

# Sustainability Management Initiatives

## ■ Sustainability Management of the Bank

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.

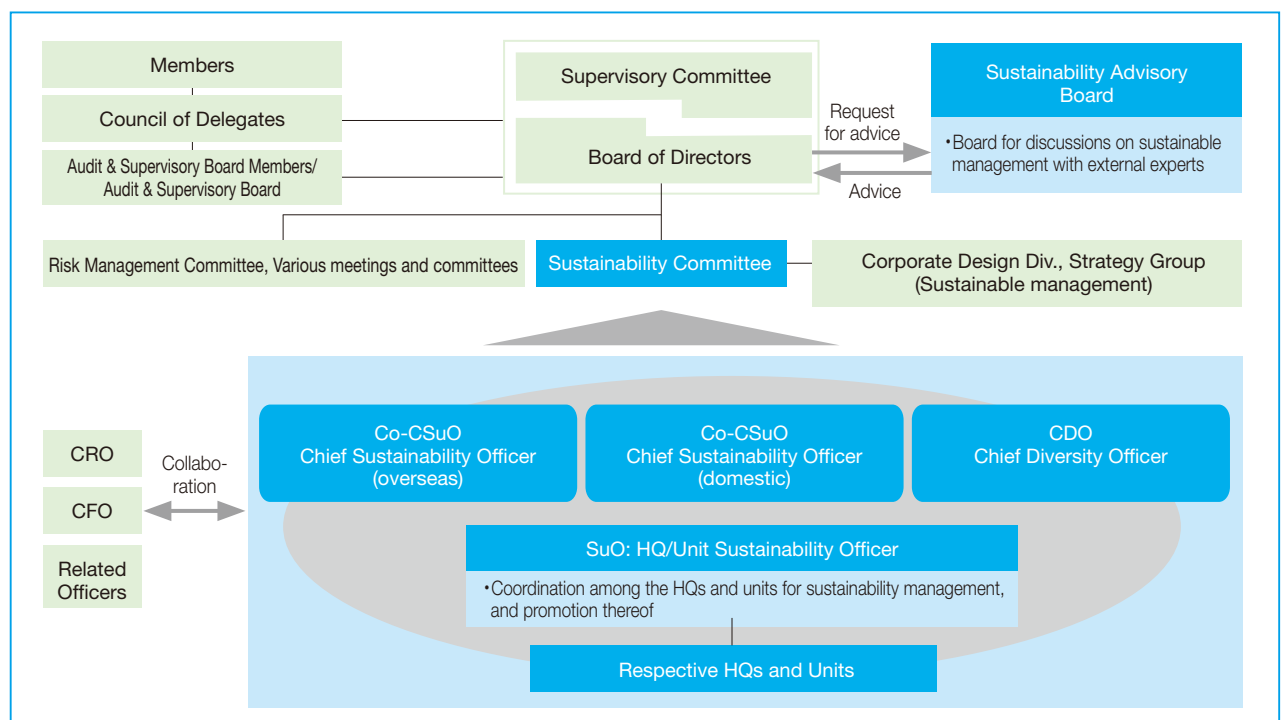
### ● Sustainability Promotion Structure

The Bank performs initiatives toward solving environmental and social issues based on discussions at the Sustainability Committee, which operates under the Board of Directors. Similarly, environment/social risk management-related matters are discussed at the management level in various committees according to the

content and purpose, including discussions at the Risk Management Committee, which also operates under the Board of Directors. The content discussed at these committees is proposed or reported to and discussed by the Board of Directors and/or the Supervisory Committee, as required. In addition, the Bank established the Sustainability Advisory Board as an advisory body to the Board of Directors to reflect opinions of external experts on the Bank’s sustainable management.

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. To achieve strengthened sustainability management throughout the Bank in a unified manner, we have assigned HQ/Unit Sustainability Officers (SuOs) at the respective headquarters/units (Food & Agri HQ/Retail HQ/Global Investments HQ/Risk Management HQ).

## Sustainability Promotion Structure



## ● Stakeholder Engagement

### Stakeholders of the Bank

- Members (JA, JF and JForest)
- Individual cooperative members (i.e., people working in the AFF industries)
- Our clients (deposit and savings, loans) including AFF-related companies
- Local communities
- Business partners in the Bank’s entire operation including financial institutions, market participants and contractors
- Governments and municipalities
- Employees

In the current era of increasing uncertainty, to realize a sustainable environment/society and establish AFF industries that can be passed onto the next generation, stakeholder engagement should be emphasized and the necessary actions should be taken together with them via deep mutual understanding.

We will promote initiatives to accomplish the Purpose of the Bank while maintaining and building trust relationships into the future by ensuring transparency and the accountability of information to our stakeholders.

## ● Participation in Major Initiatives

The Bank is participating in diverse initiatives to realize a sustainable environment/society in collaboration with a variety of stakeholders.

### Participation in Major Initiatives

<ul style="list-style-type: none"> <li>● Principles for Financial Action for the 21st Century</li> <li>● United Nations Global Compact</li> <li>● Carbon Disclosure Project</li> <li>● Equator Principles</li> <li>● Task Force on Climate-related Financial Disclosures</li> <li>● Japan Climate Initiative</li> <li>● UNEP FI</li> <li>● PRB</li> <li>● PCAF</li> <li>● AIGCC</li> <li>● Climate Action 100+</li> <li>● TNFD Forum</li> <li>● Japan Impact-driven Financing Initiative</li> <li>● GFANZ</li> <li>● NZBA</li> <li>● #Here We Go 203030</li> <li>● PRI*</li> </ul>	
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\*Norinchukin Zenkyoren Asset Management Co., Ltd., has signed on.

● **Specification of Sustainability Issues**

Based on the viewpoint required by stakeholders and the outlook for the Bank’s significant issues, five Focus Areas and 14 Topics have been set as sustainability issues. They will be appropriately reviewed, as required, in view of changes in the social environment.

**Focus Area 1: Create a positive impact on the AFF industries, food and local communities**

- Topic 1-1: Contribute to sustainable AFF industries
- Topic 1-2: Contribute to a safe and secure food supply
- Topic 1-3: Contribute to sustainable local communities
- Topic 1-4: Conserve the natural environment as a foundation of the AFF industries
- Topic 1-5: Create business innovation

**Focus Area 2: Promote responsible finance**

- Topic 2-1: Promote sustainable finance
- Topic 2-2: Contribute to sustainable energy utilization
- Topic 2-3: Realize financing for everybody

**Focus Area 3: Promote sustainability management**

- Topic 3-1: Ensure a transparent organizational governing structure
- Topic 3-2: Reinforce the management of environmental and social risks
- Topic 3-3: Reinforce stakeholder engagement

**Focus Area 4: Secure highly capable human resources**

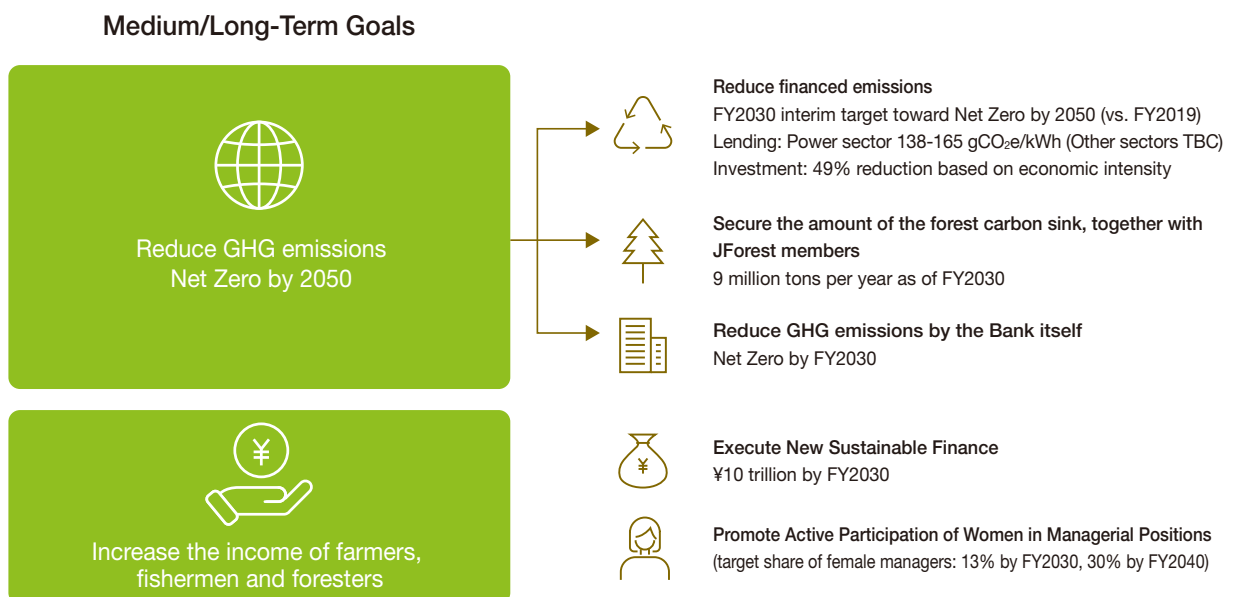
- Topic 4-1: Improve diversity and equal opportunities
- Topic 4-2: Enhance human resources development

**Focus Area 5: Maintain customer trust as a financial institution**

- Topic 5-1: Further reinforce our compliance framework

● **Initiatives in the Medium/Long-Term Goals to Accomplish Our Purpose**

To accomplish the Purpose of the Bank, the Bank set forth the relevant Medium/Long-Term Goals and has been engaged in specific initiatives since fiscal 2021. In fiscal 2022, the Bank declared Net Zero by 2050 and has further promoted its efforts toward realizing a carbon-free society.



Major Initiatives

Initiatives to “Net Zero by 2050”

Reduced financed emissions

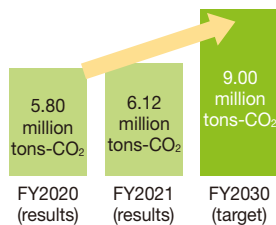
- Became a member of the Net-Zero Banking Alliance (NZBA), an international interbank initiative, which is aimed at encouraging members to commit to “Net Zero by 2050” for the portfolios of investees and borrowers. Moreover, we set FY2030 interim targets for our investment and loan portfolios.
- We engage with our investees and borrowers accordingly. Thus, we are promoting our responses to climate change by offering solutions including finance.

	FY2019	FY2022	Target for FY2030
Lending*1 (Power sector)	213 gCO <sub>2</sub> e/kWh	217*2 gCO <sub>2</sub> e/kWh	138-165 gCO <sub>2</sub> e/kWh
Investment (stocks and bonds)	0.66 tons-CO <sub>2</sub> e/ ¥million	0.55 tons-CO <sub>2</sub> e/ ¥million (-17% vs. FY2019)	-49% vs. FY2019

\*1 Coverage sectors to be sequentially extended  
 \*2 The rise in emission coefficient versus FY2019 was mainly due to the extended exposure of CO<sub>2</sub>, along with the expansion of the COVID-19 pandemic and the increased number of customers classified into the power sector through maintenance of the system registration

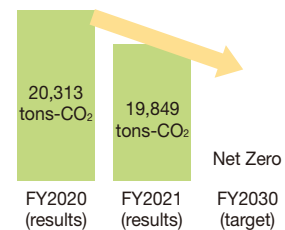
Secure the amount of the forest carbon sink, together with JForest members

- Specified the target for the absorbed amount of the forest carbon sink (9 million tons per year as of FY2030).
- Supported forest operation, which is undertaken by JForest members with subsidies from the Nochu Potential Forest Productivity Fund or undertaken as forestry labor safety improvement measures.
- Started new initiatives such as setting up a platform to support creating and sales of J-Credit (forest preservation support scheme).



Reduce GHG emissions by the Bank itself

- Achieve Net Zero by 2030 for GHG emissions by the Bank itself.
- Reduce emissions by enhancing energy-saving measures and speeding up the conversion to renewable energy.



Contribute to sustainable AFF Industries and Local Communities

Consulting to leaders in the agricultural industry to increase their income

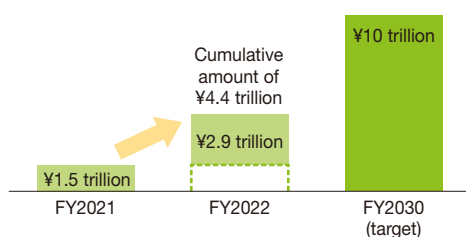
- Continuously contributed to the income increase for leaders in the AFF industries after having defined an indicator, which treats their income increase in a unified manner, as the added value amount.
- In collaboration with the JA Bank, conducted consulting activities on management problems for leaders in the agricultural industry (186 cases in FY2021 and 301 cases in FY2022).
- Focused on not only offering problem-solving solutions but also verifying the status of implementation and the support processes toward the realization of solutions.



Defined “added value amount” as the total of “operating income,” “depreciation” and “personnel expenses,” which includes not only the perspective of “profit improvement” but also the concepts of “appropriate capital investment” and “human resources investment.”

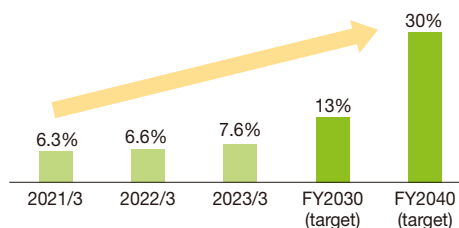
Execution of new sustainable finance

Executed sustainable finance that contributes to solving environmental and social issues



Promote active participation of women in managerial positions

To increase the ratio of women in managerial positions, we implemented initiatives to foster the awareness of directors and employees, as well as to promote the active participation and further development of female employees.



### ■ Initiatives for sustainable finance

We have upheld the target of executing new sustainable finance amounting to ¥10 trillion for the period from fiscal 2021 to fiscal 2030 with the aim of solving environmental and social issues through finance.

#### Performance for fiscal 2021 and 2022

Investments and Loans	Market investment assets, etc.	¥2.3 trillion (Approx.)
	Project finance	¥1.2 trillion (Approx.)
	ESG loans	¥0.7 trillion (Approx.)
	Investments and Loans Total	¥4.2 trillion (Approx.)
	(of which those in the environmental field)	(¥2.0 trillion (Approx.))
Funding	Green bonds, Green deposits	¥0.3 trillion (Approx.)

### ● Initiatives for creating impact through finance

Impact investment and lending, which aim to create positive environmental/social impacts while ensuring appropriate economic returns, have recently attracted increasing attention as a mechanism to directly contribute to solving environmental/social issues through finance. The Bank has made steady progress toward accomplishing its new sustainable finance target, and has made efforts related to Impact Measurement and Management that allow qualitative management of the relevant investment and lending activities vis-a-vis environmental/social issues by visualizing the impact.

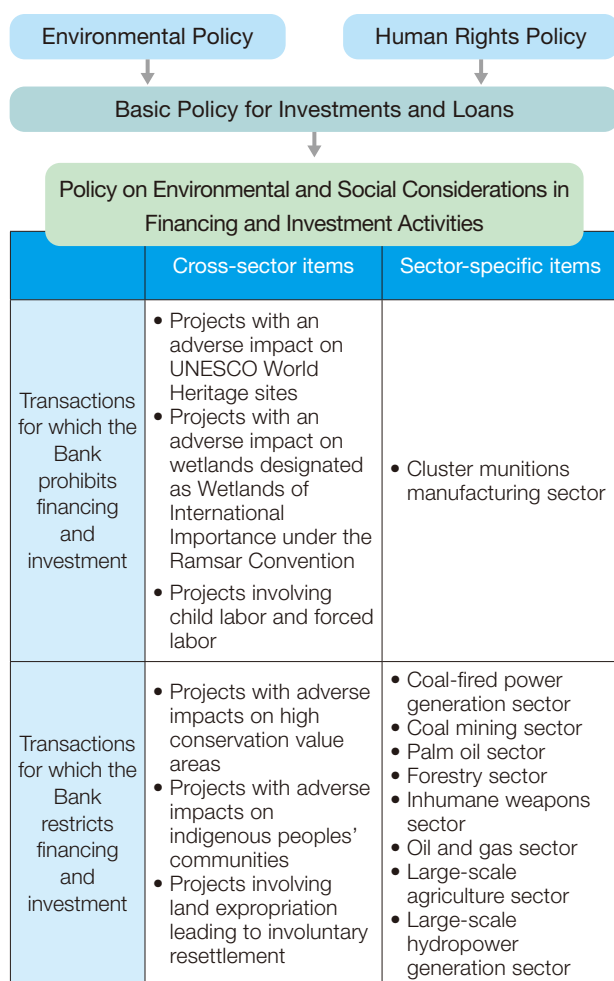
### ● Initiatives for environmental and social risk management

Under the Enterprise Security Risk Management (ESRM) framework for environmental and social risk management, the Bank has built a framework for escalation in case a checking function at the risk management department or decision-making by management is required, in addition to the assessment and judgment of environmental and social risks at the front-office sections. In the future, the Bank will endeavor to sophisticate its ESRM-based operations in stages, and aim to implement a unified operations with its integrated risk management.

In addition, the Bank has adopted the Environmental Policy and the Human Rights Policy, which are basic policies for solving environmental and social problems. The Bank has also stipulated a policy to address environmental and social considerations in lending and investing activities for the sectors where negative effects on the environment and society are suspected, and conducts appropriate risk management according to the priority.

Furthermore, the Bank has adopted the Equator Principles, which the Bank applies to large-scale development project finance by monitoring whether appropriate consideration is given in such projects to the natural environment and the local communities concerned.

#### Policy on Environmental and Social Considerations in Financing and Investment Activities



## ■ Responses to Address Climate Change—Disclosure based on 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. From the

perspective of opportunities and risks concerning climate change, the Bank is pursuing efforts to contribute to the mitigation of and adaptation to climate change through its business operations.

### Governance

- The Bank’s responses to environmental and social issues, including those for climate change and the current implementation status, are discussed regularly at management-level meetings such as the Sustainability Committee, which operates under the Board of Directors, followed by submitting proposals and reporting at the Board of Directors and Supervisory Committee meetings, as required. In addition, the Bank endeavors to strengthen its sustainability promotion structure including the responses to climate change by the assignment of Chief Sustainability Of-

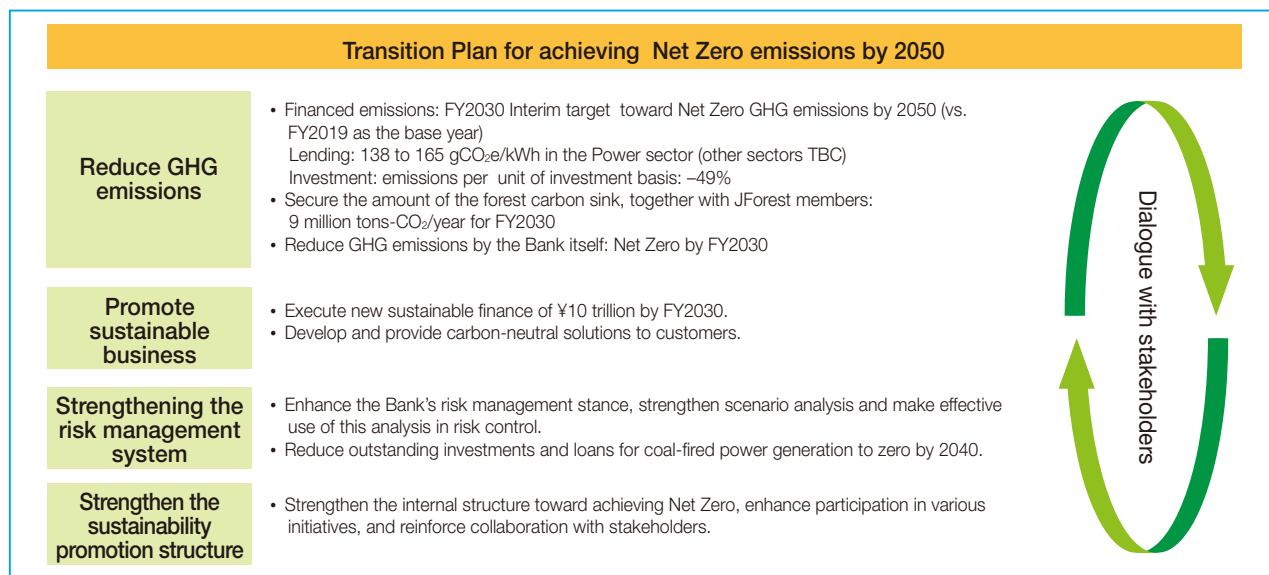
icers (Co-CSuOs) who are responsible for promoting the initiatives (refer to page 18).

- As a sound incentive toward sustainable growth, the variable compensation for directors is determined based on the achievement of targets, etc., set forth in the management plan to enhance sustainability management, contribute to agriculture, fishery, forestry industries and local communities, reinforce the managerial foundation of members and contribute to employee engagement.

### Strategy

- Recognizing that climate change presents a possible risk in the future, but at the same time, addressing the mitigation of and adaptation to climate change offers business opportunities, the Bank promotes communication with stakeholders, and providing solutions including sustainable finance.
- In March 2023, the Bank announced its commitment to achieving Net Zero by 2050. As part of this commitment, the Bank joined the Net-Zero Banking Alliance (NZBA), an international initiative among

banks that aims to achieve net-zero greenhouse gas emissions through its investment and loan portfolio by 2050. We have set FY2030 interim targets toward Net Zero by 2050 of reducing financed emissions, Securing the amount of the forest carbon sink, together with JForest members and reducing the GHG emissions by the Bank itself. Furthermore, we created the “Transition Plan for Achieving Net Zero Emissions” toward achieving Net Zero including these targets.



- Under our integrated risk management framework, we assess risks associated with climate change and operate their appropriate management through scenario analysis and other methods.
- Transition risk: Credit risks and stranded asset risks for investees and borrowers affected by changes in policies, legal regulations, technologies, markets, and other factors associated with progress in climate change mitigation and adaptation initiatives
- Physical risk: Risks resulting from increased financial loss through physical damage to the assets of the Bank and its investees and borrowers incurred from natural disasters and extreme weather associated with climate change

**Climate change-related risks recognized by the Bank**

Risk	Category	Major risks	Timeframe
Transition risk	Policy Legal Technology Market	<ul style="list-style-type: none"> <li>• 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.</li> <li>• 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.</li> </ul>	Medium/Long Term
	Policy	<ul style="list-style-type: none"> <li>• Change of regulations to respond to growing international demand to strengthen measures against climate change</li> </ul>	Short Term
	Reputation	<ul style="list-style-type: none"> <li>• Risk that climate change-related efforts and disclosure are regarded to be insufficient</li> </ul>	Short Term
Physical risk	Acute Chronic	<ul style="list-style-type: none"> <li>• 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.</li> <li>• Climate change could affect land utilization and the productivity of primary industries.</li> <li>• Abnormal weather could cause damage to the Bank’s assets, affecting the continuity of its business.</li> </ul>	Short/Medium/Long Term

- Transition risk scenario analysis
  - The Bank conducted scenario analyses on (1) sectors for which the transition risk was judged high according to the risk assessment by industrial sector/region, that is, the electricity; oil, gas and coal; and chemical sectors, and (2) sectors that form food and agribusiness value chains, that is, the food and agriculture and beverage sectors. The analyses aimed to determine the medium/long-term changes of the cost of credit depending on the progress of decarbonization (analysis targets are the Bank’s borrowers and the companies of which the Bank holds corporate bonds in Japan and abroad).
  - The Bank used the “Net Zero 2050” scenario, which was publicly announced by the Network for Greening the Financial System (NGFS), as well as scenarios publicly announced by the International Energy Agency (IEA), the Food Agriculture Organization of the United Nations (FAO) and other relevant organizations.
  - As a result of this analysis, the impact of transition risk on the credit portfolio was evaluated as “limited.”
- Physical risk scenario analysis
  - The Bank conducted scenario analyses on acute and chronic physical risks regarding Japan, of which the physical risk was judged high according to the risk assessment by industrial sectors/regions.
  - 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 (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 deemed 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 (refer to page 22).
- 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.
- The Bank selected “addressing climate change, biodiversity and other sustainability-related issues” as the top risk. The Bank recognizes that possible dete-

rioration of natural capital and/or biodiversity, including the Bank's portfolio having stranded assets and the negative effects of wind, flood and other damage, which might be accompanied by the transition to a carbon-free economy caused by climate change, could involve significant risks that have a significant impact on the sustainability of the Bank and the AFF industries being the Bank's foundation and/or local communities. Accordingly, the Bank strives to sophisticate its risk management systems by aligning and sharing internal recognition of these risks through the process of selecting the top risk.

## Metrics & Targets

The Bank has set targets related to the indicators for opportunities and risks concerning climate change and has made steady progress toward them.

Items	Indicator	Latest performance	Target
Reduce GHG emissions	Financed emissions		FY2030 Interim target toward Net Zero by 2050
	Lending: Power sector Base year: FY2019 results 213 gCO <sub>2</sub> e/kWh	FY2020 217 gCO <sub>2</sub> e/kWh	138–165 gCO <sub>2</sub> e/kWh
	Investment: Emissions per unit of investment basis (stocks and bonds) Base year: FY2019 results 0.66 tons-CO <sub>2</sub> e/¥million	FY2020 0.55 tons-CO <sub>2</sub> e/¥million –17% vs. FY2019	–49% vs. FY2019
	Secure the amount of the forest carbon sink, together with JForest members	FY2021 6.12 million tons-CO <sub>2</sub>	9 million tons-CO <sub>2</sub> /year for FY2030
	GHG emissions by the Bank itself	FY2021 19,849 tons-CO <sub>2</sub>	Net Zero by FY2030
Promote sustainable business	Execute new sustainable finance	FY2021-FY2022 (cumulative amount) ¥4.4 trillion	¥10 trillion by FY2030
Strengthening the risk management system	Reduction of outstanding investments and loans for coal-fired power generation	As of March 31, 2023 ¥36.6 billion	Zero by 2040



## ■ Initiatives to Increase the income of farmers, fishermen and foresters

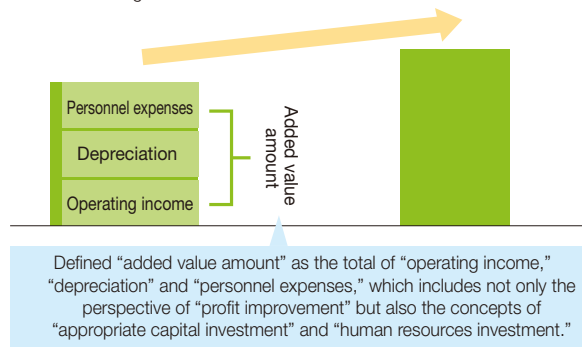
The Bank engages in consulting activities on management problems for people working in the AFF industries and supports Food & Agriculture-related corporations to build their value chains through the Bank's investments and loans.

The Bank also set numerical targets for increasing the income of leaders in the AFF industries through consulting, etc. Having defined an indicator, which treats the income increase for leaders in the AFF industries in a unified manner, as the added value amount, we strive to achieve the income increase target, which was set as one of the Bank's Medium/Long-Term Goals. We thus aim to continuously contribute to the income increase for the AFF leaders by leveraging these initiatives.

### Image of the increase of added value amount

Continuously contribute to the income increase for farmers, fishermen and foresters through consulting with the Bank's investees and borrowers.

Strive to achieve the income increase target by setting forth the Medium/Long-Term Goal for the increase of the added value amount.



## ■ Initiatives regarding natural capital and biodiversity

The Bank has conducted an initial analysis and disclosure on natural capital and biodiversity of which the importance has been rising globally and is implementing some initiatives in collaboration with a variety of stakeholders.

In fiscal 2022, we conducted an analysis of the dependence on nature of the Bank's portfolios and its impact, followed by the public announcement of the results, and inaugurated an alliance\* consisting of four domestic financial groups to promote such initiatives.

In addition, as a task force member of the Taskforce on Nature-related Financial Disclosures (TNFD), the Bank participated in global rule making and contributed to the establishment of the TNFD framework. In view of the finalization of the framework, as well as national and overseas trends, we will expand the scope of disclosure by advancing an understanding of the risks and opportunities of the Bank and the sophistication of the analysis.

\*To promote and support the conversion of their respective investees or borrowing companies to "Nature Positive" companies, four financial groups—Sumitomo Mitsui Financial Group, Inc., MS&AD Insurance Group Holdings, Inc., Development Bank of Japan Inc. and the Bank—inaugurated the Finance Alliance for Nature Positive Solutions (FANPS).

For details, please refer to the "Sustainability" section of the Bank's website. (<https://www.nochubank.or.jp/en/sustainability/>)