Responses to the Effects of Accelerating Climate Change

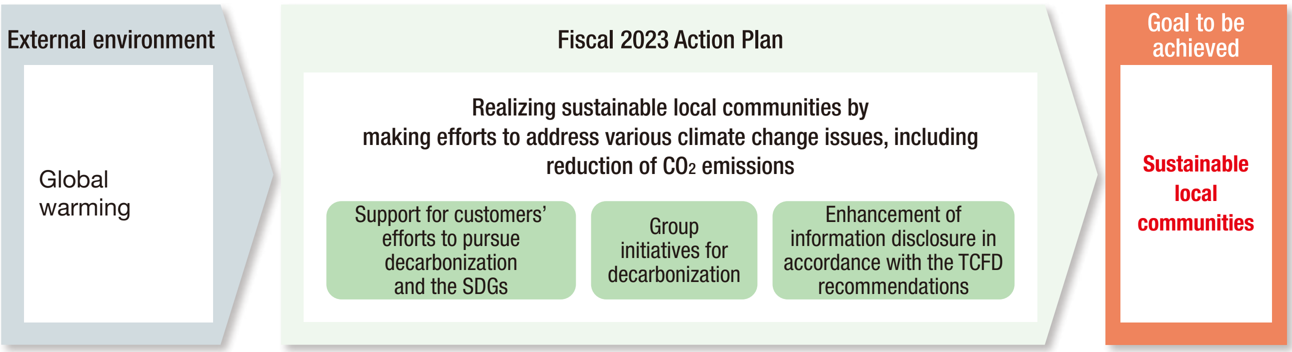
Initiatives Addressing Climate Change Issues

■Basic Policy

Efforts to achieve carbon neutrality are accelerating worldwide today, as natural disasters become increasingly frequent and more severe against the background of global warming, and the impact of climate change on society as a whole intensifies by the day.

Seeking to realize "sustainable management supporting growth together with its local communities," the Group is committed to decarbonizing its operations while contributing to realization of sustainable regional growth by supporting customers' efforts to decarbonize their operations and respond to the SDGs.

■Fiscal 2023 Action Plan

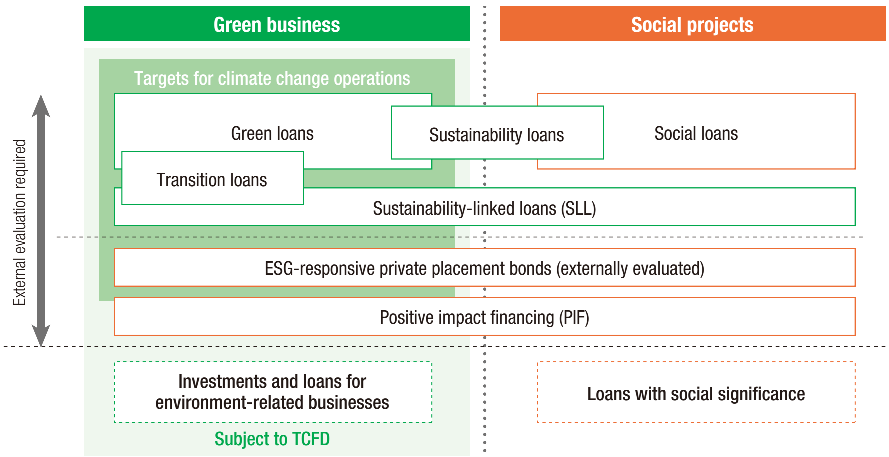


■Support for customers' efforts to pursue decarbonization and the SDGs

We support our customers' efforts to decarbonize their business operations and to pursue the SDGs by acting proactively to develop environment-related loans and solution products as well as by working with local customers to solve their business challenges.

Strengthening sustainable finance initiatives

We are actively making use of financing instruments, including "positive impact finance," to provide financial support for customers' sustainability initiatives.



- In February 2023, Nanto Bank formulated the "Positive Impact Finance Framework," which enables it to engage proactively in "positive impact finance."
- Positive impact finance is a financing instrument that involves assessing the positive environmental, social, and economic impacts of a project and supports customers' from a financial perspective with such sustainability initiatives as our "Green Loan" and "Sustainability-linked Loan."

Sustainable finance disbursement targets

We have set the the following targets as the amounts of sustainable finance the Bank should provide to support activities aimed at resolving the sustainability challenges faced by our customers and communities.

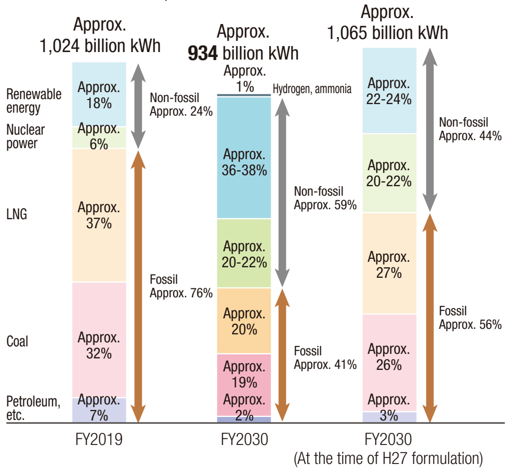
Target amount	1 trillion yen (cumulative total investments and loans executed)
Period	8 years (FY2023-FY2030)
Scope	Financing that contributes to solving issues in the environmental and social fields • Environmental: Renewable energy, energy conservation, ZEB, ZEV, etc. • Social: Regional revitalization, local development, startups, business succession, BCP measures, etc. Financing to support and promote customers' SDG initiatives

Structured finance reinforcement initiatives

We will strengthen our efforts in the area of structured finance for renewable energy-related projects, etc., which are expected to proliferate significantly in the future.

- Although the market for solar and biomass power generation is contracting, onshore and offshore wind power and other renewable energy-related projects continue to be structured in response to the government's Basic Energy Plan and today's growing momentum toward carbon neutrality initiatives.
- In June 2022, we arranged a syndicated loan for a new biomass power plant to be built by a local company, which was a first for the Bank.
- In response to the TCFD recommendations, all banks are strengthening their environmental financing initiatives. We will continue to work with our specialized teams to acquire new projects in this area.

■Power source composition



Source: "Cabinet Decision on the Sixth Strategic Energy Plan," Agency for Natural Resources and Energy

VOICE

Resolution of environmental and social issues through financing

The Group's outward-bound efforts to address climate change issues consist of two main categories:

First, we support the introduction of sustainable management that contributes to enhancing corporate value for local customers and provide sustainable finance as a means of achieving it. In the past, the Group has focused on solution of issues confronting companies and "managers/owners" of corporate clients. In recent years, however, the importance of sustainable management that takes into consideration various other stakeholders as well, including employees, local communities, and supply chains, has attracted increased attention, including among SMEs. Starting in FY2023, therefore, we have been striving to enhance the sophistication of our consulting sales activities by offering "IT-enabled sustainable support" to help customers improve their productivity, decarbonize their businesses, and expand their benefit packages.

The essence of our sustainability support for customers is involvement in the upstream of decision-making and "collaborative thinking about the kind of management we aim for" from the perspective of the SDGs. Our engagement in these activities stems from a recognition that the process itself is important to the fostering of "unconventional" human resources while also providing customers with added value through resolution of management issues.

Second, we provide structured financing for renewable energy and other projects throughout Japan, with the aim of fulfilling the Group's social mission by addressing climate change issues and generating income. The majority of our participation in solar, wind, and other renewable energy projects is outside the region, but we continue to contribute to sustainable regional power source development in both our own and other regions through provision of structured finance, including arrangement of Green Loans for new biomass power plants. We will continue to contribute actively to sustainable local community development inside and outside the region through provision of structured finance.

Corporate Solutions Department
Manager **Yutaka Sasai**

■Group initiatives for decarbonization

Besides promoting reduction of Group-wide CO_2 emissions, we participate in efforts to reduce paper resources consumption and other environmental activities.

Promoting use of LED lighting in stores and other venues

Another way we seek to reduce CO_2 emissions is by promoting the replacement of fluorescent lighting with LED lighting in our branch offices and other facilities. In FY2022, we replaced lighting equipment in nine of our branch offices with LED lighting (with a resulting 455,000 kWh reduction in electricity consumption), and in FY2023, we plan to do the same in 24 more branches, at which point the lighting in approximately 70% of our branches will have been converted. (Planned electricity reduction in FY2023: 609,000 kWh).

Paper resources reduction (elimination of cash envelopes)

We are participating in efforts to conserve forest resources and reduce waste by such means as discontinuing the installation of cash envelopes at ATM corners (inside and outside the branches) as of May 31, 2023.

Responses to the Effects of Accelerating Climate Change

TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

* The Task Force on Climate-related Financial Disclosures (TCFD) was established in December 2015 by the Financial Stability Board (FSB) at the request of the G20 finance ministers and the central bank governors. The TCFD published its final report offering recommendations to encourage voluntary disclosure by companies in June 2017. These recommendations targeted not only financial companies but the corporate sector as a whole.

Initiatives Addressing Climate Change Issues

■Enhancement of information disclosure in accordance with the TCFD recommendations

Governance

The Group has formulated a "Basic Sustainability Policy" as a foundation for addressing sustainability issues, and the Board of Directors is discussing matters to be prioritized contained in the Policy. The Board has identified "addressing the escalating problem of climate change" as one of the Group's top materialities (priority issues).

The Board of Directors examines the conclusions reached at the semi-annual meetings of the Executive Committee to determine their appropriateness in light of the Group's Management Strategy.

Strategy

The Group is committed to acting in unison to address climate change issues as a means of providing value to our stakeholders through fulfillment of the three objectives defining our Mission: "pursuit of regional development," "fostering of vitality-creating human resources," and "enhancing profitability." As a member of the community, we will actively support both the Bank's decarbonization efforts and those of our customers. In our own efforts to this end, we have set targets for reducing CO_2 emissions and begun promoting such initiatives as upgrading our air-conditioning systems, switching to LED lighting, and introducing eco-cars.

In our efforts to help regional customers pursue decarbonization and the SDGs, meanwhile, we actively propose environment-related loans and solution-related products and work with them to solve their business challenges.

Risks and opportunities

We assessed the risks and opportunities associated with climate change based on several public scenarios,* including the 1.5°C and 4°C scenarios. The timeline is analyzed for the short term (5 years), medium term (10 years), and long term (30 years).

		Contents	Temporal perspective
Risk	Transition risk	Increase in credit costs (credit risk) resulting from negative effects of tighter climate change regulations and changes in the tax system on customers' business and financial conditions, as well as damage to the value of real estate collateral due to non-compliance with environmental regulations.	Short- to long-term
		Increase in credit costs (credit risk) due to the impact of technological innovations and market changes focusing on decarbonization on customers' business and financial conditions	Short- to long-term
		Decrease in the Bank's corporate value due to insufficient responses to climate change (operational risk related to damaging rumors)	Short- to long-term
	Physical risk	Increase in credit costs (credit risk) due to damage to real estate collateral resulting from large-scale windstorms, floods, or other natural disasters, as well as suspension of business and/or adverse effects on business stemming from damage to customers' operating bases, etc.	Medium- to long-term
		Increase in restoration costs (operational risk related to tangible assets) stemming from damage to the Bank's bases by large-scale windstorms, flood disasters, or other natural disasters.	Medium- to long-term
Opportunity		Increase in customer demand for capital investment in decarbonization projects	Short- to long-term
		Increase in demand for funds for infrastructure investment in disaster-prevention measures	Short- to long-term
		Increase in opportunities to offer disaster preparedness insurance products and financial products and services related to environmental protection stemming from growing numbers of windstorms and flood disasters that lead to increasingly environmentally conscious customer behavior	Short- to long-term
		Increase in business opportunities for services such as solution provision to support customers' decarbonization efforts	Short- to long-term

*Referenced public scenarios
1.5°C scenario with progressive decarbonization: IEA NZE2050, IEA APS, NGFS Net Zero2050, IPCC SSP1-1.9, SSP1-2.6
4°C scenario with warming exceeding 4°C: IEA STEPS, current NGFS policies, IPCC SSP5-8.5

Scenario analysis

A scenario analysis was conducted for the risks and opportunities shown below.

Our assessment of the analysis results suggested that there was only a limited financial impact of transition risk and physical risk. Since the analysis is based on certain assumptions, however, we will continue to upgrade our analysis methods and expand the scope of coverage.

	Transition risk	Physical risk
Risks to be analyzed	Increase in credit costs due to impacts on customers' business and financial conditions of tightened regulations, changes in taxation systems, and other such factors.	Damage to real estate collateral due to flooding, and increased credit costs due to suspension or stagnation of business operations resulting from damage to customers' sales offices
Scenarios	IEA*1 / NZE (1.5°C scenario), SDS (2°C scenario)	IPCC*2 / RCP8.5 (4°C scenario), RCP2.6 (2°C scenario)
Portfolio to be analyzed	Electricity and gas sectors	Business loans in the Bank's operating region
Analysis methodology	Projected future financial impacts and estimated additional credit costs based on transition scenarios	Additional credit costs due to damage to collateral and reduced sales, estimated by determining inundation risk based on collateral property and customer location
Analysis results	Increased credit costs to 2050, cumulative total up to approx. 2.1 billion yen	Increased credit costs to 2050, cumulative total up to approx. 6 billion yen

*1 IEA (International Energy Agency) *2 IPCC (Intergovernmental Panel on Climate Change)

Carbon emissions-related assets

The electricity and energy sector (excluding renewable energy power generation projects) accounts for approximately 2.1% of the Bank's loans. The percentage of carbon emissions-related assets* based on the 2021 TCFD Revised Supplement is approximately 24.4%. (As of March 31, 2023)

* Carbon emissions-related assets were redefined as the "Energy," "Transportation," "Materials and Building Products," and "Agriculture, Food and Forest Products" sectors in the October 2021 Revised TCFD Proposals. The Bank's calculations are based on the Bank of Japan's industry classifications.

Risk Management

The Group recognizes that addressing climate change is a central issue for sustainable regional development. The Bank's climate change risk is classified into two categories, credit risk and operational risk, each of which is incorporated into the items for monitoring by the ALM Committee and Operational Risk Management Committee, respectively, to enhance appropriate risk management.

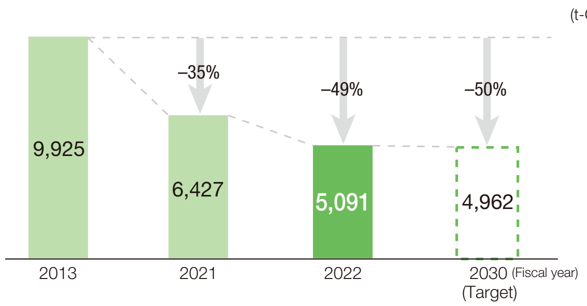
Furthermore, in October 2020, the Group established a financing policy which clearly states that it will not, in principle, engage in financing for the construction of new coal-fired power plants. It also states that it will provide financing for projects involving deforestation only after carefully considering whether or not its engagement is proper based on the intended project's lawfulness and its potential environmental impacts.

Indicators and Targets

Group's CO_2 emissions (Scopes 1 and 2) and reduction targets

The Group is striving to reduce CO_2 emissions, aiming to achieve a reduction target set for FY2030 of at least 50% below the FY2013 level. CO_2 emissions in FY2022 were 5,091t- CO_2, a reduction of 49% from FY2013.

■CO_2 emissions and reduction targets for fiscal 2030



(t-CO_2)

Item	Contents	FY2013	FY2021	FY2022
Scope 1 Direct emissions	City gas, LP gas, gasoline, heavy oil	1,584	1,509	1,517
Scope 2 Indirect emissions	Electricity	8,341	4,918	3,574
Total		9,925	6,427	5,091

Group's CO_2 emissions (Scope 3)

The Group began calculating Scope 3 emissions in FY2022. We plan to consider calculation methods for extending the scope of calculation to more categories in the future.

■Scope 3

(t-CO_2)

	FY2022
Category 6: Business travel	90
Category 7: Commuting	2,222
Total	2,311

(Reference) FY2022 Capital investment in renewable energy- and energy conservation-related facilities and number of solution product-related contracts

Capital investment in renewable energy and energy conservation*1	Solution-related products for SDGs and decarbonization
Total loans executed: 8.4 billion yen	Consulting services for <Nanto> SDG introduction Declaration recipients 355 e-dash*2 Number of contracts 3

*1 Capital investment related to energy conservation: Limited to projects conducted under the interest subsidy program
*2 e-dash: CO_2 emissions visualization and reduction service