Moving towards Carbon Neutrality - MUFG Progress Report -

Main Q&A

Q: Looking at the most recent disclosure on the balance of corporate financing for coal-fired power generation, the balance turned out to be only ¥120.0 billion, falling considerably short of ¥880.0 billion, the amount previously disclosed. Could you please explain reasons for this?

A: Our carbon-related assets associated with coal-fired power, total ¥1.2 trillion, with approximately ¥380.0 billion being accounted for by project financing associated with coal-fired power generation facilities. The remaining portion, amounting to around ¥800.0 billion, comprises corporate financing designed to provide funds to recipients whose primary business is coal-fired power generation. Of this, it has been determined that ¥120.0 billion is being extended with the sole purpose of financing coal-fired power generation facilities. Looking ahead, we will continue to disclose the value of such assets in line with our current categorization method as described above.

Q: MUFG would be better positioned to decrease CO2 emissions intensity associated with its power-sector financing if it were to increase its portfolio of sustainable financing. Do you think the Company may consider extending sustainable financing, even for low-profitability projects, to achieve its interim reduction targets for 2030?

A: Admittedly, emissions intensity will fall as our balance of carbon-free credit rises. Moreover, we believe that extending a growing volume of funds for renewable energy is our responsibility as a financial institution. This is important considering our intention to support decarbonization on a global basis to fulfill growing energy demand worldwide. That being said, we will also maintain a firm grip on transactional profitability.

Q: Please explain your vision for the expected pace of reduction in CO2 emissions intensity and CO2 emission volumes in connection with MUFG’s efforts to achieve its interim targets for 2030.

A: We know of some financial institutions overseas that have disclosed graphs detailing their planned pace of reduction into the future. However, we found it technically difficult to formulate reduction volume estimates for individual years. That is why we have simply disclosed our targets for 2030. On the other hand, we intend to constantly disclose the actual volume of reductions achieved so that our stakeholders can be updated about progress we have made against the targets and how much we need to reduce emissions going forward.

Q: Please explain your views on the impact of MUFG's transition strategies on its operating results. Especially, how will these strategies affect the Company's top-line revenues, RORA and other key indicators?

A: We consider the impact of our transition strategies to be positive with regard to top-line revenues given growing needs for sustainable finance and transition finance. Meanwhile, in Europe, some have begun predicting that financiers in these fields could be facing a possible downturn in profitability due to intensifying competition. Overall, however, our RORA has not been affected thus far.

Q: Could credit costs rise if decarbonization-related innovation takes a long time to come into effect?

A: To support innovation, we expect that we will need to extend funds in the form of equities or other similar vehicles as well as to offer lending solutions like senior debt. However, we don't expect the volume of such funding to be significant. Also, we will appropriately manage credit risks through screening.

Q: Although the volume of funds extended for coal-fired power generation facilities has already been determined, we believe that your clients could appropriate portions of other funds for coal-fired power generation. Do you have a plan for progress management aimed at minimizing the types of funds that could possibly be misused in this way? Also, are you not concerned that the portion of funds not subject to your interim targets may be managed poorly?

A: Traditionally, we have stringently managed the usage of funds we have extended and, therefore, we do not expect our funds to be misappropriated for coal-fired power generation facilities. Furthermore, we intend to continue to engage with our clients whose primary business is coal-fired power generation in order to encourage them to reduce the proportion of such operations in their portfolios even as we maintain financing for them. In addition, our policy is to closely monitor the balance of our carbon-related assets as a whole and annually disclosure monitoring results.

Q: Some of MUFG's interim targets are designed to be consistent with the so-called 1.5°C target under the Paris Agreement and the Company is sure to face considerable hurdles in the course of pursuing them. Could you share your thoughts on the likelihood of achieving these targets? Also, please elaborate on the approach the Company aims to take to achieve them.

A: In the power sector, we believe that our emissions intensity targets will be met by seizing opportunities for financing aimed at supporting renewable energy business operators. At the same time, we may possibly face downturns in profitability and/or ratings in the course of maintaining project finance over extended periods. Accordingly, we aim to exert proper control on risks and profitability while practicing origination & distribution (O&D).

In the oil-and-gas sector, we currently assume that our clients will make gradual progress in their efforts to set and disclose reduction targets. This will, in turn, affect the likelihood of achievement of our interim targets relative to the 1.5°C target. Looking ahead, we will pay close attention to changes in corporate and social trends.

Q: MUFG has made steady progress in extending sustainable finance. Do you plan to upwardly revise your targets in this field?

A: It seems that our operating results have been buoyed by the current social trend toward a faster than expected shift toward sustainability. We will annually examine whether our targets are appropriate.

Q: Please explain which targets MUFG intends to prioritize if it faces difficulties in ensuring that its interim reduction targets set for the energy sector and the oil-and-gas sector as well as financial targets are all met.

A: So far, we have no specific policies regarding actions to be taken should the Company find it difficult to meet some of these targets. However, from the viewpoint of securing higher corporate value, we would in no way negate our commitment to financial targets.

Q: Please explain key factors that set MUFG apart from other domestic financial institutions.

A: We assume that we are the first bank in Japan to disclose interim reduction targets by sector. Going forward, we are willing to remain a forerunner in the domestic industry while paying attention to trends among other mega banks in Japan and financial institutions overseas.

As part of our business functions, we also act as a mediator, connecting our clients to such international initiatives as the Net-Zero Banking Alliance (NZBA). Playing this role gives us a distinctive strength in customer engagement. Furthermore, we act in collaboration with external companies, taking an open and inclusive approach in which we and our partners bring together specialist expertise and customer bases in an effort to create solutions that make it easier to visualize the volume of greenhouse gas (GHG) emissions and help enhance the content of relevant information to be disclosed. This approach is yet another differentiating factor. When it comes to visualizing the volume of GHG emissions, we engage in discussion with Zeroboard. Inc. and other relevant partners, with the aim of popularizing disclosure frameworks that conform with the Greenhouse Gas Protocol calculation formula. In the field of consulting services on disclosure in conformity with recommendations issued by the Task Force on Climate-related Financial Disclosures (TCFD), we work together with Tokio Marine & Nichido Fire Insurance Co., Ltd., which boasts a wealth of expertise in assessing physical risks. Our partnership with this insurer is intended to integrate strengths possessed by both companies while enabling us to provide customers with advice on how to address transition risks. Employing this partnership, we and our partner will also provide insurance against risks and offer financing aimed at helping clients pursue business initiatives toward carbon neutrality in a way that aligns with their individual needs.

Q: Please explain progress in your engagement activities. Also, what action do you intend to take if a client disagrees with the future direction MUFG is now advocating? Would you consider suspending transactions with said client?

A: Our engagement activities currently encompass 550 corporations. Of these, around 80 to 90 are Japanese corporations, while all others are non-Japanese firms. Thus far, we have been able to launch communications with most of our major clients in carbon-intensive sectors. Although we have met with diverse responses on the part of clients in the course of engagement, the majority is now on board for our targets for the medium and long term. They are also on the same page with us regarding the particular importance of actions to be taken throughout the course of the less than a decade leading up to 2030. Based on this shared understanding, we will deliver solutions designed to meet needs of our clients based on the differing circumstances they are facing.

Q: Please explain challenges MUFG must overcome to realize its interim target of lowering emissions intensity in the power sector to 192gCO2e/kWh. Could you also provide your views on the level of difficulty?

A: Presently, our emissions intensity in said sector amounts to 349 CO2e/kWh, which is comparatively larger than figures disclosed by banks in Europe and the United States. This is attributable to the unique composition of our portfolio, which includes a large number of clients in Asia who account for a major proportion. However, we aim to seize opportunities for extending funds for renewable energy projects in Europe and the United States while financing large solar power generation projects now being undertaken in emerging countries as well as in developed countries. To address issues arising from carbon-intensive components of our existing portfolio, we also intend to promote decarbonization in Asia. This will be key to achieve our interim targets.

Q: Do you think divestment could be an option for MUFG if accomplishing its interim targets is found to be difficult?

A: We have no plan for divestment. However, we do think that we may move to reduce transactions with particular clients upon the revision of our crediting policies. We may do so after giving due consideration to future forecasts of businesses they handle and transactional positions we have assigned to them. Specifically, overseas corporations that utilize our syndicated loans could possibly be subject to their transactional positions being downgraded based on the processes described above. Nevertheless, a move of this kind would not derive from a policy for divestment. Rather, we would consider it a part of portfolio reforms to be undertaken in step with the revision of our transactional policies.

Q: What response did you get from unlisted corporate clients? Do you feel that their awareness of carbon neutrality is growing stronger?

A: As large corporations began seeking to decarbonize supply chains, we launched discussions with unlisted clients, including those categorized as SMEs. We have seen that these clients' awareness of the need to proactively take on decarbonization has grown increasingly acute. In addition, our clients in the power sector and the oil-and-gas sector are already committed to acting as forerunners among carbon-intensive businesses in terms of reducing emissions. That being said, however, the degree of such commitment still differs by company. We will therefore focus on engaging those counterparts whom we can best help and thereby contributing to the enhancement of awareness among sector constituents as a whole.

Q: Looking at MUFG's target of reducing the balance of corporate finance for coal-fired power generation facilities to zero, there is a note that reads "Based on the MUFG Environmental and Social Policy Framework, the target excludes financing for projects aimed at contributing to a decarbonized society." Does this caveat mean MUFG will assume financing for such technologies as Carbon dioxide Capture and Storage (CCS) if implemented as part of coal-fired power generation?

A: That's right. However, the MUFG Environmental and Social Policy Framework has assumed financing for mixed combustion and Carbon dioxide Capture, Utilization and Storage (CCUS) technologies from its inception. Accordingly, the caveat you have mentioned does not represent an additional standard that has been created in the course of formulating the target in question.

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