

Climate Change (Disclosures Based on TCFD Recommendations) - Risk Management -

Managing Climate Change-Related Risks

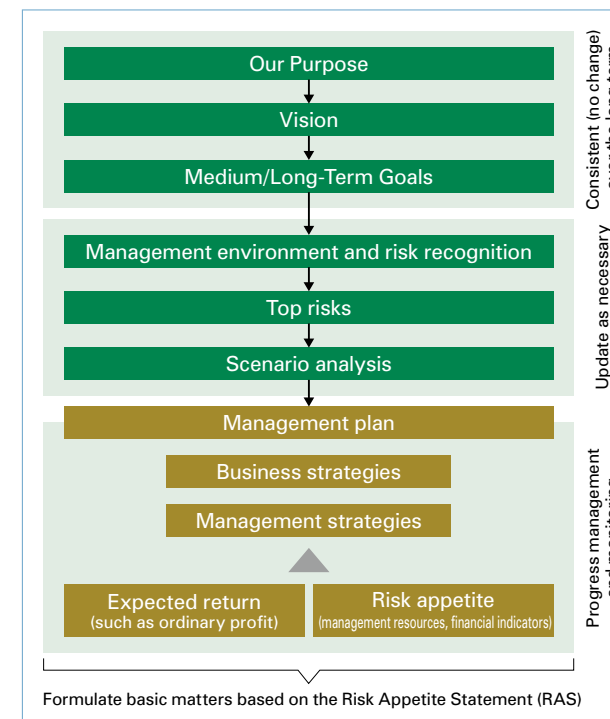
We adopted and implemented an environmental and social risk management (ESRM) framework centered on investment and lending sector policy. This framework helps us manage environmental and social risks, including climate change, in investment and lending. In 2019, we established the Environmental Policy and Human Rights Policy as a basic policy to solve environmental and social issues. In addition, as part of our investment and lending sector policy initiatives, we established environmental and social policies for investment and lending in sectors causing concern about negative environmental and social impacts. These sectors include coal-fired thermal power use, coal mining, palm oil extraction, impact on forests, oil and gas, large-scale farms, and large-scale hydroelectric power. In pursuit of this policy, we aim to eliminate investment and loan balances related to coal-fired power generation by the year 2040.

We identify and assess environmental and social risks for large-scale development projects based on the Equator Principles.

Risk Appetite Framework (RAF) Overview

The Bank's RAF is a "framework for business administration leading to disciplined risk taking and optimizing the balance between risk and return" by clarifying the Bank's management strategies, business strategies and expected return (types and amounts of return that are set as goals), and risk appetite (types and amounts of risks that the Bank is willing to take or the Bank finds acceptable, and optimal management resources and managing them in an integrated manner. Under the RAF, with the aim of an optimal balance between risk and return, the Bank intends to further improve its soundness while adjusting to changes in the surrounding environment.

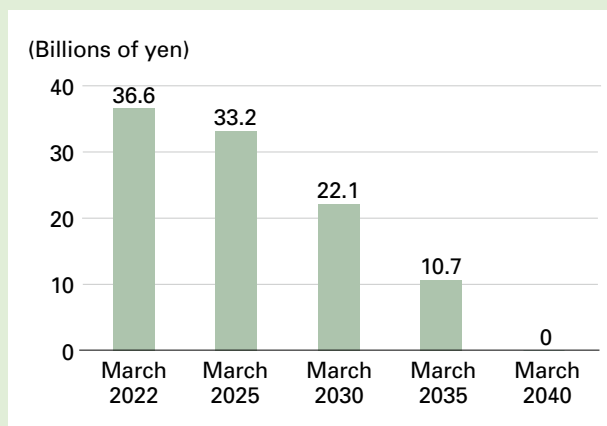
Outline of the RAF



Outstanding Investments and Financing Related to Coal-Fired Power Generation (Projections)

Based on the *Policy on Environmental and Social Considerations in Investment and Lending Activities*, the Bank will not, in principle, conduct investment or lending for new coal-fired power plants, except in emergency situations such as disasters. In pursuit of this policy, we aim to eliminate investment and lending balances related to coal-fired power generation by the year 2040.

Note: Policy on Environmental and Social Considerations in Investment and Lending Activities (Excluding Emergency Situations)
 Note: Balance based on exchange rates as of March 31, 2023



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Considering Top Risks

The Bank formulated a Risk Appetite Statement to establish and document basic matters related to risk appetite framework (RAF) management. In developing this management plan, we select top risks (risk events that require special attention in the future) based on the business environment and risk perception in accordance with the risk appetite statement. Next, we analyze possible future scenarios for our selected top risks. Using the results of this analysis, we formulate management plans, clarifying the expected returns and risk appetite associated with the execution of management and business strategies. We clarified our policy for handling expected return and risk appetite, and we established key target indicators and risk appetite indicators. During the year, we operate in tandem with our management plan PDCA cycle, monitoring the status of management and business strategies, expected returns, and risk appetite. At the same time, we update our understanding of the management environment and risks, making revisions as necessary.

The Bank selected *addressing climate change, biodiversity and other sustainability-related issues* as a top risk. The degradation of natural capital and biodiversity as a result of the transition to a decarbonized economy due to climate change, including stranded assets in our portfolio, windstorms, floods, etc., is a significant risk. This risk of degradation could have a tremendous impact on the sustainability of the Bank, our foundational agriculture, fishery, and forestry industries, various communities, etc.

By selecting top risks, we aim to align the perspective of our organization with risk recognition, thereby building greater sophistication in our risk management structure. Through discussions that include Bank's managements, we pursue our purpose and medium- to long-term goals, while catching up to current global trends.