

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.

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

In June 2021, we announced our endorsement of the TCFD Recommendations and are strengthening our response to climate change. We will assess the impact of climate change on our customers and the Bank, strive to reduce the environmental impact of the Group's business activities, and support the decarbonization of our customers through our financial products and services.

Governance

Declarations, policies, and plans

- 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 energy conservation activities as well as initiatives for supporting businesses that help preserve the environment and reduce environmental impact.
- As one of our sustainability policies, we established the "Hyakugo Bank Group Environmental Policy" in April 2022. Under this policy, we recognized that responses to climate change is a critical issue for global and regional 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.

System to promote sustainability

- The Public Relations SDGs Promotion Office plays a central role in the Hyakugo Bank Group's SDGs and ESG-related activities, including addressing climate change, and promoting sustainability to solve regional social issues.
- The SDGs Promotion Committee, chaired by the Director in charge of SDGs, meets once every three months. The committee discuss on measures related to SDGs and ESG and discussed matters are reported to the Board of Directors whenever the committee is held.

Strategy

Recognition of risks and opportunities

Risks	Physical risks	Risk of 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 property, which would all increase credit costs
	Transition risks	Risk of delays in responding to policy changes, technological innovations, and market changes that arise in the process of transitioning to a decarbonized society leading to assets being stranded and damaged corporate brand, which would deteriorate customers' performance and increase credit costs
Opportunities	Reduction of environmental impact	<ul style="list-style-type: none"> • Reduction of greenhouse gas (GHG) emissions by the Bank • Increase in consulting and services related to decarbonized management support • Increase in sustainable finance

Initiatives

Utilization of scenario analysis	We are working to understand and mitigate risks arising from the impact of climate change and the transition to a decarbonized society on the Bank.
Reduction of GHG emissions	<p>We are working to reduce GHG emissions of the Group with the aim of achieving net zero GHG emissions by the end of FY2030 (Scopes 1, 2).</p> <p>We provide a variety of consulting services including GHG emissions calculation tools and emissions reduction simulations, according to the phase of the customer's decarbonized management initiatives.</p>
Promotion of sustainable finance	We have set a target of executing sustainable finance of ¥1 trillion in total at the end of FY2030 (including at least ¥500 billion in environment-related loans) to meet the financing needs of our customers to promote decarbonized management.

Scenario analysis

Physical risks

- We analyzed the impact on credit costs for recipients of commercial credits and housing loans. The analysis covered the possibility of large-scale flooding causing damage to the collateral property 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 commercial credits.
- The analysis estimates the impact on the financial condition of the credit recipient in the event of a major flood event, using flood hazard maps, and the probability of a major flood event by 2050 based on IPCC*1 2°C and 4°C scenarios, and calculates the increase in credit costs due to physical risks.

Risk event	<ul style="list-style-type: none"> • Damage to collateral property due to a massive flood • Deterioration in business performance of commercial credit recipients due to direct damage to their buildings and damage due to the suspension of operations resulting from flooding
Scope of analysis	Domestic commercial credit recipients and housing loans borrowers (the Bank's own clients and those guaranteed by the Bank's own guarantee company)
Scenario	IPCC RCP 2.6 (2°C scenario) and RCP 8.5 (4°C scenario)
Analysis method	After estimating the financial condition of a company in the event of a major flood event, using flood hazard maps, the amount of increase in credit costs is calculated considering the probability of a major flood event up to 2050, which is assumed based on IPCC scenarios.
Analysis period	Until 2050
Analysis results	Increase in credit costs: up to ¥5.8 billion

Transition risks

- We newly added a transportation sector to the two sectors of energy and utilities, and analyzed the impact on credit costs of deterioration in the performance of credit clients due to sales fluctuations and increased costs and capital expenditures associated with the transition to a decarbonized society.
- The analysis was conducted by estimating the future financial conditions of the loan recipients based on the carbon cost increases, changes in the power supply mix, and declining demand for fossil fuels in the 1.5°C and 2°C scenarios of the NGFS*2 and IEA*3, and then calculating the increase in credit costs due to transition risks.

Risk event	Deterioration in the performance of credit clients due to sales fluctuations and increased costs and capital expenditures associated with the transition to a decarbonized society.
Scope of analysis	Energy (gas refining), utilities (electricity and gas supply), transportation (freight and passenger land transportation)
Scenario	Net Zero 2050 (1.5°C scenario) and Below 2°C (2°C scenario) of NGFS*2 NZE (1.5°C scenario) and APS (2°C scenario) of IEA*3
Analysis method	Based on the transition scenarios, the amount of increase in credit costs is calculated by projecting the future financial condition of the loan recipient.
Analysis period	Until 2050
Analysis results	Increase in credit costs: up to ¥8.3 billion

*1 IPCC: Intergovernmental Panel on Climate Change

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

*3 IEA: International Energy Agency

Carbon-related assets

The percentage of carbon-related assets in the Bank's credit balance was calculated based on the TCFD Recommendations by classifying them into four sectors that are likely to be strongly affected by climate change (excluding renewable energy power generation projects, etc.).

(Based on March 31, 2023)

Sector	Industry (TCFD 14 industry classification)	Ratio
Energy and utilities	Oil and gas, coal, electricity	1.94%
Transportation	Air, marine, land, automobile	4.74%
Materials and buildings	Metals and mining, chemicals, building materials and capital goods, real estate management and development	17.72%
Agriculture, food, and forest products	Beverages and food, agriculture, paper and forestry	1.98%

Risk Management

In light of the importance of the impact of direct risks arising from climate change factors and indirect risks arising from investments and loans, etc., the Bank is taking steps to mitigate the negative impacts of such risks and to achieve a smooth decarbonization of society.

Management system for climate change risks

- Based on the recognition that addressing climate change is one of the most important initiatives, the SDGs Promotion Committee meets regularly to discuss progress and issues related to addressing climate change.
- If physical and transition risks that are recognized as climate change risks materialize, they could have a significant impact on the Bank's management through various spillover channels, and we are working to identify and mitigate such risks in our integrated risk management framework.
- The Bank's capital adequacy is assessed by taking into account the estimated physical risk and the additional credit cost of transition risk.

Spillover channels of climate change risk (example)

Category	Definition	Physical risk	Transition risk
Credit risk	Risk of incurring losses primarily due to failure to repay principal or interest as scheduled as a result of deterioration in the business performance of the loan recipient or investee, etc.	Damage to collateral value due to damage to customer assets, business stagnation and performance deterioration	Deterioration in business performance resulting from increased costs incurred by customers in dealing with capital expenditures and other costs associated with the realization of a decarbonized society
Market risk	Risk of losses due to a decrease in the value of the Bank's financial assets as a result of fluctuations in interest rates, exchange rates, stock prices, etc.	Decline in the value of securities and other assets due to the impact of extreme weather and natural disasters	Decline in the value of securities and other assets due to deterioration in the performance of investees or changes in investor behavior in the market
Operational risk	Risk of incurring losses due to internal management problems in terms of internal procedures, people, systems, etc., or external factors such as earthquakes	Decrease in revenues and damage to the value of assets held by the Bank due to stagnation of the Bank's business	Reputational damage resulting from a lack of disclosure of information on the Bank's efforts to realize a decarbonized society

Sustainable Investment and Loan Policy

We established the "Hyakugo Bank Group Sustainable Investment and Loan Policy." 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 take appropriate measures to reduce or avoid such impact.

For the "Hyakugo Bank Group Sustainable Investment and Loan Policy," please scan the QR code on the right.
<https://www.hyakugo.co.jp/sustainable-houshin/>

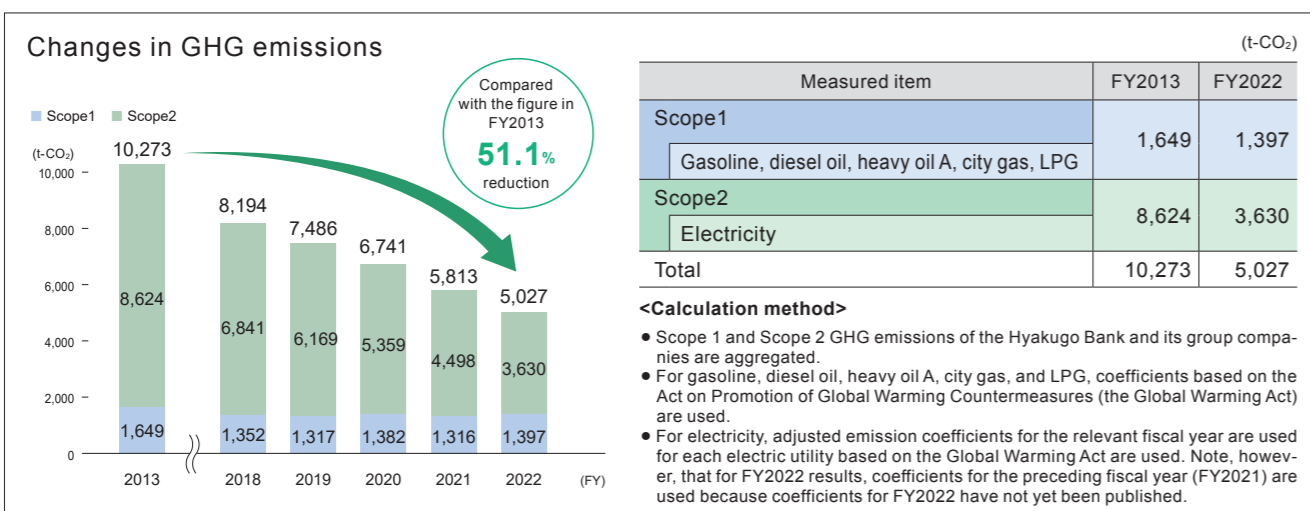


Indicators and Targets

Greenhouse gas (GHG) emissions reduction targets and results

Based on our environmental conservation activity plan, we are working to reduce GHG emissions of the Group with the aim of achieving net zero GHG emissions by the end of FY2030 (Scopes 1, 2).

In FY2022, GHG emissions were 5,027 t-CO₂, a 51.1% reduction from FY2013, mainly due to the introduction of CO₂-free electricity and LED lighting. We will continue our efforts to reduce emissions by switching to renewable energy sources and expanding energy-saving facilities.



Measurement of Scope 3 Category 6 (business travel) and 7 (employee commuting)

In addition to Scopes 1 and 2, we have begun measuring GHG emissions in our supply chain (Scope 3). We will consider expanding the measurement items in the future.

Measured item	Emissions (t-CO ₂)
Category 6 (business travel)	389
Category 7 (employee commuting)	1,823

<Calculation method>

- GHG emissions for Hyakugo Bank are aggregated on a non-consolidated basis.
- The Ministry of the Environment's emissions intensity database was used in the calculations.
- Category 6 (business travel) was calculated based on the number of days of domestic business travel in FY2022.
- Category 7 (employee commuting) was calculated based on commuting allowance payments by mode of travel (transportation) in FY2022.

Scope 3 Category 15 (investments) calculation

Emissions by industry sector of our investees (TCFD 14 industry classification)

Industry	Carbon intensity (t-CO ₂ /sales (million yen))	Emissions (t-CO ₂)
Building materials and capital goods	5.33	1,245,870
Metals and mining	20.45	971,196
Automobiles	4.52	624,561
Electricity	29.45	495,595
Chemicals	7.31	336,725
Land transportation	3.25	262,128
Beverages and food	3.91	257,644
Oil and gas	5.29	146,667
Paper and forestry	11.51	133,060
Real estate management and development	1.08	50,331
Marine transportation	10.12	31,776
Agriculture	8.62	23,859
Air transportation	12.14	15,516
Coal	—	—
Other	1.42	1,120,453
Total		5,715,383

We believe that efforts to understand the GHG emissions of investee companies and to support their reduction are particularly important in order to achieve regional decarbonization. To this end, we have made calculations for our investments and loans to businesses in Japan based on the PCAF Standard* measurement method. In the future, we will consider improving the level of measurement methods and expanding the scope of calculation.

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

<Calculation method>

- The investment and loan balances used for the measurement are as of March 31, 2022, and the financial data are for the most recent fiscal year, up to March 31, 2022.
- GHG emissions are calculated by multiplying the estimated emissions from economic activities by the ratio of the Bank's outstanding investments and loans to the amount of assets raised.
- Carbon intensity is calculated by dividing the emissions by industry sector of our investees by the total sales (in millions of yen).
- Scope 3 Category 15 covers GHG emissions of the investment and loan portfolio, and this time, we measured investments and loans to businesses in Japan.
- The method of calculating GHG emissions may be subject to change in the future due to clarification of international standards and other factors.

Sustainable finance targets and results

From FY2022 to FY2030, we have set a target of totaling ¥1 trillion in sustainable finance execution* (including at least ¥500 billion in environment-related loans).

The amount of sustainable finance executed in FY2022 was ¥267.4 billion, of which ¥62.9 billion was environment-related loans. Through sustainable finance, we aim to both solve the business challenges of customers, including those related to climate change, and develop regional economies.

* Investments and loans that contribute to the realization of a sustainable society by resolving social and environmental issues

Item	FY2022 Actual	FY2030 Target
Sustainable finance	¥267.4 billion	¥1 trillion in total
Of which, environment-related	¥62.9 billion	¥500.0 billion

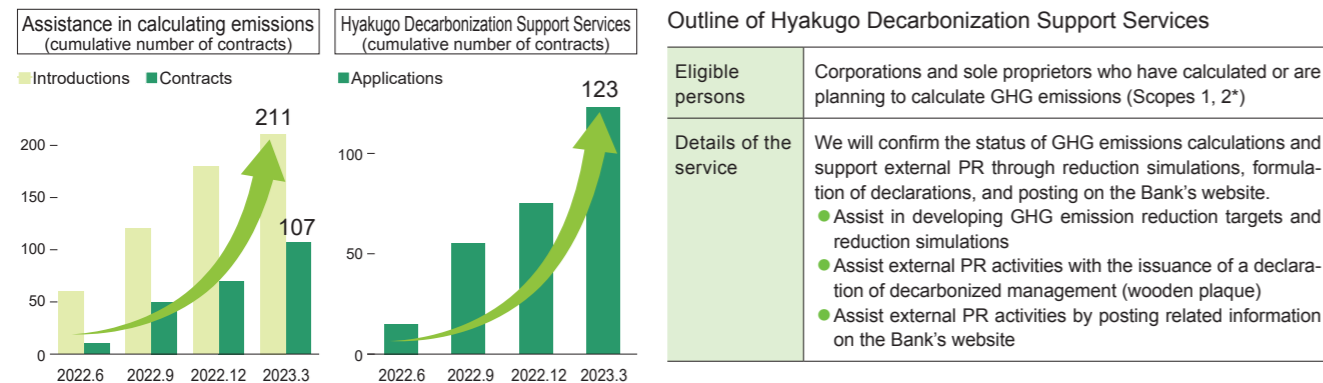
Initiatives to Support Decarbonization

Major companies are responding to climate change and are already promoting the reduction of their greenhouse gas (GHG) emissions. This trend is also spreading to suppliers in the supply chain, and decarbonization is becoming a business challenge for regional companies. The Bank offers solutions for each step of the process to help customers achieve decarbonized management.



Assistance in calculating emissions and Hyakugo Decarbonization Support Services

In April 2022, we began offering assistance in calculating emissions in partnership with a specialized company and Hyakugo Decarbonization Support Services to support the decarbonized management efforts of customers.



* 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

Topics

Initiatives in cooperation with the Mie Prefecture Credit Guarantee Association

In December 2022, we began offering the Decarbonized Management Support Guarantee, a guarantee program in cooperation with the Mie Prefecture Credit Guarantee Association, to actively support customers who are working to decarbonize their businesses. We will use this guarantee program to support efforts to realize a sustainable society from a financial perspective.



Initiatives in cooperation with local governments

We signed partnership agreements with Tsu City and Ise City in September and December 2022, respectively, to promote awareness and support for decarbonized management. We will work with local governments to support them in promoting decarbonized management on a region-wide, area basis. In February 2023, we jointly held a seminar on decarbonized management with Tsu City based on the partnership agreement.



Initiatives for Sustainable Finance

Sustainable finance product lineup

Name of product	Customer needs	
Hyakugo SDGs private placement bonds	Corporate support type	Incorporate SDGs into business
	Donation type	Contribute to solving social issues through donations to educational and welfare institutions, local governments, etc.
Loan to support SDG initiatives		Incorporate SDGs into business
Hyakugo sustainable loans (framework evaluation type)	Green loan type	Externally communicate efforts in green projects (projects that contribute to solving environmental problems)
	Sustainability-linked loan type	Externally communicate commitment to targets that lead to decarbonized management
Green loans (individual evaluation type)		Externally communicate efforts in green projects (projects that contribute to solving environmental problems)
Sustainability-linked loans (individual evaluation type)		Externally communicate commitment to targets that lead to advanced sustainability management
Social loans		Externally communicate efforts in social projects (projects that contribute to solving social issues)
Positive impact finance		Externally communicate efforts to strengthen sustainability management through bank's impact assessment

Hyakugo sustainable loans

Hyakugo sustainable loans, which began in April 2022, are available in two types: "green loan type," in which the use of funds is limited to green projects, and "sustainability-linked loan type," 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 the loan frameworks are consistent with international principles on green loans, etc. and guidelines. Our customers can promote their decarbonized management initiatives by obtaining financing through the Hyakugo sustainable loans.

Voice of customers

Ookochi Co., Ltd.
(Manufacturer of lumber and wood products)

Details of support

- Hyakugo Decarbonization Support Services
- Assistance in calculating emissions (Hyakugo Research Institute)
- Hyakugo sustainable loans (sustainability-linked loan type)



Minoru Kise, Director and Chairman; Kanako Takeuchi, Senior Managing Director and Representative Director; Eichiro Kise, President and Representative Director; Asako Maeda, Director and Chairman

We received advice from Hyakugo Bank on our decarbonized management initiatives and calculated our own emissions with the support of Hyakugo Research Institute. Visualization showed that the introduction of solar power generation and biomass boilers that use wood waste as fuel had a significant reduction effect on emissions. For this reason, we have set a goal of reducing emissions by 42% by 2030 compared to FY2021, and are working to reduce emissions while receiving Hyakugo sustainable loan financing with preferential interest rates based on the degree to which the target is achieved.

In addition, by utilizing Hyakugo Decarbonization Support Services, we are able to effectively communicate our initiatives outside the company, leading to increased employee awareness within the company as well. One of our management policies is to realize a decarbonized society, and we intend to further promote decarbonized management through measures such as introducing EVs.

Voice of the person in charge

Ookochi Co., Ltd. is a company that handles lumber and is actively involved in forest maintenance and SDGs. We proposed assistance in calculating emissions and Hyakugo Decarbonization Support Services because we believed that calculating emissions and publicizing reduction efforts would further enhance their corporate value. We hope to contribute to the realization of a sustainable society by understanding the environment surrounding our customers and offering proposals that will enable companies to both grow and respond to climate change.



Suguru Kato, Assistant Manager, Matsusaka-chuo Branch