



Version 1.0

# Sustainable Deposit Framework

Transaction Banking Office for Asia

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**MUFG Bank, Ltd.**

A member of MUFG, a global financial group

# Sustainable Deposits Overview

## How Sustainable Deposits Work

As part of our broader sustainability strategy, MUFG has established this Sustainable Deposits Framework. MUFG's Sustainable Deposits are offered to eligible corporate or retail customers seeking to invest surplus liquidity in an interest-bearing product designated to fund MUFG's Environmental, Social, and Governance (ESG) financing commitments. MUFG will earmark net proceeds from these deposits to effectively finance or refinance, in part or in full, new and/ or eligible sustainability-linked or social products that fall under Eligible Activities listed in this Framework and continually monitor the allocated funds thereafter.

We will use the aggregate committed amounts of eligible loans recorded by MUFG entities to determine the size of the overall Sustainable Deposits capacity, with the objective of ensuring Sustainable Deposits do not exceed eligible loans for a sustained period. MUFG will ensure this as part of the annual reconciliation process.

Pending full allocation of the proceeds, the balance of unallocated proceeds will be held in cash or cash equivalent instruments in line with MUFG's treasury management.

In general, the Sustainable Deposit Portfolio will be managed by the Transaction Banking Office for Asia (TBOA) and Asian Investment Banking Division (AIBD). The flow chart below illustrates the process for project evaluation and selection, and the management of proceeds:

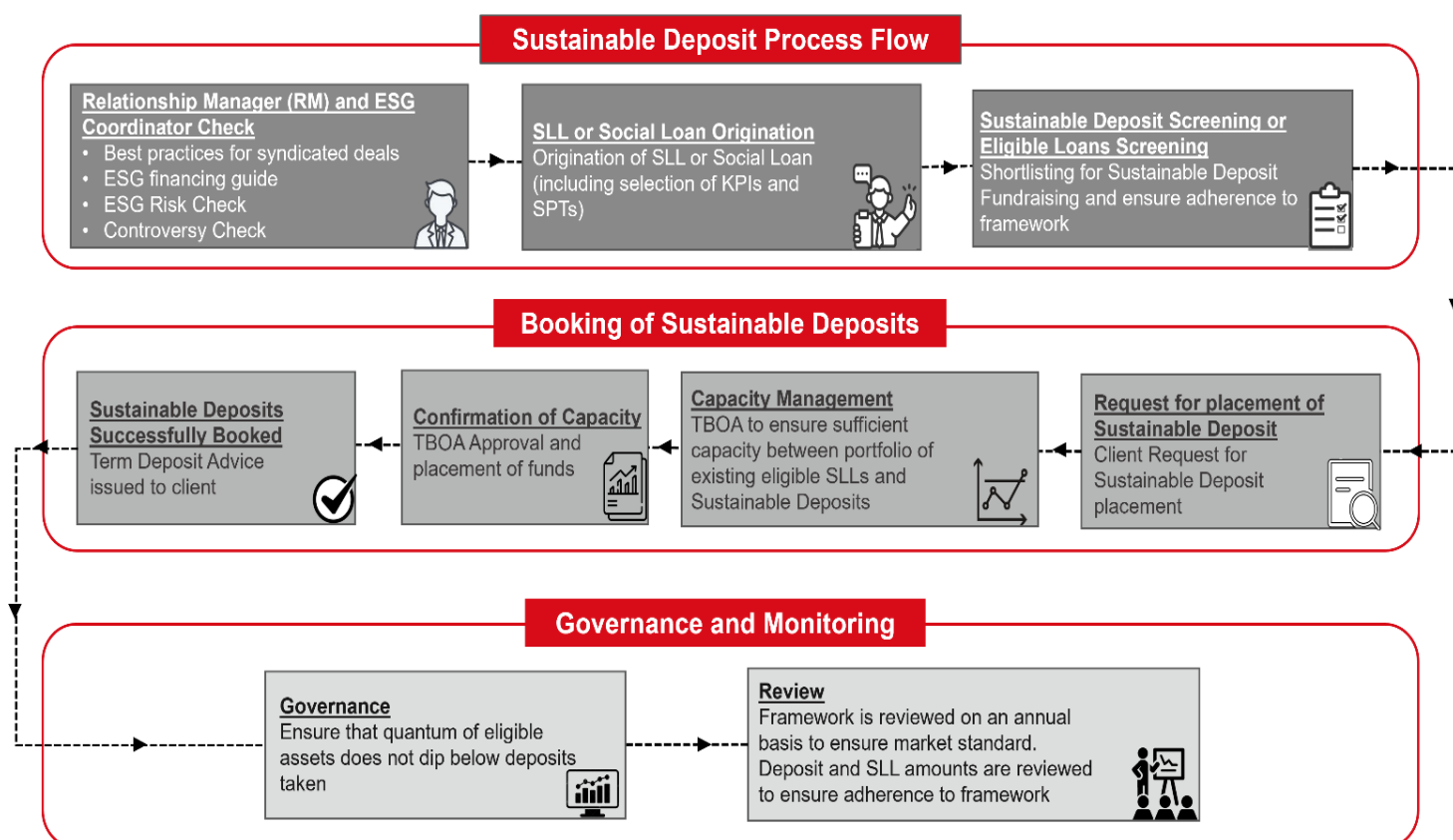


Figure 1 Flow Chart on the process of project evaluation and selection, and management of proceeds.

## ESG KPI Linked Loans/ Bonds

Eligible sustainability linked products are any type of loan, and/or contingent facilities (e.g., bonding lines, guarantee lines, or letter of credit) that incentivises the borrower to achieve material, ambitious, pre-determined, regularly monitored, and externally verified (on an annual basis) sustainability objectives through Key Performance Indicators (KPIs) and Sustainability Performance Targets (SPTs), in line with APLMA/LMA/LSTA Sustainability Linked Loan Principles<sup>1</sup> and ICMA Sustainability-Linked Bond Principles<sup>2</sup>. KPIs may contribute to the United Nations Sustainable Development Goals (UN SDGs). The Sustainability Linked Deposit Portfolio is based upon a selection of MUFG's portfolio of loans that align with the Eligible Products in the Framework.

Sustainability-Linked Loans (SLLs) and Sustainability-Linked Bonds (SLBs) aim to support the borrower in improving its sustainability performance, where the use of proceeds is not determinant in its categorisation. The borrower's sustainability performance is measured using predefined SPTs, as part of the predefined KPIs, which shows improvement in its sustainability profile over the term of the loan/ bond. Examples of KPIs per sectors can be referenced to the ICMA KPI Registry<sup>3</sup>.

Table 1 Components and Key Criteria of each of the Eligible Assets

Components	Key Criteria
<b>Selection of Key Performance Indicators (KPIs)</b>	<ul style="list-style-type: none"> <li>Relevant, core and material to borrower's business. KPIs should also be measurable, or quantifiable on a consistent methodological basis, and able to be benchmarked against an industry standard and/ or industry peers where feasible.</li> </ul>
<b>Calibration of Sustainability Performance Targets (SPTs)</b>	<ul style="list-style-type: none"> <li>Set in good faith, relevant and ambitious throughout the life of the loan;</li> <li>Based on the borrower's past performance, peers in the industry, and/or reference to science; and</li> <li>Performed a pre-signing Second Party Opinion (SPO) by an external reviewer. In cases where no external review is sought, MUFG performs a rigorous validation under our internal ESG Transaction Validation Framework.</li> </ul>
<b>Loan/Bond Characteristics</b>	<ul style="list-style-type: none"> <li>Two-way pricing mechanism, involving incentives and penalties based on the client's ability to achieve the set KPIs and SPTs.</li> <li>One-way pricing mechanism, involving incentives or penalties based on the client's ability to satisfy the predetermined SPTs.</li> </ul>
<b>Reporting</b>	<ul style="list-style-type: none"> <li>At least once per annum;</li> <li>Provide up-to-date information sufficient to assess the performance of the SPTs and to determine that the SPTs remain ambitious and relevant to the borrower's business; and</li> <li>Make information publicly available, where appropriate.</li> </ul>
<b>Verification</b>	<ul style="list-style-type: none"> <li>Obtain independent and external verification of borrower's performance level against each SPT for each KPI for any period relevant for the assessment, by a qualified external reviewer.</li> </ul>

<sup>1</sup> [Sustainability Linked Loan Principles \(SLLP\) - LSTA](#)

<sup>2</sup> [Sustainability Linked Bond Principles \(SLBP\) - ICMA](#)













<sup>3</sup> [Illustrative-KPIs-Registry-June-2023-220623](#)

## Social Loans and Bonds Financing

Social loans and bonds issued by MUFG reference to the best market practices available such as the APLMA/LMA/LSTA Social Loan Principles (SLP)<sup>4</sup> and ICMA Social Bond Principles (SBP)<sup>5</sup>. For each financing transaction, the core components (Use of Proceeds, Project Evaluation and Selection, Management of Proceeds and Reporting) as outlined in the SLP and SBP will be referenced to. Table 2 below focuses on the Use of Proceeds and Project Evaluation and Selection, which sets the precedence for social financing.













**Target Population:** The project categories/criteria listed in Table 2 may provide direct or indirect benefit(s) to one or more underprivileged and vulnerable groups, including women and girls, the poor, low-income households, disabled people, youth, minorities, rural communities and MSMEs to reduce poverty, improve living standards, and raise income and productivity.

**Table 2 Social loans and bonds financing use of proceeds and project evaluation and selection**

Use of Proceeds	Social Project Evaluation and Selection - Eligible Asset Description	Alignment with UN SDGs
<b>Health, Healthcare and Wellbeing</b>	<p>Activities that provide and expand access to affordable healthcare services and healthcare related products and services, which includes but not limited to:</p> <ul style="list-style-type: none"> <li>Construction, refurbishment, acquisition, equipment, maintenance, and operation of: <ul style="list-style-type: none"> <li>Public hospitals, clinics, and healthcare centres</li> <li>Private hospitals which are not for profit</li> <li>Eldercare services</li> </ul> </li> <li>Provision / distribution of healthcare equipment</li> <li>R&amp;D, logistics and distribution of medical products and supplies (including medicines)</li> </ul>	  
<b>Education and Vocational Training</b>	<p>Activities that promote increased access to education including but not limited to:</p> <ul style="list-style-type: none"> <li>Building, upgrading, equipment or expansion of public schools or other education facilities located in underserved areas</li> <li>Capacity building for public school's teachers and staff</li> <li>Programs that promote inclusive access without discrimination</li> <li>Loans provided to financially support students in low-income households</li> </ul>	 
<b>Financial Services and Financial Inclusion</b>	<p>Activities involving the development, expansion and/ or acquisition of financial services to expand and increase access to unbanked and underserved individuals and MSMEs, which includes, but not limited to:</p> <ul style="list-style-type: none"> <li>Ensuring the continuous development and growth of productive loan portfolios</li> <li>Provision of non-credit financial products such as payments, savings, and insurance</li> <li>Providing financial support to MSMEs led by women in low-income and lower middle-income regions</li> <li>Overall socio-economic advancement</li> </ul>	   
<b>Affordable Housing</b>	<p>Activities that provide or expand access to adequate, safe and affordable housing, including but not limited to:</p> <ul style="list-style-type: none"> <li>Construction, refurbishment, acquisition, maintenance and operation of affordable housing</li> <li>Loans dedicated to the financing of affordable housing (access to home ownership)</li> </ul>	  

<sup>4</sup> [Social Loan Principles \(SLP\) - LSTA](#)

<sup>5</sup> [Social Bond Principles \(SBP\) - ICMA](#)

Use of Proceeds	Social Project Evaluation and Selection - Eligible Asset Description	Alignment with UN SDGs
<b>Affordable Basic Infrastructure</b>	<p>Activities that improve connectivity and expand public access to essential services, including but not limited to the construction, development, operation, acquisition, refurbishment, and maintenance of basic infrastructure relating to:</p> <ul style="list-style-type: none"> <li>Clean water</li> <li>Sanitation</li> <li>Sustainable transportation</li> <li>Telecommunication networks and related infrastructure</li> <li>Transportation including the construction of roads and bridges to improve connectivity in underdeveloped rural areas, emergency care transportation, movement of goods etc, with focus on low carbon technologies</li> <li>Transmission and distribution of electricity</li> </ul>	<p><b>1 NO POVERTY</b> </p> <p><b>5 GENDER EQUALITY</b> </p> <p><b>6 CLEAN WATER AND SANITATION</b> </p> <p><b>7 AFFORDABLE AND CLEAN ENERGY</b> </p> <p><b>11 SUSTAINABLE CITIES AND COMMUNITIES</b> </p>
<b>Employment Generation</b>	<p>Activities that promote job creation and initiatives aimed at countering or reducing unemployment resulting from social and economic disparities, which may be through the potential effect of small and medium enterprise financing and microfinancing.</p>	<p><b>8 DECENT WORK AND ECONOMIC GROWTH</b> </p>
<b>Food Security and Sustainable Food Systems</b>	<p>Activities which enhance food security:</p> <ul style="list-style-type: none"> <li>Fair trade certified farming</li> <li>Support to smallholder farmers, including equipment and facilities that help to prevent food loss and waste and enhance improve agricultural productivity</li> <li>Extension of sustainable farming practices/ sustainable land use</li> <li>Infrastructure and warehousing facilities that provide adequate storage, improve food conservation, and improve connectivity in the food chain to avoid food losses</li> </ul>	<p><b>2 ZERO HUNGER</b> </p> <p><b>10 REDUCED INEQUALITIES</b> </p>
<b>Socioeconomic Advancement and Empowerment</b>	<p>Activities that promote socio-equality and improving the socioeconomic disparity through measures that support:</p> <ul style="list-style-type: none"> <li>Woman Empowerment / Gender Equality</li> <li>Social inclusion for the disadvantaged (such as low income, minorities, rural areas, disabilities, climate hazard risks, high conflict areas, etc)</li> <li>Provision of Access to Technology</li> </ul>	<p><b>1 NO POVERTY</b> </p> <p><b>5 GENDER EQUALITY</b> </p> <p><b>10 REDUCED INEQUALITIES</b> </p> <p><b>16 PEACE, JUSTICE AND STRONG INSTITUTIONS</b> </p>

## General Exclusions

- Illegal activities
- Projects and activities that are carbon intensive.
- Production of, or investment in, infrastructure, systems or equipment that create a fossil fuel lock in.
- Projects, activities, or transactions that have negative impact on Indigenous Peoples Communities, High Conservation Value areas, wetlands designated under the Ramsar Convention, or UNESCO designated World Heritage Sites.
- Land expropriation leading to involuntary resettlement.
- Projects involving the use of child labour, forced labour or human trafficking
- Cluster Munitions and Inhumane Weapons Manufacturing
- Caution will be imposed on companies operating in the following sectors as detailed in MUFG's Environmental and Social Policy Framework: Coal Fired Power Generation; Mining (Coal); Oil and Gas; Large Hydropower; Forestry; Palm Oil Industries

## Allocation Reporting

In order for MUFG to provide timely and periodic update to investors and other stakeholders, MUFG will publish an Allocation Report on an annual basis with details such as the allocation of proceeds to eligible sustainability-linked and social financial projects/ products, and if available, any unallocated amount. In addition, the report will provide, on an aggregated level the following indicators:

- Percentage of deposits raised against eligible assets; and
- Percentage of Social Loans / Bonds and Sustainability-Linked Loans/ Bonds within the asset base.

## Impact Reporting

While MUFG strives to align our impact reporting with the approach described in the ICMA Harmonized Framework for Impact Reporting<sup>6</sup>, challenges in data collection and verification may often pose as a major hurdle in ensuring the integrity and reliability of the data collected.

The impact assessment and report will be subjected to the availability of information and baseline data. In addition, this may also be subject to confidentiality agreements, type of financial product/ transaction type, MUFG's role in the transaction, and any other factor which may limit the scope of the impact report.

## Verification and External Review

This Sustainable Deposit Framework was developed in collaboration with Environmental Resources Management (S) Pte Ltd ("ERM"), a leading sustainability consultancy providing environmental, health, safety, risk, social consulting services and sustainability related services.



MUFG is responsible for developing and maintaining the overall MUFG Sustainable Deposit Framework and underlying eligible themes and activities. MUFG's eligible social and sustainability-linked portfolios are externally reviewed on an annual basis to ensure alignment with this Framework.

Information and understanding on environmental and social matters continue to evolve and MUFG commits to reviewing this Sustainable Deposit Framework on an annual basis to evaluate if there are eligible activities that need to be added or removed in this Framework. Future changes on the bond and loan principles will be reflected in the revised version of the Framework, to ensure alignment with the latest financing market standards and best practices.

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<sup>6</sup> [Harmonised Framework for Impact Reporting for Social Bonds \(2023\)](#)

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