

Mitsubishi UFJ Financial Group (Sustainability Bonds in 2020)

Type of Engagement: Annual Review

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Introduction

In 2020, Mitsubishi UFJ Financial Group, Inc. (MUFG) issued three Sustainability Bonds respectively in June (EUR 500 million 4-Year Fixed Rate Notes Due 2024) and September (JPY 54 billion 10-Year Fixed Rate Notes Due 2030, and JPY 96 billion 10-Year Fixed Rate Notes Due 2030¹) aimed at financing and refinancing projects/loans with environmental and social benefits. In May 2021, MUFG engaged Sustainalytics to review the projects/loans funded through the issued sustainability and social bonds (“Sustainability Bond(s)”) ² and provide an assessment as to whether the projects/loans met the Use of Proceeds criteria and the Reporting commitments outlined in the Mitsubishi UFJ Financial Group’s Green Bond, Social Bond, and Sustainability Bond Framework (the Framework”).³

Evaluation Criteria

Sustainalytics evaluated the projects/loans funded as of 31 March 2021 based on whether the projects/loans:

1. Met the Use of Proceeds and Eligibility Criteria outlined in the Framework; and
2. Reported on Key Performance Indicators (KPIs) for each Use of Proceeds criteria outlined in the Framework.

Table 1 lists the Use of Proceeds, Eligibility Criteria, and associated KPIs.

Table 1: Use of Proceeds, Eligibility Criteria, and associated KPIs

Use of Proceeds	Eligibility Criteria	Key performance indicators (KPIs)
Green Buildings	<p>Proceeds of the green bonds may be allocated towards new and existing loans from MUFG Bank to eligible green buildings owned by J-REITs (Japanese Real Estate Investment Trusts)</p> <p>The eligible green buildings are buildings which have received or will receive at least one of the following classifications within 24 months preceding the green bond issuance or reporting dates:⁴</p> <ul style="list-style-type: none"> ○ LEED: Platinum or Gold (confined to buildings of which the CO₂ emissions are trackable) ○ BREEAM: Outstanding or Excellent (confined to buildings of which CO₂ emissions are trackable) 	<ul style="list-style-type: none"> • CO₂ emission reduction

¹ The bond can be called after 5 years and 4 months.

² All the bonds are named as “Sustainability Bonds”.

³ Mitsubishi UFJ Financial Group’s Green Bond, Social Bond, and Sustainability Bond Framework overview available at: <https://www.sustainalytics.com/corporate-solutions/sustainable-finance-and-lending/published-projects/project/mitsubishi-ufj-financial-group/mitsubishi-ufj-financial-group-green-social-and-sustainability-bond-second-party-opinion/mitsubishi-ufj-financial-group-green-social-and-sustainability-bond-second-party-opinion-pdf>

⁴ The DBJ Green Building Certification Scheme only specifies the certification date by year without indicating the day/ month of the certification received. MUFG clarified that the green bond allocation may therefore target assets with DBJ Green Building Certification dates longer than 24 months, but no longer than three years.

	<ul style="list-style-type: none"> ○ CASBEE: S Rank or A Rank (confined to buildings of which the CO₂ emissions are trackable) ○ DBJ Green Building Certification: 5 Stars or 4 Stars (confined to buildings of which the CO₂ emissions are trackable) 	
Renewable Energy	<p>Proceeds of the green bonds may be allocated towards new and existing eligible renewable energy projects, such as solar thermal power generation, solar photovoltaic power generation and onshore and offshore wind farm projects</p> <p>All projects must meet the following eligibility criterion:</p> <ul style="list-style-type: none"> ○ Expenditures related to the development construction, operation, or expansion of facilities for new and existing solar thermal power generation, solar photovoltaic power generation and onshore and offshore wind farm projects that are (i) determined as Category B or Category C in accordance with the Equator Principles, and (ii) signed within 24 months preceding the date of the green bond issuance or after the issuance. 	<ul style="list-style-type: none"> • CO₂ emission reduction • kWh of power generated
Employment Generation/Preservation	<p>Projects/loans of MUFG Bank that contributes reconstruction and recovery from economic damage and adverse impacts caused by disasters such as earthquakes, typhoons and the spread of infectious diseases including COVID-19</p> <ul style="list-style-type: none"> ○ [<i>Employment preservation : Infectious diseases spread</i>] Employment preservation through financing/refinancing loans for small and medium-sized enterprises and sole proprietors adversely affected by the spread of infectious diseases including COVID-19 	<p>[<i>Employment preservation : Infectious diseases spread</i>]</p> <ul style="list-style-type: none"> • Number of loans provided to businesses • Number of employees of the businesses
Affordable Housing	Projects/loans of MUFG Bank to public housing suppliers that are registered in England ⁵	<ul style="list-style-type: none"> • Number of residences provided

Issuing Entity's Responsibility

MUFG is responsible for providing accurate information and documentation relating to the details of the projects/loans that have been funded, including description of projects/loans, amounts allocated, and project/loan impact.

Independence and Quality Control

Sustainalytics, a leading provider of ESG and corporate governance research and ratings to investors, conducted the verification of MUFG's Sustainability Bonds Use of Proceeds. The work undertaken as part of this engagement included collection of documentation from MUFG employees and review of documentation to confirm the conformance with the Framework.

⁵ UK government lists the current registered providers of social housing (applies to England) at: <https://www.gov.uk/government/publications/currentregistered-providers-of-social-housing>

Sustainalytics has relied on the information and the facts presented by MUFG with respect to the Nominated Projects/Loans. Sustainalytics is not responsible nor shall it be held liable if any of the opinions, findings, or conclusions it has set forth herein are not correct due to incorrect or incomplete data provided by MUFG.

Sustainalytics made all efforts to ensure the highest quality and rigor during its assessment process and enlisted its Sustainability Bonds Review Committee to provide oversight over the assessment of the review.

Conclusion

Based on the limited assurance procedures conducted,⁶ nothing has come to Sustainalytics' attention that causes us to believe that, in all material respects, the reviewed bond projects/loans, funded through proceeds of MUFG's Sustainability Bonds, are not in conformance with the Use of Proceeds and Reporting Criteria outlined in the Framework. MUFG has disclosed to Sustainalytics that the proceeds of the Sustainability Bonds were fully allocated as of 31 March 2021.

Detailed Findings

Table 2: Detailed Findings

Eligibility Criteria	Procedure Performed	Factual Findings	Error or Exceptions Identified
Use of Proceeds Criteria	Verification of the projects/loans funded by the Sustainability Bonds as of 31 March 2021 to determine if projects/loans aligned with the Use of Proceeds Criteria outlined in the Framework and above in Table 1.	All projects/loans reviewed complied with the Use of Proceeds criteria.	None
Reporting Criteria	Verification of the projects/loans funded by the Sustainability Bonds as of 31 March 2021 to determine if impact of projects/loans was reported in line with the KPIs outlined in the Framework and above in Table 1. For a list of KPIs reported please refer to Appendix 2.	All projects/loans reviewed reported on KPIs outlined in the reporting criteria.	None

⁶ Sustainalytics limited assurance process includes reviewing the documentation relating to the details of the projects/loans that have been funded, including description of projects/loans, amounts allocated, and project/loan impact, which were provided by the Issuer. The Issuer is responsible for providing accurate information. Sustainalytics has not conducted on-site visits to projects.

Appendices

Appendix 1: List of Use of Proceeds Categories Reviewed

1. Sustainability Bond issued in June 2020 (EUR 500 million 4-Year Fixed Rate Notes Due 2024)

Green Projects/Loans

Use of Proceeds Category	Number of Buildings	Type of certification ⁷		Certification Date
		CASBEE	DBJ Green Building Certification	
Green Buildings	87	S Rank: 27 buildings A Rank: 26 buildings	5 Star: 9 buildings 4 Star: 27 buildings	Confirmed that certifications were received either within last 24 months of the bond issuance or post-issuance while 25 buildings certified by DBJ Green Building Certification in 2018 may date longer than 24 months before the bond issuance but no longer than three years as indicated in the Framework.

Social Projects/Loans

Use of Proceeds Category	Number of Projects/Loans	Description	Loan Date
Employment Preservation	1,406	Loans of MUFG Bank for small and medium-sized enterprises and sole proprietors ⁸ adversely affected by the spread of COVID-19	Within last 36 months: 27 projects/loans After Issuance: 1,379 projects/loans

⁷ 2 buildings are double counted due to acquisition of both CASBEE and DBJ Green Building Certification.

⁸ MUFG has confirmed to Sustainalytics that the company applied criteria for SMEs (companies with capital of less than 0.3 billion yen and with under 300 employees) defined by the national legislation (Small and Medium-sized Enterprise Basic Act in Japan) and the companies related to tobacco, weapons and fossil fuel operations were removed from the allocation.

2. Sustainability Bond issued in September 2020 (JPY 54 billion 10-Year Fixed Rate Notes Due 2030)

Social Projects/Loans

Use of Proceeds Category	Number of Projects/Loans	Description	Signed/Loan Date
Affordable Housing	2	Loans of MUFG Bank to public housing suppliers that are registered in England	Within last 36 months: 2 projects/loans
Employment Preservation	2,255	Loans of MUFG Bank for small and medium-sized enterprises and sole proprietors ⁷ adversely affected by the spread of COVID-19	Within last 36 months: 1,414 projects/loans After Issuance: 841 projects/loans

3. Sustainability Bond issued in September 2020 (JPY 96 billion 10-Year Fixed Rate Notes Due 2030)

Green Projects/Loans

Use of Proceeds Category	Project Subcategory	Number of Projects/Loans	Equator Principles Category	Signed Date
Renewable Energy	Solar Photovoltaic Energy	11	Category B: 10 projects/loans Category C: 1 project/loans	Within last 24 months: 8 projects/loans After Issuance: 3 projects/loans
	Wind Energy (Onshore)	5	Category B: 5 projects/loans	Within last 24 months: 4 projects/loans After Issuance: 1 project/loans
	Wind Energy (Offshore)	8	Category B: 8 projects/loans	Within last 24 months: 4 projects/loans After Issuance: 4 projects/loans

Social Projects/Loans

Use of Proceeds Category	Number of Projects/Loans	Description	Loan Date
Employment Preservation	3,083	Loans of MUFG Bank for small and medium-sized enterprises and sole proprietors ⁷ adversely affected by the spread of COVID-19	Within last 36 months: 1,820 projects/loans After Issuance: 1,263 projects/loans

Appendix 2: List of Project Impact

1. Sustainability Bond issued in June 2020 (EUR 500 million 4-Year Fixed Rate Notes Due 2024)

Green Projects/Loans

Use of Proceeds Category	Number of Buildings	Annual CO ₂ emissions reduced by the green buildings funded through the Sustainability Bond (t-CO ₂)
Green Buildings	87	1536.28

Social Projects/Loans

Use of Proceeds Category	Impact	
Affordable Housing	Number of residences provided	8,805 residences
Employment Preservation	Number of loans provided to businesses	1,406 loans
	Number of employees of the businesses	28,295 employments

2. Sustainability Bond issued in September 2020 (JPY 54 billion 10-Year Fixed Rate Notes Due 2030)

Social Projects/Loans

Use of Proceeds Category	Impact	
Employment Preservation	Number of loans provided to businesses	2,255 loans
	Number of employees of the businesses	53,219 employments

3. Sustainability Bond issued in September 2020 (JPY 96 billion 10-Year Fixed Rate Notes Due 2030)

Green Projects/Loans

Use of Proceeds Category	Project Subcategory	Number of Projects/ Loans	Annual electricity generated (kWh)	Annual GHG emissions reduced (t-CO ₂ e)
Renewable Energy	Solar Photovoltaic Energy	11	1,339,335,497	675,025
	Wind Energy (Onshore)	5	1,237,226,309	623,562
	Wind Energy (Offshore)	8	27,598,651,560	13,909,720

Social Projects/Loans

Use of Proceeds Category	Impact	
Employment Preservation	Number of loans provided to businesses	3,083 loans
	Number of employees of the businesses	66,256 employments

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