Special Feature

Aiming to Transform into a Green & Consulting Bank Group

Masami Nambu, Director and Managing Executive Officer, Senior General Manager of Business Planning & Promotion Headquarters

Addressing climate change in primary businesses

The Hyakugo Bank Group established “Hyakugo Bank Group SDGs Declaration” in October 2019. Since then, we have continued activities for five issues of materiality in SDGs in the entire group.

On the other hand, we have felt that we haven’t carried out sufficient amount of activities engaging customers and local communities.

In addition, among SDGs, we have realized that responses to climate change have become especially important as the Bank announced its endorsement for TCFD (Task Force on Climate-related Financial Disclosures) in June 2021.

As a solution for the two issues of “Activities engaging the local community” and “Strengthening the responses to climate change,” we started providing “green deposits” last year. There were strong inquiries from customers and the deposit offerings totaling ¥3 billion were all sold out in three days as such yen-based green deposits were not very common.

Sustainable finance as a new growth strategy

There are also additional menus for sustainable finance products. We believe that by recommending this sustainable finance to customers who make capital investment to reduce GHG emissions, we will be able to increase sales opportunities as the Hyakugo Bank Group.

The survey conducted by the Bank indicates that a large number of customers do not know how to measure their GHG emissions and therefore do not know where to start.

It is the Bank’s new growth strategy to provide such customers with a seamless service. This includes using business matching to connect customers with specialized partners, who can provide consulting on how to accurately grasp GHG output, cut emissions, and set reduction targets, as well as meeting financing needs.

We are confident that the new strategy would produce positive results.

The results of the survey mentioned above are one of the reasons for this, but another reason is that Mie and Aichi Prefectures, our main sales areas, have a thriving automobile industry.

The industry has a wide range of supporting industries, and we have transactions with many customers in the supply chain including manufacturers and relevant service providers.

Against this backdrop, the automobile industry is taking on the challenge of two major industry-wide changes to reduce GHG emissions. One is to reduce GHG emissions from conventional manufacturing processes, and the other is to eliminate GHG emissions from vehicles by shifting to EVs.

The manufacturers may need to fundamentally review their manufacturing lines to reduce GHG emitted from manufacturing processes. We will meet the financing needs for this purpose with sustainable finance.

In addition, the shift to EVs will require changes to the products or sales destinations themselves. For such customers, we propose business transformation through M&A or introduce sales partners outside of the automotive industry through business matching.

Supporting the region by addressing climate change

Japan declared in October 2020 that the country aims to achieve carbon neutrality by 2050. We believe that the attempt of the Hyakugo Bank Group and our customers to reduce GHG emissions toward achieving this goal will boost sustainability of the region.

The Hyakugo Bank Group will continuously support the region and customers to develop together.

Basic Policy

Strengthening Efforts towards Carbon Neutrality

Key Strategy

Carbon Neutral Strategy

As a financial group, we will strengthen our efforts to promote carbon neutrality by creating green fund flows in the region to address decarbonization and other challenges faced by our customers and solving issues related to decarbonization.

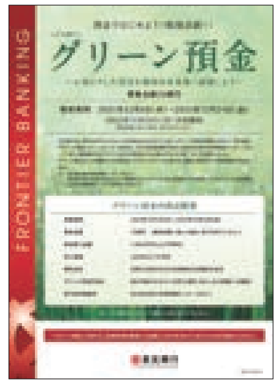
Initiatives for Sustainable Finance [1]

“Green Deposit” Initiative

The Bank launched Japan’s first yen-based green deposit program with a catch phrase of “Let’s start environmental activities with deposits!” We solicited ¥3 billion from December 1 to 24, 2021. A large number of customers (corporations, local governments and individuals) in Mie, Aichi and Wakayama Prefectures supported the initiative and the deposits amounted to ¥3.26 billion.

The funds solicited this time were appropriated to loans to three solar power businesses in Japan based on the “Hyakugo Bank green deposit framework,” for which we received second opinions from Rating and Investment Information, Inc. (R&I), a third-party assessment organization.

The Bank will continuously work together with local customers to contribute to the environment.



■ Outline of the green deposit

Target depositor	Individuals and corporations
Use of funds	● Appropriated to new and existing loans of qualified projects (lease, acquisition and construction of assets for facilities of solar power, wind power and hydroelectric power generation businesses aimed at generating renewable energy; expansion of such facilities; and aforementioned power generation businesses) ● Existing loans are appropriated to projects that were executed within the past three years

The Bank Received the “Regional Finance Award” at the 7th Sustainable Finance Awards

In February 2022, the Bank won the “Regional Finance Award” at the 7th Sustainable Finance Awards, which was sponsored by Research Institute for Environmental Finance (RIEF).

Our initiative to offer funds collected from local customers through “green deposits” to businesses in the field of renewable energy was recognized as a way for a bank and its customers to work together to improve the environment and contribute to the local economy.

RIEF Sustainable Finance Awards

Initiatives for Sustainable Finance [2]

Start of Handling of "Hyakugo Sustainable Loan"

In April 2022, the Bank started handling "Hyakugo Sustainable Loan."

There are two types of this product: "green loans," in which the use of funds is limited to green projects,*1 and "sustainability-linked loans," in which sustainability targets are set in line with business strategies and preferential interest rates are offered based on the achievement status.

Both of them have received a third-party opinion from Rating and Investment Information, Inc. (R&I) that they are consistent with international principles on green loans, etc. and guidelines.

Our customers can promote their decarbonization management initiatives by obtaining financing through the Hyakugo Sustainable Loan and even widely disseminate information on their initiatives.

■ Outline of "Hyakugo Sustainable Loan"

	Green loan	Sustainability-linked loan
Eligible persons	Customers who make capital investments in green projects related to any of the following measures that lead to decarbonization management: 1. Renewable energy 2. Energy saving 3. Clean transportation	Customers who set ambitious SPTs*2, which contribute to improving the sustainability of their business and to the sustainability of society, from the following categories: 1. Energy efficiency improvement 2. Reduction of greenhouse gas emissions 3. Increase of renewable energy production or use
Use of funds	Equipment funds for green projects	Working capital and equipment funds (Use of funds is not limited to decarbonization-related projects.)

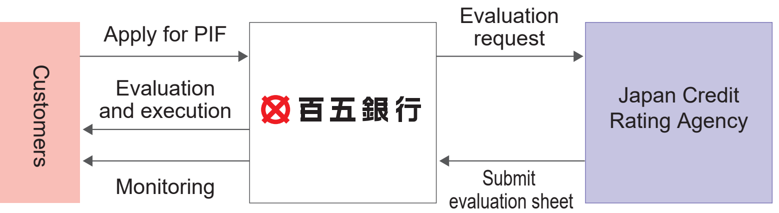
*1 Green projects refer to projects that contribute to solving environment issues such as global warming including renewable energy and energy saving.
*2 SPTs (Sustainability Performance Targets) are targets that can be used to measure the degree of contribution to social sustainability set by a business operator.

Positive Impact Finance (PIF) Initiative

The Bank provides positive impact finance (PIF) with the aim of contributing to the realization of a sustainable society by balancing the resolution of local social issues and economic development.

PIF is a type of financing in which the Bank comprehensively assesses the economic, social, and environmental impact of a customer's corporate activities and supports its efforts to increase positive impact and mitigate negative impact. After discussions between the customer and the Bank, the degree of contribution to the achievement of the SDGs is set as a KPI (Key Performance Indicator), and the degree of achievement of the customer's goals is monitored regularly after the loan is executed.

We have received a third-party opinion from Japan Credit Rating Agency, Ltd. on the conformity of the Bank's system development with the "Principles for Positive Impact Finance."



Voice of the person in charge — Providing our first positive impact finance

Kazuto Shinpo,
Structured Finance Section,
Corporate Consulting Division

We provided our first PIF to Mitsuibau Material Co., Ltd. in December 2021.

PIF is an accompaniment-support style of finance in which the customer and the bank regularly engage in dialogue even after the loan is executed, and work together to identify new business opportunities that will lead to solving social issues. Through impact assessments, we aim to help our clients improve their long-term corporate value by clarifying what they should be doing now, working backward from their ideal state in 2030. At the same time, clients are able to enhance their image as a company that actively addresses SDGs/ESG.

We will continue to contribute to the realization of a sustainable society together with our clients through sustainable finance initiatives such as positive impact finance.

Joint Initiative for Customers' Decarbonization

Support for Decarbonization Management

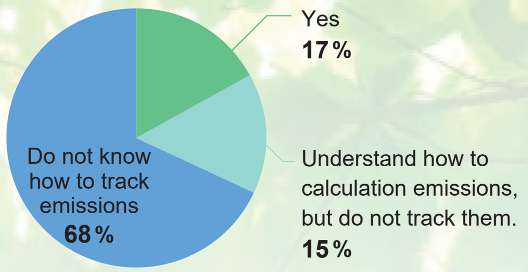
External environment and regional issues

To achieve carbon neutrality by 2050, major companies that are leading the way in decarbonization have already begun activities to reduce their GHG (greenhouse gas) emissions, and there is a full-scale movement to require SMEs, which are suppliers, to reduce their emissions as well.

According to a survey on decarbonization management conducted by the Bank, 80% of our customers answered that they "do not know how to track" or "do not track" their emissions, indicating that decarbonization has a long way to go and that strengthening efforts is an urgent priority.

■ Customer survey

Do you track your company's CO_2 emissions and energy use?



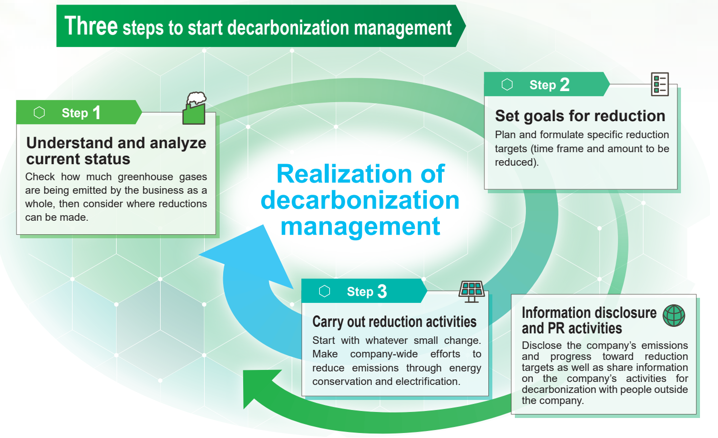
Hyakugo Bank's past initiatives toward a carbon-free society

June 2021	Announcement of endorsement for TCFD recommendations
November 2021	Received contract from Mie Prefecture to provide decarbonization management support services (Hyakugo Bank Group and WasteBox, Inc.)
December 2021	Hyakugo Bank, Tokio Marine & Nichido Fire Insurance Co., Ltd. and Zeroboard, Inc. signed a cooperation agreement to support decarbonization management

Initiatives to support decarbonization management

The Bank is strengthening its support system to consistently assist customers' efforts to achieve decarbonization management.

Specifically, we will provide accompaniment-type of support by offering a solution menu that leverages the functions of the Bank and the Hyakugo Bank Group as well as alliances to assist in each step of the decarbonization management process. This covers from having an accurate understanding of the current situation (emissions calculation), goal setting for reduction, and reduction activities, to information disclosure and PR activities. Through such support, we will contribute to the sustainable growth of our customers and enhance their corporate value.



Topic

Provision of "Hyakugo decarbonization support services"

In April 2022, the Bank began offering "Hyakugo decarbonization support services." This service is intended for customers who are engaged in emissions accounting, and supports their decarbonization efforts and external PR activities by confirming the status of their decarbonization efforts, formulating a declaration, and posting related information on the Bank's website.

■ Outline of Hyakugo decarbonization support services

Eligible persons	Corporations and sole proprietors who have calculated or are planning to calculate GHG*1 emissions (Scopes 1, 2*2)
Details of the service	We will confirm the status of initiatives for decarbonization management and support external PR activities such as by formulating a declaration and posting related information on the Bank's website. ■ Assist in developing GHG emission reduction targets and reduction simulations ■ Assist external PR activities with the issuance of a declaration of decarbonization management (wooden plaque) ■ Assist external PR activities by posting related information on the Bank's website

*1 GHG: Greenhouse gas
*2 Scope 1: Direct GHG emissions by business owners / Scope 2: Indirect GHG emissions from the use of electricity, heat, and steam supplied by other companies

Addressing Climate Change

Responses to TCFD (Task Force on Climate-related Financial Disclosures)

In recent years, the damage caused by abnormal weather and natural disasters is increasingly severe world-wide. Dealing with climate change has become a significant issue in corporate management. Amid such conditions, the Bank has announced its support for the TCFD recommendations in June 2021, and will track and assess the risks and opportunities climate change presents for customers and the Bank, and also endeavor to improve disclosure to stakeholders.

Governance

- In “Hyakugo Bank Group SDGs Declaration,” established in October 2019, we listed “Protecting Global and Regional Environments” as one of key issues, and have actively taken on initiatives for environmental conservation such as forest preservation activities and promotion of renewable energy-related loans.
- The Hyakugo Bank Group established “Hyakugo Bank Group Environmental Policy” as a policy related to sustainability in April 2022 to promote initiatives for environment including climate change. We realize that responses to climate change is a critical issue for global environment, and have manifested our commitment to implement initiatives aimed at achieving carbon neutrality in the Policy.
- In the Medium-term Management Plan “Gateway to the Future II,” which was formulated through discussions by the Management Committee and Board of Directors, we include the reinforcement of initiatives for climate change and other SDGs issues.
- Aiming to realize a sustainable society, the SDGs Promotion Committee, chaired by the Director in charge of SDGs, deliberates on how to carry out measures related to SDGs and ESG. Matters deliberated by the Committee are reported at each meeting of the Board of Directors, and information on environment-related initiatives is disclosed to secure transparency.

Strategy

- To strengthen its role in promoting sustainability, the Public Relations & ESG Section of Corporate Planning Division has been renamed the Public Relations & SDGs Promotion Office.
- The risks (physical and transition risks) associated with climate change are analyzed in quantitative and qualitative terms over a time horizon to 2050.
- In addition to reducing GHG emissions from its own operations, the Hyakugo Bank Group is strengthening sustainable finance, including loans related to renewable energy, as part of its efforts to realize a carbon-free society.

Risks	● We recognize physical and transition risks as risks associated with climate change. ● As for physical risks, we recognize the risk of climate change-induced major flooding causing various damages, including direct damage to customers’ assets, disruption of supply chains leading to business stagnation and deterioration in performance, and damage to collateral assets, which would all increase credit costs. ● As for transition risks, we recognize the risk of delays in responding to policy changes, technological innovations, and market changes that arise in the process of transitioning to a carbon-free society leading to customers’ assets being stranded and damaged corporate brand, which would both increase credit costs.
Opportunities	● We will further increase renewable energy-related loans and financial instruments and services that help customers contribute to the transition to carbon-free society. ● We will also support “Just Transition,” a fair transition to carbon neutrality in the region, and contribute to the sustainable economic development of local communities by further advancing our business feasibility assessment activities and incorporating SDGs perspectives in them.

Scenario analysis

Physical risks

- The physical risk analysis was performed on the recipients of business feasibility loans and housing loans. The analysis covered the possibility of large-scale flooding causing damage to the collateral real estate of loan recipients and ultimately increasing credit costs. It also covered the impact on credit costs of direct damage to buildings caused by flooding and deterioration in business performance due to suspension of business for recipients of business feasibility loans.

- The analysis was made with the support of external experts by estimating the impact of each level of inundation depth using a flood hazard map disclosed by local governments. We estimated the impact on credit costs according to IPCC*'s RCP* 2.6 (2°C scenario) and RCP 8.5 (4°C scenario), taking into consideration the probability of such inundation occurring depending on changes in rainfall and other factors until 2050.
- As a result, additional credit costs that may be incurred by 2050 due to physical risks at the Bank were estimated to be up to ¥5 billion.

Physical risks	
Risks analyzed	● Damage to collateral real estate due to major flooding ● Deterioration in business performance due to direct damage to the buildings of recipients of business feasibility loans caused by flooding and damage resulting from business suspension
Target portfolio	Recipients of business feasibility loans and housing loans in Japan (of repeated clients and guarantee companies affiliated with the Bank)
Scenario	IPCC’s RCP 2.6 (2°C scenario) and RCP 8.5 (4°C scenario)
Analysis method	Estimated the impact of each level of inundation depth on the flood hazard map by simulating changes in rainfall and river flooding conditions based on IPCC scenarios.
Analysis period	Until 2050
Analysis results	Additional credit costs that may be incurred by 2050: Up to ¥5 billion

Transitional risks

- The transitional risk analysis covered the impact on credit costs of deterioration in credit recipients’ performance due to fluctuations in sales or increased costs and capital expenditures associated with the transition to a carbon-free society. The analysis was conducted for utilities “electric power and gas” and energy “gas” among the energy sector, which is designated as one of the four non-financial groups (energy, transportation, material and construction, and agriculture, food and forest products) that is likely to be strongly affected by climate change, according to the TCFD recommendations.
- In the analysis, with the assistance of outside experts, we used scenarios of rising carbon costs, changes in the power supply mix, and declining fossil fuel demand based on two scenarios established by the NGFS* (Net Zero 2050 and Below 2°C) to project future financial conditions for the subject sector and estimate the impact on credit costs.
- As a result, additional credit costs that may be incurred by 2050 due to transitional risks at the Bank were estimated to be up to up to ¥3.5 billion.

Transitional risks	
Risks analyzed	● Deterioration of business performance at credit recipients caused by fluctuations in sales or increased costs and capital expenditures associated with the transition to a carbon-free society
Target portfolio*1	Utilities (electric power and gas), energy (gas)
Scenario	Two scenarios established by the NGFS (Net Zero 2050, Below 2°C)
Analysis method	Estimate the impact on credit rating and credit costs by anticipating the future financial state of the target portfolio based on the transition scenarios
Analysis period	Until 2050
Analysis results	Additional credit costs that may be incurred by 2050: Up to ¥3.5 billion

Percentage of carbon-related assets*2 in the loans, etc. provided by the Bank: 1.92%

*1 Target portfolio
Utilities: Supply of electric power, gas, etc.
Energy: Gas refining

*2 Carbon-related assets
Total of loans, acceptances and guarantees, foreign exchange, etc. for energy and utilities sectors, based on the definition proposed in the TCFD recommendations, at the end of March 2022. This excludes water supply business, renewable energy power generation business, etc.

Risk Management

Management system for climate change risks

- The Bank considers that climate-related issues are a risk factor that may largely affect customers and our businesses through impacts on global environment and economic activities.
- We are therefore building a management system for climate change risks to mitigate their negative impact and contribute to the promotion of smooth decarbonization.

Announcement of the Sustainable Investment and Loan Policy in light of climate change risks

- The Bank newly established the “Hyakugo Bank Group Sustainable Investment and Loan Policy” in April 2022. This policy sets forth our approach to investments and loans in sectors that are considered to have a significant impact on the environment and society, and we will take appropriate measures to address this issue.

For the “Hyakugo Bank Group Sustainable Investment and Loan Policy,” please scan the QR code shown right.

Indicators and Targets

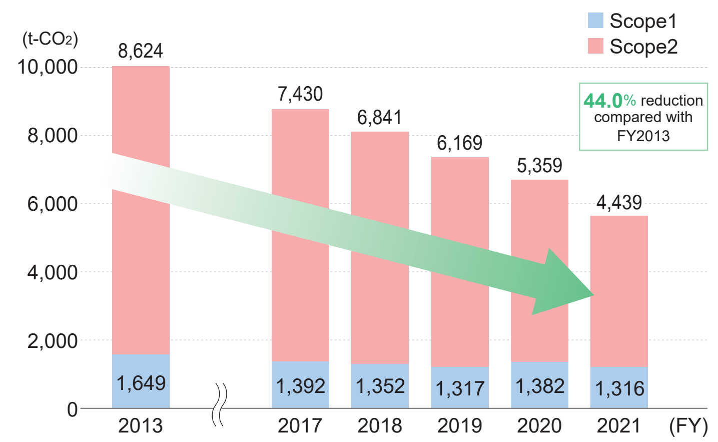
Changes in GHG emissions

The Bank established an environmental conservation activity plan and is working to reduce GHG* emissions of the Hyakugo Bank Group.

The amount of GHG emissions in FY2021 was 5,755t-CO_2, a decrease of 44.0% from FY2013. The Group has set a reduction target of achieving net zero GHG emissions by the end of FY2030 (Scopes 1, 2).

* GHG: Greenhouse gas

Changes in GHG emissions at the Hyakugo Bank Group



(t-CO_2)

Measured item		FY2013	FY2021
Scope1	Gasoline, light oil, type-A heavy oil, city gas, LPG	1,649	1,316
Scope2	Electricity	8,624	4,439
Total		10,273	5,755

<GHG emissions calculation method>

* Scopes 1 and 2 GHG emissions of the Bank and its group companies are aggregated.

* Coefficients pursuant to the Act on Promotion of Global Warming Countermeasures (the Global Warming Act) are used for gasoline, light oil, type-A heavy oil, city gas and LPG.

* For electricity, adjusted emission coefficients for the relevant fiscal year are used for each electric utility based on the Global Warming Act are used. Note, however, that for FY2021 results, coefficients for the preceding fiscal year (FY2020) are used because coefficients for FY2021 have not yet been published.

Sustainable finance targets

The Bank has set a goal for sustainable finance, which uses funds to address global issues such as climate change and other environmental problems, human rights issues, poverty and other social issues, and to help transform society into a more sustainable form.

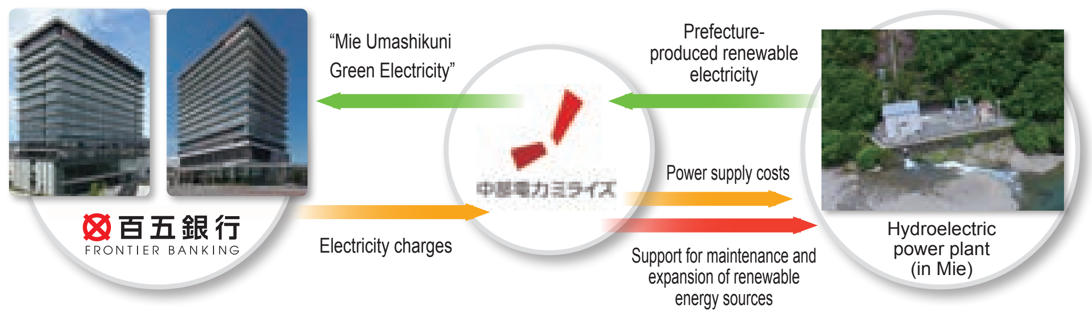
Amount of sustainable finance to be executed by the end of FY2030	¥1 trillion in total
Of which, environmental financing	¥500 billion or more

This includes investment and loans in the environmental and social fields, which are widely recognized by society as part of sustainable finance, as well as those that support SDGs initiatives.

Introduction of CO_2-free electricity generated in Mie

Iwata Head Office Building and Marunouchi Headquarters Building (both in Tsu City, Mie Prefecture) have both introduced CO_2-free electricity produced in Mie called “Mie Umashikuni Green Electricity*1,” which is provided by Chubu Electric Power Miraiz Co., Inc. This enables these buildings to reduce their annual GHG emissions by approximately 1,362t*2, which accounts for roughly 20% of the Bank’s total electricity consumption.

Furthermore, we not only promote the Bank’s own CO_2-free operations but also contribute to the maintenance and expansion of renewable energy sources in Mie Prefecture by using a portion of the electricity charges collected to support the renovation of Miyagawa No. 3 Hydroelectric Power Plant owned by the Chubu Electric Power Group and other projects.



*1 Mie Umashikuni Green Electricity
Electricity generated at hydroelectric power plants located in Mie Prefecture in the Kushida River, Miya River, and other water systems is supplied as prefecture-produced CO_2 emissions-free electricity by utilizing the environmental value derived from these power plants.
Iwata Head Office Building and Marunouchi Headquarters Building introduced this green electricity in August and October 2021, respectively.

*2 Based on the actual amount used in FY2020.

* IPCC: Intergovernmental Panel on Climate Change

* RCP: Representative Concentration Pathways Scenario (created by selecting concentration levels at which future greenhouse gas emissions will stabilize and representative pathways to reach those levels)
RCP Scenarios include 2.6, 4.5, 6.0 and 8.5, and the higher the number following the RCP, the greater the radiative forcing (the effect of causing global warming) in 2100.

* NGFS: Network for Greening the Financial System, a network comprised of financial authorities to address climate change and relevant risks