INVESTOR BRIEFING

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Mitsubishi UFJ Financial Group (TSE: 8306) (MUFG)
Sumitomo Mitsui Banking Corporation Group (TSE: 8316) (SMBC Group)
Mizuho Financial Group (TSE: 8411) (Mizuho) (collectively megabanks)

Analysis of megabanks' updates and board opinions confirms the need for climate-related shareholder proposals

Further to the detailed investor briefing dated April 10, 2023, this additional brief demonstrates **the megabanks' Board of Directors' opinions and the recent SMBC Group's updated announcements fail to address the core substance of the shareholder climate-related proposals to be voted on at their upcoming Annual General Meetings**.

The megabanks still do not disclose meaningful measures to align their exposures to carbon-intensive sectors such as power, coal mining, and oil and gas with the megabanks' own net zero commitments.

This failure leaves the megabanks exposed to unacceptable financial risk. Investors are therefore urged to vote for these proposals at the megabanks' Annual General Meetings.

1. **Insufficient updates to megabanks' targets and policies**

MUFG, SMBC Group and Mizuho's updated policies[1] still lack key and credible short and mid-term targets for emission-intensive sectors such as power, coal mining, and, most glaring, oil and gas, and remain out of line with the International Energy Agency's Net Zero Emissions by 2050 scenario (NZE) and the requirements of the Net Zero Banking Alliance (NZBA). Please see the table below for details.

Despite their updates, none of the megabanks have given shareholders confidence their plans would address the concerns the shareholder proposals seek to address, which have been raised repeatedly during the proponents' extensive engagement with the megabanks. MUFG is especially lagging behind SMBC Group and Mizuho in setting coal mining targets. All the three banks remain well behind peer banks such as DBS Bank, OCBC Bank, and HSBC, particularly regarding oil and gas sector policies and targets.

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[1] The shareholder proponents held engagement meetings with each megabank regarding these updates.

Table 1: Comparison of megabanks' policies and targets with IEA NZE and NZBA guidance

<table>
<tr><th>IEA NZE scenario</th><th>NZBA requirements</th><th>MUFG</th><th>SMBC</th><th>Mizuho</th></tr>
<tr><td colspan="5">NZE scenario general energy sector decline:</td></tr>
<tr><td>Emissions across the energy sector fall by a collective 39% from 2021-2030 in the NZE2050 scenario(*1)</td><td>Targets shall include sector-specific and/or portfolio-wide targets for 2030 or sooner</td><td colspan="3">No portfolio-wide target for 2030 or sooner</td></tr>
<tr><td></td><td>Lending shall be covered and on-balance sheet investment activities should be included</td><td colspan="3">2030 Financed Emissions (FE) reduction target for power and energy sector only covers lending</td></tr>
<tr><td colspan="5">Oil and gas sector:</td></tr>
<tr><td>"Beyond projects already committed as of 2021, there are no new oil and gas fields approved for development in our pathway."</td><td></td><td colspan="3">No policy to rule out financing to new and expansionary oil and gas projects or companies pursuing those projects (*2)</td></tr>
<tr><td>"The rapid fall in LNG after 2030 in the NZE Scenario implies no need for additional capacity beyond what is existing or under construction (as of October 2022)"</td><td></td><td colspan="3">No policy to restrict financing to new LNG facilities</td></tr>
<tr><td>Emissions from oil and gas fall by 29% from 2021-2030</td><td></td><td>2030 FE reduction target ranges from just 15% and is limited to upstream businesses, excluding significant midstream and downstream emissions</td><td>2030 FE reduction target ranges from just 12% and is limited to upstream businesses, excluding significant midstream and downstream emissions</td><td>2030 FE reduction target ranges from just 12% and is limited to upstream businesses, excluding significant midstream and downstream emissions</td></tr>
<tr><td colspan="5">Coal mining sector:</td></tr>
<tr><td>No new coal mines or mine lifetime extensions are approved from 2021</td><td>Clients with >5% revenues from thermal coal mining activities shall be included in the scope of targets</td><td>Policy allows for financing expansion of existing projects, related infrastructure, companies expanding thermal coal mining and metallurgical coal mines</td><td>Policy allows for finance of companies expanding thermal coal mining and metallurgical coal mines</td><td>Policy allows for finance of companies expanding thermal coal mining and metallurgical coal mines</td></tr>
<tr><td>Unabated coal supply falls by 48% from 2021-2030, and by 91% from 2021-2050</td><td></td><td>No FE reduction target for 2030</td><td>Thermal coal mining zero loan balance(*3) target in OECD countries by 2030 and in non-OECD countries by 2040(*4)</td><td>Zero FE for thermal coal mining in OECD countries by 2030 and in non-OECD countries by 2040</td></tr>
<tr><td colspan="5">Power Sector:</td></tr>
<tr><td>No new coal-fired power plants are approved from 2021</td><td>Clients with >5% revenues from electricity generation activities shall be included in the scope of targets</td><td colspan="3">Policy allows for finance of companies expanding coal power</td></tr>
<tr><td>Phase-out of unabated coal in advanced economies by 2035 and all unabated coal power plants by 2040.</td><td>Disclose well-recognised 1.5-degree scenario(s) (e.g., IEA, IPCC) with no- or low-overshoot, rely conservatively on negative emissions technologies</td><td>Coal power zero credit balance(*5) target by 2040</td><td>Coal power loan balance(*6) target by 2040</td><td>Coal power zero credit balance(*7) target by 2040</td></tr>
<tr><td></td><td></td><td colspan="3">Unproven decarbonization technologies will be supported without disclosure of financed emissions trajectories</td></tr>
<tr><td>Emissions from power and heat generation fall by 51% from 2021-2030.</td><td>Absolute emissions; and/or Sector-specific emissions intensity (e.g., CO2 e/ metric)</td><td colspan="3">No absolute reduction target.
Intensity targets do not guarantee absolute emissions reduction</td></tr>
<tr><td colspan="5">Agriculture sector:</td></tr>
<tr><td></td><td>Absolute emissions; and/or Sector-specific emissions intensity (e.g., CO2 e/ metric)</td><td colspan="3">No absolute reduction target
No intensity target</td></tr>
</table>

*1 The NZE is quite conservative on this point. According to the IPCC AR6 Synthesis Report: Climate Change 2023, in order to limit warming to 1.5°C (>50%) with no or limited overshoot, global greenhouse gas emissions will need to be reduced by 43% in 2030 compared to the 2019 level and CO2 emissions by 48%
*2 Mizuho's updated policy published on April 3 (FY22 Sustainability Progress) will only require enhanced due diligence in financing new oil and gas exploration projects
*3 Strengthening Efforts against Climate Change, May 15, 2023.
*4 Since SMBC Group has not disclosed detailed criteria for companies (other than "companies whose main business are thermal coal mining"), disclosure of such criteria is needed, otherwise there is a potential loophole in this target. Same issue exists with Mizuho's financed emission zero target for thermal coal mining.
*5 Credit amounts related to coal-fired power generation project finance" and "corporate finance for coal-fired power generation" (MUFG Metrics and Targets)
*6 Project finance and facility linked corporate finance (loan balance)" (SMBC TCFD Report 2022 and Strengthening Efforts against Climate Change)
*7 Credit balance for coal-fired power generation facilities" (Mizuho TCFD Report 2022)

2. **SMBC Group's Transition Finance Playbook fails to push clients to 1.5 degree-aligned transition**

SMBC Group published the Transition Finance Playbook (the Playbook) on May 24, 2023[2]. However, the Playbook fails to demonstrate that the framework will ensure SMBC Group **clients transition to align with the Paris Climate agreement's 1.5 degree goal** and, by extension, **how the climate-related risk SMBC Group is facing will be managed**.

- The Playbook defines **gas exploration and production** as transition activities, directly contradicting IEA NZE's finding that no new gas fields are needed in the pathway to net zero emissions by 2050, and locking in gas production for multiple decades.
- It allows **hydrogen and ammonia co-fired with gas and coal power generation up to 2049**, inconsistent with the **NZE's requirement of complete decarbonization** in the power sector in advanced economies **by 2035**.
- Other than the entirely insufficient requirement that "the borrower committed to net-zero by 2050", SMBC has not disclosed its criteria or methodology to evaluate its customers' transition plan[3].

The Playbook places too much reliance on the Japan Ministry of Economy, Trade and Industry (METI)'s policy documents, **which are not themselves either science-based or 1.5 degree-aligned**. Investors need to be confident that SMBC Group will make its own assessments and manage transition risks accordingly, rather than placing blind trust in METI's roadmap.

Although the Playbook fails to demonstrate SMBC Group has a credible plan to meet its net zero goal, we acknowledge that, unlike MUFG and Mizuho, SMBC Group at least discloses its definition of transition finance and some related decision processes.

3. **The megabanks fail to address the substance of the proposals, namely setting and disclosing credible, science-based transition plans aligning their portfolios with net zero by 2050 scenarios**

MUFG, SMBC Group, and Mizuho published opinions of the Board of Directors which fail to address core substance of the shareholder proposals to set and disclose science-based transition plans with credible interim targets as described in Table 1.

Also, the banks have argued that amendments to the articles of incorporation are not appropriate for these forms of shareholder proposals. However, the opinion ignores the fact that such amendments are the sole legal pathway climate-related resolutions can take to avoid being rejected under the *Companies Act*, and the proposals in no way limit the directors' ability to exercise business judgement enshrined in Japanese corporate law.

[2] The proponents held an engagement meeting with SMBC Group on the Playbook.
[3] For example, Australian oil and gas companies such as Woodside Energy and Santos claim they are committed to net zero by 2050, but are actively undermining that goal by significantly increasing oil and gas production and emissions.

Moreover, if the megabanks are "earnestly" working on climate action in line with their commitments to net zero emissions by 2050, as they claim in the Board of Directors' opinion, there is no reason they should refuse to add the proposals to their articles of incorporation.

For the reasons above, we urge investors to vote for the climate risk-related shareholder proposals at MUFG, SMBC Group and Mizuho's Annual General Meetings, in order to maintain and increase long-term corporate value.