles) from the Covered Asset, as the Eligible Projects should consist only of Category B and C projects, and to ensure that projects put appropriate mitigation measures in place for the potential limited or minimal negative impacts identified under the Equator Principles review.

- The project finance deal team is responsible for monitoring and ensuring borrower compliance with covenants, which often include ESG-related covenants.

- MUFG Bank receives an assurance from an independent auditor annually to ensure that we conduct the Equator Principles review in accordance with MUFG Bank's Implementation Guidelines. The assurance report is disclosed on MUFG's webpage[3].

- In 2018, MUFG established MUFG Environmental and Social Policy Framework to manage environmental and social risks associated with our financing[4]. To implement the Environmental and Social Policy Framework, MUFG developed the due diligence process to identify and assess the environmental and social risks and/or impacts associated with transaction.

(Note)
1. The application of good ESG management will potentially have positive impacts that may or may not be the principal targeted impacts of the Manager. Positive impacts resulting from ESG matters shall be measured and managed alongside with, or directly embedded in, the impact management system referenced in The Impact Principles 4 and 6.
2. Examples of good international industry practice include: IFC's Performance Standards (https://www.ifc.org/performancestandards); IFC's Corporate Governance Methodology (http://www.ifc.org/cgmethodology), the United Nations Guiding Principles for Business and Human Rights (https://www.unglobalcompact.org/library/2); and the OECD Guidelines for Multinational Enterprises (http://mneguidelines.oecd.org/themes/human-rights.htm).
3. https://www.mufg.jp/english/csr/environment/equator/index.html
4. Credit, bond, and equity underwriting for corporate clients of MUFG's main subsidiaries, MUFG Bank, Mitsubishi UFJ Trust and Banking and Mitsubishi UFJ Morgan Stanley Securities.

Principle 6

Monitor the progress of each investment in achieving impact against expectations and respond appropriately: The Manager shall use the results framework (referenced in Principle 4) to monitor progress toward the achievement of positive impacts in comparison to the expected impact for each investment. Progress shall be monitored using a predefined process for sharing performance data with the investee. To the best extent possible, this shall outline how often data will be collected; the method for data collection; data sources; responsibilities for data collection; and how, and to whom, data will be reported. When monitoring indicates that the investment is no longer expected to achieve its intended impacts, the Manager shall seek to pursue appropriate action.[1] The Manager shall also seek to use the results framework to capture investment outcomes.[2]

- For Eligible Projects, MUFG Bank estimates and reports annually on energy generation and avoided CO_2 emission volume, based on the asset's power generation capacity as well as relevant coefficients published by third-parties (e.g., IRENA, IFC).

- MUFG updates MUFG Green Bonds Reporting annually and discloses the results of energy generation and avoided CO_2 emission volume in the reports.

- In annual Sustainability Report[3], the cumulative total results of yearly CO_2 emissions avoided through renewable energy project financings[4] from FY2019 to the relevant year is disclosed.

(Note) 1. Actions could include active engagement with the investee; early divestment; adjusting indicators/expectations due to significant, unforeseen, and changing circumstances; or other appropriate measures to improve the portfolio's expected impact performance.
2. Outcomes are the short-term and medium-term effects of an investment's outputs, while the outputs are the products, capital goods, and services resulting from the investment. Adopted from OECD-DAC (www.oecd.org/dac/).
3. https://www.mufg.jp/dam/csr/report/2022/sr2022_en.pdf
4. Cumulative total of CO_2 reduction effect for one year, calculated from the amount of electricity generated by renewable energy projects underwritten in each fiscal year, facility utilization rates, and emission factors. The values take into account MUFG's contribution in the underwriting phase.

Principle 7
Conduct exits considering the effect on sustained impact: When conducting an exit, the Manager shall, in good faith and consistent with its fiduciary concerns, consider the effect which the timing, structure, and process of its exit[1] will have on the sustainability of the impact.

- The Equator Principles is applied to all Eligible Projects. Under Principle 8 of the Equator Principles, the clients are required to comply with the relevant projects' host countries environmental and social laws, regulations, and permits. This requirement should be incorporated as a covenant in loan agreements. Therefore, if a client breach any of those relevant host country environmental laws, regulations, or permits, and such breach is not cured within an agreed grace period, the lenders are entitled to exercise remedies, including calling an event of default, as considered appropriate. This mechanism works as an exit system in commercial lending.

- Under MUFG Environmental and Social Policy Framework, transactions in the list below are designated as Prohibited Transaction:

  Prohibited Transactions
  The transactions listed below are considered as having significant environmental and social risks or impacts. In cases where each Core Subsidiary is aware of the environmental and social risks or impacts, financing is not provided.

  A) Illegal transactions and transactions for illegal purposes

  B) Transactions which violate public order and good morals

  C) Transactions that negatively impact wetlands designated under the Ramsar Convention

  D) Transactions that negatively impact UNESCO designated World Heritage Sites

  E) Transactions violating the Convention on International Trade in Endangered Species of Wild Fauna and Flora (Washington Convention)(note1)

  [note1 Taking into consideration country specific considerations]

  F) Transactions involving the use of child labor or forced labor

  G) Cluster Munitions and Inhumane Weapons Manufacturing

  Civilian populations have been greatly affected by cluster munitions as they release many bomblets over a wide area and because of their indiscriminate effect. As a result, their use has generated significant humanitarian concerns internationally. In light of the inhumane nature of cluster munitions, Core Subsidiaries prohibit the provision of financing to any company that manufactures cluster munitions.

  Nuclear weapons, biological and chemical weapons, and anti-personnel mines, which are produced for use in wars and conflicts and have indiscriminate and serious effects on people, including civilians, are, along with cluster munitions, internationally recognized as being of great humanitarian concern. In light of the inhumane nature of nuclear weapons, biological and chemical weapons, and anti-personnel mines, Core Subsidiaries prohibit the provision of financing for the production of these weapons.

(Note) 1. This may include debt, equity, or bond sales, and excludes self-liquidating or maturing instruments.

Principle 8
Review, document, and improve decisions and processes based on the achievement of impact and lessons learned: The Manager shall review and document the impact performance of each investment, compare the expected and actual impact, and other positive and negative impacts, and use these findings to improve operational and strategic investment decisions, as well as management processes.

- MUFG Bank is in the process of investigating to establish a means to review the actual impacts of the financing or analyze correlation between positive and negative impacts.

- Sustainable Business Division shares the lessons learned from the verification process or signatories' workshops with other members who would like to apply the Impact Principles to other assets. Therefore the Impact Principles could be applied to other assets and implemented more properly in the future.

- As part of implementing the Equator Principles, MUFG Bank has an internal process to review quarterly the due diligence process and memos by conducting peer-review to assess the quality.

Principle 9
Publicly disclose alignment with the Principles and provide regular independent verification[1] of the alignment: The Manager shall publicly disclose, on an annual basis, the alignment of its impact management systems with the Principles and, at regular intervals, arrange for independent verification of this alignment. The conclusions of this verification report shall also be publicly disclosed. These disclosures are subject to fiduciary and regulatory concerns.

- This Disclosure Statement re-affirms the alignment of MUFG Bank's procedures with the Impact Principles will be updated annually.

- The independent verification is provided by an external auditor.

- Information on the current independent verifier is as follows:

  Name and Address: Tideline Verification Services, Inc. (BlueMark) 915-2 Battery St., San Francisco, CA 94111, USA

  Most Recent Review: January 21st, 2022

- MUFG Bank intends to update the verification every three years.

(Note) 1. The independent verification may be conducted in different ways, i.e., as part of a financial audit, by an independent internal impact assessment committee, or through a portfolio/fund performance evaluation. The frequency and complexity of the verification process should consider its cost, relative to the size of the fund or institution concerned, and appropriate confidentiality.

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