Sustainability Management Initiatives

Issues that could shake the Bank's foundations of business are rapidly developing on a global scale, including the progress of climate change, food shortages due to the globally rising population, labor shortages in advanced economies due to aging and shrinking demography, problems of human rights and a loss of biodiversity. As expectations for companies to solve these environmental and social issues are increasing, we recognize that our stakeholders want the Bank to meet these expectations in operating its businesses.

Based on an understanding of such global trends, the Bank, to address the global issues through its business, performs initiatives of sustainability management based on discussions at the Sustainability Committee, which operates under the Board of Directors. The Bank assigned two Chief Sustainability Officers (Co-CSuO), one each in Japan and overseas, responsible for supervising and promoting sustainable management, and a Chief Diversity Officer responsible for supervising and promoting diversity & inclusion initiatives. In addition, the Bank established the Sustainability Advisory Board to reflect opinions of external experts on the Bank's sustainable management.

To achieve the FY2030 Medium/Long-Term Goals set forth in fiscal 2021, the Bank launched specific efforts to reduce GHG emissions, including support aimed at decarbonization management though dialogues with customers, appropriate forest maintenance in cooperation with JForest members to ensure CO_2 absorption, and efforts to reduce CO_2 emissions by the Bank itself, thereby contributing to the realization of a carbon-free society. The Bank also engages in initiatives to increase the income of farmers, fishermen and foresters and raise the share of female managers. The Bank's new sustainable finance in fiscal 2021 reached about ¥1.5 trillion.

Major Initiatives in FY2021

Reduce GHG emissions

- Launched GHG measurement support service to the Bank's investees and borrowers to accelerate their decarbonization management efforts
- Engaged with the investees and borrowers using risk scenario analysis related to climate change
- Ensured CO_2 absorption volume in cooperation with JForest members by appropriate forest maintenance nationwide
- Reduced the Bank's CO_2 emissions by approximately 37% (as of March 2021, compared with March 2014)

Increase the income of farmers, fishermen and foresters

- Offered management consulting to AFF corporations and producers
- Developed various supports to AFF corporations and producers and Food & Agriculture–related corporations to build the value chains

Promote active participation of women in managerial positions

- Approximately 6.6% of female managers at the Bank as of March 31, 2022
- Promoted initiatives toward targets under the leadership of the newly established CDO in FY2021

Sustainable finance

New finance of FY2021	Medium/Long-Term Goal*	Progress Rate
¥1.5 trillion	¥10 trillion	15% (approx.)

*Cumulative amount of new finance from FY2021 to FY2030 (10 years)

Breakdown

Investments and Loans	Market investment assets, etc.	¥0.9 trillion
	Project finance	¥0.4 trillion
	ESG loans	¥0.1 trillion
Funding	Green bonds	¥0.1 trillion

Participation in Major Initiatives

- Principles for Financial Action for the 21st Century
- United Nations Global Compact
- Carbon Disclosure Project
- Equator Principles
- Task Force on Climate-related Financial Disclosures
- Japan Climate Initiative
- UNEP FI
- PRB
- PCAF
- AIGCC
- Climate Action 100+
- TNFD Forum

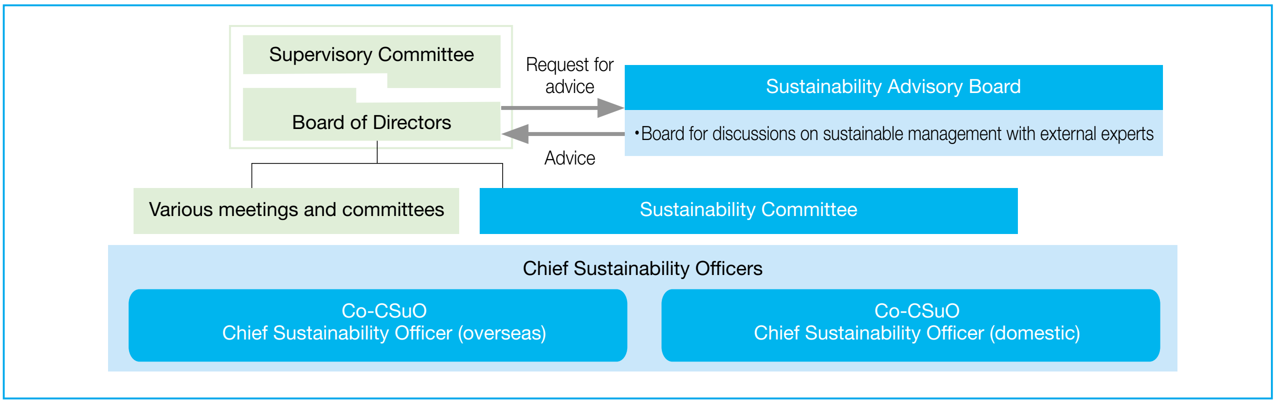
Measures to Address Climate Change Disclosure according to the Recommendations of the Task Force on Climate-related Financial Disclosures (TCFD)

The AFF industries—the foundation of the Bank's business—could be affected negatively by climate change, while at the same time possessing the underlying potential to increase climate change. Addressing climate change is part of the Bank's mission to contribute to the development of these industries. From the perspective of opportunities and risks concerning climate change, the Bank is pursuing efforts to contribute to the alleviation of and adaptation to climate change through its business operations. As part of such efforts, the Bank is appropriately addressing the impacts and risks of climate change on the Bank's businesses and implementing measures and expanding disclosures in line with the TCFD recommendations.

Governance

The Bank's environmental and social policies, including those for climate change and the current implementation status, are discussed regularly at the Sustainability Committee under the Board of Directors, followed by submitting proposals and reporting at the Supervisory Committee or the Board of Directors meetings according to the themes to be discussed.

In addition, the Bank has assigned Chief Sustainability Officers (Co-CSuOs) who are responsible for supervising and promoting initiatives to solve environmental and social issues, including climate change. Furthermore, the Bank established the Sustainability Advisory Board as an advisory body to the Board of Directors to advance its sustainable management by incorporating the opinions of external experts.



Strategy

Through its business activities, the Bank is working on initiatives to address opportunities and risks relating to climate change.

• Climate change–related opportunities

Climate change presents a possible risk in the future, but at the same time, addressing the alleviation of and adaptation to climate change offers business opportunities. The Bank promotes initiatives to support the transition to a carbon-free society from the aspect of financing.

(Examples of initiatives)

▪ Initiatives through sustainable finance
- Impact investment program
- Renewable energy–related project financing
- ESG loans to solve environmental issues

▪ Initiatives to ensure the sustainability of forests and forestry
- Initiative to continue and activate the function of forests to absorb carbon dioxide

• Climate change–related risks

Leveraging its integrated risk management framework, the Bank conducts risk assessment through scenario analyses, etc., and appropriate risk management for the following two types of risks related to climate change and a carbon-free society.

- Transition risk: credit risk of the Bank's investees or borrowers due to extensive policy, legal, technology and market changes as measures progress to lessen and adapt to climate change, and the risk of such entities becoming stranded assets
- Physical risk: risk of an increase in financial losses arising from physical damage to assets held by the Bank or its investees or borrowers as a result of natural disasters or abnormal climate patterns due to climate change

Climate change–related risks recognized by the Bank

Risk	Category	Major risks	Timeframe
Transition risk	Policy Legal Technology Market	• Regulations to achieve the 2°C target could have an impact on the business models and business performance of investees and borrowers, thereby increasing the cost of credit. • The market's shift toward decarbonation could change the supply-demand relationship of products and services and business performance, thereby increasing the cost of credit.	Medium/Long Term
	Policy	• Change of regulations to respond to growing international demand to strengthen measures against climate change	Short Term
	Reputation	• Risk that climate change–related efforts and disclosure are regarded to be insufficient	Short Term
Physical risk	Acute Chronic	• Natural disasters, such as a typhoon and heavy rain, could stagnate investees' and borrowers' businesses, worsening their performance and damage the value of collateral of real estate and other properties, which could increase the cost of credit. • Climate change could affect land utilization and the productivity of primary industries. • Abnormal weather could cause damage to the Bank's assets, affecting the continuity of its business.	Short/Medium/ Long Term

• Scenario analysis

The Bank evaluated the financial impact of transition risk on the credit portfolio in fiscal 2020. The scope of analysis included (1) sectors that have significant impact on the Bank, i.e., electricity; petroleum, gas and coal sectors, and (2) sectors that form food and agribusiness value chains, i.e., food and agriculture; beverage sectors. Based on the characteristics of its investment and finance portfolio, the Bank analyzed its borrowers worldwide and the companies of which the Bank holds corporate bonds. As a result of this analysis, the impact of transition risk on the credit portfolio has been evaluated as "limited." The analysis will be utilized for our constructive dialogue with our investees and borrowers (engagement).

In fiscal 2021, the Bank additionally conducted scenario analyses on acute and chronic physical risks. As for acute risks, the Bank analyzed flood damage, which has been severe in recent years, specifically concerning its effects on the important business locations in Japan of domestic borrowers and on mortgage collateral held by the Bank. The analysis concluded that the effects on the credit portfolio are limited.

As for chronic risks, the Bank analyzed the impact of chronic physical risks on the agricultural sector, which is important to the Bank as its business is based on the AFF industries. The analysis was conducted on rice production and livestock farming (raw milk and beef cattle), studying the effects of climate change, including rising temperatures, on the income of producers and how to address those effects. This analysis, however, is only about the effects on the income of producers, and further research is necessary for developing appropriate models to analyze the Bank's financial impacts, because of the need for identifying the highly probable estimation path among many diverse and complex ones.

Risk Management

The Bank has adopted a risk management framework related to the environment and society including climate change. In line with the Environmental Policy and the Human Rights Policy that are basic policies for solving environmental and social issues, the Bank stipulates a policy to address environmental and social considerations in lending and investing activities for the sectors where negative effects on the environment and society, including climate change, are suspected. In addition, concerning large-scale development projects, the Bank applies the Equator Principles.

Based on the risk appetite framework, which is a framework of business management for disciplined risk taking and the optimization of risks and returns, the Bank selects the top risk (that requires special attention) in consideration of the business environment and risk awareness and analyzes possible future scenarios. Selecting "rapid changes in the environment surrounding sustainable management" as the top risk, the Bank recognizes that rapid environmental changes regarding various themes on sustainability, including climate change and biodiversity, could have a significant impact on the sustainability of the Bank, including the portfolio having stranded assets and the negative effects of wind, flood and other damage to the AFF industries.

Metrics & Targets

The Bank set forth the FY2030 Medium/Long-Term Goals and makes steady progress toward them.

- Scope 1, 2: The Bank aims to reduce CO_2 emissions by the Bank itself by 50% by fiscal 2030 compared with fiscal 2013.

Results of FY2021

(Unit: tCO_2)

Period of measurement	March 31, 2014	March 31, 2021
Scope 1	2,200	1,256
Scope 2	30,200	19,057
Total	32,400	20,313(-37%)

- Scope 3: The Bank aims to reduce GHG emissions at its investees and borrowers by 50% by fiscal 2030 compared with fiscal 2013.

Results of FY2021

The Bank assessed the current status of GHG emissions across various asset classes in its investment and loan portfolio, and estimated the GHG emission amount via its financing activity to corporations in the form of loans, bonds and stocks.

- The Bank will execute new sustainable finance totaling ¥10 trillion by fiscal 2030.

Results of FY2021

The amount of new sustainable finance executed in fiscal 2021 totaled ¥1.5 trillion, or 15% in rate of progression.

For details, please refer to "Sustainability Report 2022."