Investor Briefing Update:
Gaps in Mizuho's policy maintains the need for climate-related shareholder proposal Investor Briefing Update

1 May 2020

On 13 March 2020, Kiko Network filed a shareholder proposal seeking Mizuho Financial Group (Mizuho) disclose a plan outlining its business strategy to align its investments with the climate goals of the Paris Agreement. On 15 April 2020, Mizuho released a policy document entitled "Strengthening our sustainability initiatives" (2020 policy) in Japanese and released this document in English on 27 April 2020.[1]

The disclosures provided by Mizuho's 2020 policy demonstrates that Mizuho has stepped up in taking some sustainable initiatives, including stopping finance for new coal power projects with some exceptions. We welcome the positive steps that Mizuho has taken. However, the policy falls well short of the expectations set out in the shareholder proposal, both in terms of scope and ambition. Specifically:

- The 2020 policy only provides targets regarding a small fraction of Mizuho's lending, and does not provide a plan on how Mizuho will align the rest of its investments with the goals of the Paris Agreement.
- The targets provided in the policy are not aligned with the climate goals of the Paris Agreement.

For these reasons and others detailed in our 16 March briefing, **Kiko Network is proceeding with the shareholder proposal. We urge investors to vote for this proposal and advise Mizuho and the broader public of these intentions.**

Asks of the shareholder proposal

The English translation of the shareholder proposal states:

> *Noting the company's support for the Paris Agreement and the Task Force on Climate-related Financial Disclosures (TCFD), the company shall disclose in its annual reporting a plan outlining the company's business strategy, including metrics and targets, to align its investments with the goals of the Paris Agreement.*

[1] Mizuho Financial Group, "Strengthening our sustainability initiatives", 15 April 2020, (2020 Policy), online: https://www.mizuho-fg.com/release/pdf/20200415release_eng.pdf.

Assessment of Mizuho's 2020 policy

1. **It only addresses project finance lending to coal-fired power**

Mizuho's 2020 policy states that it will reduce its Fiscal Year (FY) 2019 credit balance for coal-fired power generation facilities by 50% by FY2030, and achieve an outstanding credit balance of zero by FY2050. Its 2019 credit balance is expected to be approximately ¥300 billion (US$2.8 billion).[2]

Project finance lending to coal power represents a small percentage of Mizuho's loan book. Mizuho's outstanding loan balance for FY2018 was at ¥78,456.9 billion (US 701 billion).[3] Mizuho's credit balance to coal power only represents approximately **0.38% of the total credit balance**.[4]

Mizuho's lending to coal and other fossil fuel developers (corporate finance, rather than project finance) is a significant proportion of its credit exposure. In its 2019 integrated report, Mizuho disclosed that the combined ratio of "measured energy sector and utility sector credit exposure" makes up approximately 7.2% of Mizuho's total credit exposure.[5] However, Mizuho does not properly address it.

Although the 2020 policy identifies the energy and utility sectors as "high risk areas" and shows that credit costs in this area have an upward trajectory,[6] Mizuho has not provided a metric or a target linked to this lending. Mizuho indicates that it will be engaging with utilities and oil, gas and coal sector clients to address the transition risk accompanying climate change.[7] However, without metrics and targets linked to this engagement, investors would not have an understanding of how this lending and the related climate risks or opportunities may impact Mizuho's business over time.

Moreover, the target provided by Mizuho does not include other forms of business outside of lending, such as underwriting. The "2020 Banking on Climate Change" report found that from 2016 to 2019 alone, Mizuho provided US$4.24 billion in lending and underwriting to coal power.[8]This element of Mizuho's support for the coal industry is not addressed by its 2020 policy.

2. **The targets provided in the policy do not align with the goals of the Paris Agreement**

Mizuho's 2020 policy[9] commits the bank to reduce its FY2019 credit balance for coal-fired power generation projects by 50% by FY2030, and achieve a zero credit balance by FY2050.

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[2] *Ibid.* Pg. 3.

[3] Mizuho 2019 Integrated Report, pg. 131, online: https://www.mizuho-fg.com/investors/financial/annual/data1903/index.html.

[4] As we do not have information about Mizuho's credit exposure, we have had to compare its FY2019 project finance lending to coal power to its FY2018 loan balance. Given what we know about Mizuho's lending to coal power over the last year, we do not anticipate that this will cause too much of a discrepancy.

[5] Mizuho 2019 Integrated Report, pg. 47. This excludes renewables, nuclear energy and water utilities. If we simply compare this with Mizuho's FY2018 loan balance, it would be ¥5,648.9 billion/US$50.1 billion)

[6] Mizuho 2020 policy, pg. 4.

[7] *Ibid.,* Attachment 4, pg. 3 and 4.

[8] Rainforest Action Network et al, Fossil Fuel Finance Report Card (2020), online: https://www.ran.org/bankingonclimatechange2020/.

[9] Mizuho 2020 policy, pg. 3.

This target is not Paris-aligned. According to experts such as Climate Analytics, to achieve the emissions reductions needed to limit global warming to 1.5°C, coal needs to be phased out by 2040 globally.[10] Mizuho's target falls short of this mark, and the bank allows to sustain coal power a full decade beyond its use-by date in a Paris-aligned scenario.

The credit balance reduction target for coal-fired power is grounded in Mizuho's new coal finance policy, which states that Mizuho will not finance new coal power projects. However, **this policy is not Paris-aligned because it contains exceptions allowing Mizuho to finance coal power.** The policy states Mizuho will be able to finance "business to which Mizuho is already committed as of the start of this policy." We believe that this refers to **Vung Ang 2, a controversial new coal project in Central Vietnam** which Mizuho is in line to fund.[11]

The policy also exempts plants "essential to the relevant country's stable energy supply and will contribute to reduction of greenhouse gas emissions by replacing an existing power plant" and those that use "innovative, clean, and efficient next-generation technology that will contribute to the expansion of sustainable energy, as well as other initiatives for the transition to a low-carbon society." We are concerned that this would also allow Mizuho to finance a project in Ube, Yamaguchi that J-power and Ube Industries are planning to 'upgrade' to Integrated gasification combined cycle (IGCC) technology.

Our climate can no longer afford policies which allow any new coal power projects. The Executive Director of the International Energy Agency has stated that to limit temperature rises to 2ºC, let alone the 1.5ºC scientists recommend, "We have no room to build anything that emits CO2..."[12] Oxford University researchers have found that in addition to no pipeline CO2 emitting power plants being built, over 20% of current global capacity would have to be stranded to meet the goals of the Paris climate agreement.[13]

Mizuho's 2020 policy still does not come close to providing the information that shareholders need to assess Mizuho's business strategy and determine whether it is Paris-aligned.

As such, Kiko Network continues to seek that Mizuho commits to disclose a plan outlining its business strategy to align its investments with the goals of the Paris Agreement, and asks shareholders to vote for its proposal at Mizuho's June 2020 shareholder meeting and advise Mizuho and the broader public of this intention.

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[10] Climate Analytics, Coal phase out, online: https://climateanalytics.org/briefings/coal-phase-out/.

[11] Market Forces, Vung Ang 2, online: http://www.marketforces.org.au/va2.

[12] Adam Vaughn, Guardian, (13 Nov 2018) 'World has no capacity to absorb new fossil fuel plants, warns IEA' online: https://www.theguardian.com/business/2018/nov/13/world-has-no-capacity-to-absorb-new-fossil-fuel-plants-warns-iea

[13] Alexander Pfeiffer et al, 2018 Environ. Res. Lett.13 054019, online: https://iopscience.iop.org/article/10.1088/1748-9326/aabc5f/meta.