Supporting customers’ sustainable management

Basic policy

Awareness of the importance of sustainable management that takes into consideration stakeholders ranging from company employees to local communities and supply chains is growing quickly, even among small and medium-sized enterprises (SMEs).

The Nanto Bank Group pursues introduction of sustainable management that contributes to enhancing its customers’ corporate value and provides sustainable finance as a means of achieving it. In its pursuit of “sustainable management development in cooperation with local communities,” the Group contributes to realization of sustainable local communities through its own decarbonization efforts and those of its customers in response to the SDGs.

Initiatives for resolving customer management issues

We work with customers in our communities to solve their management issues by constructing systems that enable us to identify issues and coordinate solutions to help them realize their aspirations.

Consulting for SDG introduction Declaration recipients: 770
(As of March 31, 2024)

- Consulting services to promote SDG management by analyzing customers’ SDG initiatives and supporting preparation of an SDG Action Declaration

Number of consulting proposals: 142
(fiscal 2023)

- Consulting service provision in cooperation with our Group companies to help customers resolve their management issues

Number of business matching referrals: 109
(fiscal 2023)

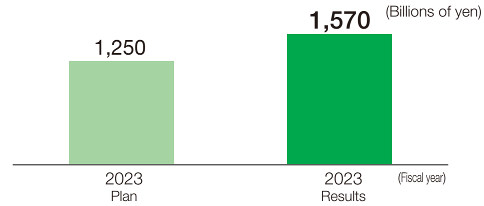
- Business matching provision as a means of solving issues to help customers implement sustainable management

Sustainable finance

In order to strengthen our financial support for solution of the environmental and social issues facing our customers, we have set a target amount for sustainable finance as a “long-term sustainability KPI” and begun working to achieve it.

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

Achievement of sustainable finance



ESG-responsive financing products offered by the Bank

Financing to encourage resolution of environmental and social issues is referred to as ESG-responsive financing. It is classified into targeted financing involving limited funds and financing appropriate for wide-ranging purposes. The Bank offers the following products of this type:

Restricted-use funds

Green loans
- For projects that address environmental issues

Sustainability loans
- For projects that address both environmental and social issues

Social loans
- For projects that address social issues

Unrestricted-use funds

Sustainability-linked loans
- Loans to companies that are working to achieve sustainability goals, with their goals set and the results of their efforts subject to evaluation by an external evaluation agency.
- Interest rate terms linked to the degree of target achievement.

Positive impact finance
- Loans that contribute to realization of a sustainable society by identifying the positive and negative environmental, social, and economic impacts of a client’s corporate activities and applying the results of its research to increase the positive impacts while mitigating the negative impacts.

Loans featuring a special agreement to set targets (Nanto) SDG support loans
- Supporting customers’ sustainable management practices

Results for positive impact finance

Fiscal 2023

12 projects/
3,560 million yen

Stakeholder Voice

Case studies of positive impact finance

Kajita Corporation profile

Established in 1921. Head Office and Osaka Head Office (Chuo-ku, Osaka). As a general construction company engaged in planning, design, supervision, and construction of building projects, Kajita Corporation has constructed a Nara Head Office in Gose City, Nara prefecture, and established an estimable track record in Nara prefecture. In 2019, although unlisted, the Company joined the Japan Federation of Economic Organizations (Keidanren). It is also a member of the Japan Construction Industry Association and the Architectural Institute of Japan. Kajita practices sustainable management of a style it developed in-house based on its corporate motto, "Spirit like a plumb bob."

Kajita Corporation Group
Astage-Kajita Corporation
President and Representative Director
Yahiko Kajita

Pursuing the Kajita Group's unique sustainable management with a "Spirit like a plumb bob."

Nanto Bank's application of positive impact finance

I first learned about the SDGs, or "sustainable development goals," when Kajita Corporation joined Keidanren in 2019, and I immediately recognized the SDG program as an estimable initiative. Looking further back, I recollect the word "sustainable" from my participation in the Japan JC in 1993, when "sustainable economic development" was already discussed as an important theme. Japan's economic bubble was in the process of bursting at the time, putting the construction industry in recession, so the importance of sustainable management was keenly felt. Since that time, the concept of "sustainability" has constantly undergirded Kajita's efforts to be the "company of choice" and the "inevitable company" in our field. These are, in fact, the key words I myself use in business promotion.

Later, when we joined Keidanren in 2019, we reaffirmed the importance of "sustainability" through the SDGs and reconfirmed that our efforts had not been mistaken. Our sustainable management is not a mere formality but has, instead, been consistently thorough in its essential and substantive efforts, as suggested by the "6S Movement" (described by six Japanese words: *seiri* (organizing), *seiton* (tidying up), *seiso* (cleaning), *seiketsu* (cleanliness), *shinsuke* (discipline), and *shukan* (habit). On the occasion of the 100th anniversary of its founding in 2021, when Kajita Corporation was already making more in-depth contributions to the local community, including donating to local schools and the City of Gose and actively engaging in various volunteer activities, Nanto Bank proposed implementing positive impact financing. We took advantage of this opportunity to publicize the Kajita corporate group's sustainable management, both internally and externally.

The Kajita Group's style of sustainable management

Our corporate motto, *sagefuri no kokoro*, translates literally as, "Spirit like a plumb bob," which we consider to be the very essence of sustainable management. It means that we pursue what is right, not only for ourselves but also for our customers, cooperating companies, the community, and society as a whole. To this end, it is important for us to "put ourselves fully in other people's shoes," a philosophy that is understood not only within the Company, but also by our customers and partner companies. Most notably, it enables us to work as one with our partner companies, who fully understand this philosophy. We are also proud of the fact that we have been able to continue to have operated in the black since our establishment, not by chasing short-term profits, but by staying grounded and working toward sustainable management with a down-to-earth mindset. Customers and subcontractors who share our philosophy frequently seek opportunities to work with us, and I believe this is because they are attracted by our mutual philosophies. Each partner company is uniquely managed based on a way of thinking resembling a "spirit like a plumb bob," and we have much to learn from them. We will continue to pursue sustainable management in the Kajita Group's unique way, guided by our "spirit like a plumb bob," in order to achieve sustainable growth together with our customers, cooperating companies, and local residents.

* "Plumb bob" A construction tool used to confirm whether or not columns or other pillars are perfectly vertical.

Expectations of Nanto Bank

My expectations of Nanto Bank are for them to learn more about the companies with which they do business. We'd be pleased if their branch managers and staff would pay inperson visits to our factories and work sites to learn about our operations and the philosophy and ideas we value. I'd like them to experience our company's business and policies firsthand by visiting our construction sites. And if what they see and hear there gives them any good observations or impressions of our company, we'd like them to share them with other companies. If they tell us what would be useful for corporate growth in our area, I believe we can contribute more to the development of our local companies. In fact, Nara Prefecture and Gose City are home to many attractive areas and places, but I sense a lack of ideas and investment to take advantage of them. I hope you will work with us to develop the region by inviting people with the wisdom to revitalize it, such as talented consultants from outside the region, to participate.

Initiatives Addressing Climate Change Issues

* 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.

■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 percentage of carbon-related assets (excluding renewable energy generation projects) measured as a percentage of the Bank's loans according to the Revised TCFD Annex is as shown below (as of March 31, 2024).

Energy	Transportation	Materials & buildings	Agriculture, food & forest products
2.5%	3.4%	24.4%	3.0%

The calculations are based on the Bank of Japan's industry classification, which has been revised this fiscal year with reference to the Ministry of the Environment's Industry Classification Table. They may differ from the results of calculations based on the GICS (Global Industry Classification Standard).

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.

Loan policies for industries and sectors with significant environmental and social impacts

We will carefully assess loans that may have a negative impact on the natural or social environment and strive to reduce or avoid these impacts. As a regional financial institution, we will provide appropriate knowledge and support to customers who are sincerely addressing environmental and social issues.

We will exercise due caution when extending loans to the following industries and sectors that are considered to have a significant impact on the natural or social environment.

1. Weapons

No loans shall be made to companies that manufacture inhumane weapons such as cluster munitions for use in war for killing and destroying human beings, etc.

2. Coal-fired power generation

In principle, we will refuse financing for the construction of new coal-fired power plants. In cases in which construction of high-efficiency power plants is required by national energy policy, etc., we will carefully consider whether or not to finance the projects on a case-by-case basis.

3. Deforestation

When financing development that involves deforestation, the Bank will carefully consider whether or not a project involves illegal logging and the environmental impact of any logging.

Indicators and Targets

CO_2 emissions of the Nanto Bank Group (Scopes 1 and 2)

The Nanto Bank Group has been working to reduce CO_2 emissions and, as shown below, has revised its reduction target for FY2030 from 50% or greater to 75% compared to FY2013. We have also set targets of net zero CO_2 emission (scopes 1 and 2) by FY2050.

CO_2 emissions in FY2023 were 5,164t-CO_2, a reduction of 48% from FY2013.

Group CO_2 emission reduction targets

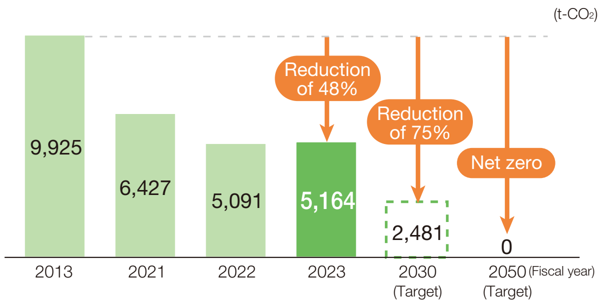
Reduction of 75%
by FY2030 compared to FY2013

By FY2050
Net zero

FY2023 actual result

Reduction of 48%

■Group's CO_2 emissions (Scopes 1 and 2)



(t-CO_2)

Calculation items		FY2013	FY2021	FY2022	FY2023
Scope 1 Direct emissions	City gas, LP gas, gasoline, heavy oil	1,584	1,509	1,517	1,410
Scope 2 Indirect emissions	Electricity	8,341	4,918	3,574	3,755*
Total		9,925	6,427	5,091	5,164

*Electricity consumption decreased compared to FY2022, but the cost of emissions increased. Electricity consumption: FY2022: 11,120,000 kwh; FY2023: 10,070,000 kwh

Group's CO_2 emissions (Scope 3)

As shown to the right, the Nanto Bank Group initiated calculation of Scope 3 in FY2022 and calculation of Category 15 in FY2023.

We are considering appropriate calculation methods to extend the scope of calculations to other categories in the future.

■Scope 3

(t-CO_2)

Calculation items	FY2022	FY2023
Category 6: Business travel	90	87
Category 7: Commuting	2,222	1,965
Category 15: Investments and loans*	Not yet calculated	8,895,074
Total	2,311	8,897,125

*Category 15 covers the Bank on a non-consolidated basis.

Scope 3 Category 15 calculation

When it comes to financial institutions, Scope 3 accounts for a large proportion of indirect emissions from investments and loans and is considered an important indicator in efforts to address climate change. We have been working on the calculation of emissions from Category 15 (investments and loans) based on the PCAF standard*, and in fiscal 2023, we conducted calculations for loans to domestic business corporations.

The results of these calculations are used in dialogues (engagement) with our business partners to encourage them to reduce their emissions as a means of contributing to decarbonization of society. We intend to continue our efforts to expand the scope of our calculations and refine our calculation methods further. (Emission calculation results may change in the future due to revisions of the calculation methods, supplier disclosure status, and other factors).

*A standard developed by the Partnership for Carbon Accounting Financials (PCAF), an international initiative, to measure and disclose GHG emissions in the investment and loan portfolios of financial institutions

Subject of calculation

Loans to domestic corporations (excluding project finance) as of September 30, 2023

Loans for which the financial data required for the calculation is insufficient are excluded, and loans subject to calculation account for 97% of loans to domestic corporations.

Calculation methodology

Calculated in accordance with the PCAF standard. The following calculation formulae are used for every company to which we provide loans or investment funds.

$$\text{Volume of emissions} \times \frac{\text{Loan amount}}{\text{Total amount of financing}}$$

Carbon intensity is calculated by dividing the volume of emissions by the amount of financing.

Understanding emissions

The emissions of each company to which we have provided loans or financing were calculated using a combination of the bottom-up and top-down methods.

- ●Bottom-up method: A method employing emission data disclosed by the individual company
- ●Top-down method: Estimate by multiplying each company's sales by an average emission factor (using the Ministry of the Environment's emissions intensity database).

The data quality score as defined by PCAF is 2.9, and we will continue our efforts to improve its accuracy going forward.

Main category	Sub-categories	Loan amount (million yen)	Carbon intensity (tCO_2/loan amount)	Emissions (tCO_2)
Energy	Oil and gas	46,700	5.8	272,689
	Coal	0	—	0
	Power utilities	26,676	11.1	295,854
Transportation	Air cargo	472	3.9	1,838
	Passenger air freight	2,768	3.6	9,866
	Ocean transportation	25,904	4.0	104,776
	Rail transportation	69,117	0.3	20,487
	Trucking services	39,596	8.4	331,000
	Automotive & parts	35,020	1.9	67,011
Materials & buildings	Metals & mining	84,963	16.5	1,404,736
	Chemicals	123,719	6.0	746,907
	Construction materials	16,004	17.8	284,934
	Capital goods	306,827	6.9	2,108,628
	Real estate management & development	239,737	0.3	79,162
Agriculture, food, forest products	Beverages	20,518	1.2	25,071
	Agriculture	491	10.2	4,990
	Processed foods & meat	45,687	8.7	399,568
	Paper and forest products	42,316	6.4	269,846
Others	Others	838,121	2.9	2,467,712
Total		**1,964,637**	**4.5**	**8,895,074**