

## **Investment and Lending Policies regarding Environmental & Societal Issues**

Today's global society is increasingly focused on initiatives designed to resolve environmental and societal issues, including protection of the global environment and human rights, elimination of unfair labor practices and prevention of corruption, in a bid to achieve Sustainable Development Goals (SDGs) and become carbon neutral.

Our economies and societies are built on receiving a range of benefits from nature and ecosystems. We are expected to address environmental initiatives as a key global issue by becoming more aware of climate change in conjunction with natural capital and biodiversity. With respect of social issues, demands for respecting human rights, improving our living infrastructure, and providing higher-quality education and medical services are especially increasing more than ever.

Companies are now expected to fulfill their responsibilities to the environment and society by taking into consideration the entire supply chain of their own business activities. Financial institutions are also expected to contribute to the mitigation of negative impact and expansion of positive impact on the environment and society through their investment and lending activities.

The Aozora Bank Group has pledged to “contribute to the development of society through the creation of new value-added financial services” in its management philosophy, and to “actively contribute to the sustainable growth of society” is one of its key priorities.

In order to fully realize its management philosophy, the Aozora Bank Group focuses on “response to climate change,” “respect for human rights,” “promoting industrial transition” and other challenge areas as key issues (ESG Materiality) in light of social trends, expectations and requests from stakeholders, and the importance of the issues to corporate management in the Aozora Bank Group.

Based on the “Aozora Bank Group Environmental Policy,” which defines the Group's policy towards environmental issues, and the “Aozora Bank Group Human Rights Policy,” which defines the Group's policy towards human rights issues, the Aozora Bank Group has established a set of “Investment and Lending Policies regarding Environmental & Societal Issues” (hereinafter referred to as “the Policies”) as a means of working towards sustainable growth in tandem with its customers through investments and loans that contribute to the sustainable development of society.

The Aozora Bank Group's investment and lending activities pursuant to the Policies are operated in compliance with the laws and regulations of all relevant countries and regions.

## **1 Basic approach**

The Aozora Bank Group intends to proactively engage in financing initiatives to support solutions to environmental and social issues as well as transition to new industrial and social structures, and also develop new products and services.

The Aozora Bank Group properly identifies environmental and social risks, strives to improve issues through dialogue with customers whose businesses may have a negative impact on the environment and society, and works to reduce environmental and social risks by restricting or prohibiting credit when no improvement can be made.

## **2 Investment and lending policy governance**

### **(1) Governance**

The Aozora Bank Group provides investments and loans based on the Policies. To better facilitate this initiative in response to the demands of the business environment and society, changes in business activity and other factors, the Aozora Bank Group reviews the Policies as needed through discussions at the Sustainability Committee as well as the decisions of the Management Committee.

### **(2) Application to individual cases**

The approval of individual credit transactions is made by the Credit Committee or Investment Committee based on the verification mainly through a discussion with the customer regarding (1) the customer's creditworthiness, (2) profitability of the transaction given its risk level, and (3) impact of the transaction on the environment and society (a positive or negative effect of the investment or loan on the environment or society). Towards becoming carbon neutral, the Aozora Bank Group also obtains as much information as possible regarding the amount of greenhouse gas (GHG) emissions produced by the customer and uses this information when verifying the above criteria.

## **3 Specific activities**

### **(1) Promotion of investments and loans that support initiatives to address environmental and societal issues**

The Aozora Bank Group strives for the creation of social value in its financial business and proactively contributes to its customers' efforts to develop solutions to environmental and societal issues through investments and loans as a means to realize environmental sustainability and societal growth.

With regard to responding to climate change, not all countries, regions or industries can immediately achieve decarbonization due to technological and budget constraints.

Under these circumstances, it is important to develop technology and provide financial support to help them realize a steady transition towards decarbonization.

In addition, financial institutions are required to measure and reduce greenhouse gas emissions in their investment and loan portfolios (financed emissions). Providing transition finance to companies that proactively work towards decarbonization may temporarily increase the financed emissions of financial institutions.

The Aozora Bank Group intends to proactively make investments and loans that contribute to reducing greenhouse gas emissions across our entire society, based on an appropriate assessment of the effect of reduction, even if financed emissions increase temporarily.

The Aozora Bank Group also proposes appropriate sustainable finance depending on the customer's awareness of issues and situation by leveraging "Aozora's ESG Support Framework" and other initiatives.

## **(2) Policies regarding financing that may have a negative impact on the environment or society**

The Aozora Bank Group sets forth its "cross-sectoral" and "specific sector" policies regarding loans and investments that may have a negative impact on the environment or society in the Policies.

When considering approval of individual credit transactions, the Aozora Bank Group verifies specific loans from the perspective of environmental and social issues by researching the negative impact and associated risks of the customer's business (including relevant supply-chains involved) on the environment and society based on information provided by the customer as well as publically-available/disclosed information and confirms the customer's implementation of initiatives to mitigate and avoid such impacts and risks.

### **① [Cross-sectoral] Businesses subject to the prohibition of financing through investments and loans**

The following cases are considered to involve material risks to or negative impact on the environment and society. When such risk to or negative impact on the environment and society is identified, the Aozora Bank Group will decline to provide an investment or loan.

- Businesses which have a negative impact on wetlands registered under the Ramsar Convention
- Businesses which have a negative impact on UNESCO World Heritage sites (with

the exception of businesses that have received the advanced consent of the government of the relevant country and UNESCO)

- Businesses which violate the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES) (with special consideration to the reservation clause of each country)
- Businesses that are involved in child labor, forced labor or human trafficking
- Businesses that are involved with, or have the purpose of, committing illegal acts violating the laws and regulations of a country to which the customer belongs, acts violating international norms on environmental issues and human rights in cases where a country to which the customer belongs falls behind in developing laws regarding the environment and human rights, and acts against the public order and conventional morality, as well as anti-social elements

## ② **[Cross-sectoral] Businesses requiring special attention**

As the following cases involve risks to or negative impact on the environment and society, the Aozora Bank Group confirms the customer's implementation of initiatives to mitigate and avoid these risks and makes a deliberate determination when considering making investments and loans.

- Businesses which have a negative impact on the regional societies of indigenous peoples
- Businesses that require the expropriation of land leading to the involuntary resettlement of inhabitants
- Businesses that have a negative impact on high conservation value areas
- Businesses that cause or contribute to human rights infringement in a disputed area

## ③ **[Cross-sectoral] Project finance (Equator Principles)**

When considering providing financing or project finance advisory services (commissioned to the Bank) for projects which fall into the scope of the Equator Principles, the Aozora Bank Group will verify the customer's adherence to the requirements set out in the Principles.

In the case of considering providing financing or project finance advisory services for projects which do not fall into the scope of the Equator Principles, the Aozora Bank Group will confirm the customer's implementation of initiatives that take into account environmental and social issues as appropriate when a negative impact on the environment and society, or the risk thereof, as determined by the Principles is

identified.

#### ④ [Specific Sector] Coal-fired power generation

<Issue overview>

Coal-fired power generation draws concerns regarding climate change and air pollution, such as emitting more greenhouse gases than other power generation measures. There are also fears that it may disrupt the smooth transition to a decarbonized society, one of the main goals of the Paris Agreement.

<Policy>

The Aozora Bank Group will decline to provide financing for the construction of new coal-fired power plants or expansion of coal-fired power generation facilities.

Meanwhile, the Group will proactively provide investments and loans to support its customers' initiatives that contribute to the transition to a decarbonized society, including carbon dioxide capture, usage, and storage technologies.

#### ⑤ [Specific Sector] Coal mining

<Issue overview>

Greenhouse gas emissions may increase mainly as a result of coal combustion at thermal power generation plants.

The Aozora Bank Group recognizes the need to take into account the impact on ecosystems, including the transfer of soils arising from development work and hazardous waste discharged from coal mines.

There is a possibility that improper management will lead to a mining accident or forced labor. Also, human rights infringement, including the involuntary resettlement of indigenous peoples or inhabitants, may occur in connection with development work.

<Policy>

When considering making investments or loans for the development of a new coal mine, the Aozora Bank Group will confirm the customer's implementation of initiatives that take into account environmental and social issues.

The Aozora Bank Group will decline to make an investment or loan for mountaintop removal (MTR) coal mining which has a substantial impact on the environment.

The Aozora Bank Group also will decline to make an investment or loan for the development of new coal mines that supply power generation operators with coal, as this may increase the amount of greenhouse gas emissions in the future.

## ⑥ [Specific Sector] Oil and gas

### <Issue overview>

While oil and gas are indispensable sources of energy for society, the Aozora Bank Group will take into account their impact on climate change via greenhouse gas emissions.

Regarding oil sands, shale oil and gas, oil and gas pipelines, and development in the Arctic Circle (the area 66°33' north of the equator), the Aozora Bank Group will take into account soil and water contamination, the impact on ecosystems, and local communities of indigenous peoples.

### <Policy>

When considering making investments or loans for oil sands, shale oil and gas, oil and gas pipelines, and development in the Arctic Circle (the area 66°33' north of the Equator), the Aozora Bank Group will confirm the customer's implementation of initiatives that take into account environmental and social issues.

## ⑦ [Specific Sector] Large-scale hydroelectric power generation

### <Issue overview>

While hydroelectric power generation contributes to the clean energy supply, the Aozora Bank Group will take into account the impact of dam construction on ecosystems and local residents' living environment (including involuntary resettlement).

### <Policy>

When considering making investments or loans for new large-scale hydroelectric power generation (with an embankment of 15 meters or higher, as well as output of 30,000KW or above), the Aozora Bank Group will confirm the customer's implementation of initiatives that take into account environmental and social issues.

## ⑧ [Specific Sector] Biomass power generation

### <Issue overview>

While biomass power generation is a power generating system that can be a major source of renewable energy, biomass burning emits greenhouse gasses. In this context, the Aozora Bank Group recognizes the need to confirm the customer's implementation of initiatives that take into account environmental and social issues such as measures to mitigate greenhouse gas emissions for the entire life cycle, including the fuel production process.

In particular, woody biomass power generation involves the risk of impacting ecosystems, damaging biodiversity, and infringing indigenous peoples' rights due to a large-scale deforestation in the course of fuel production and processing.

<Policy>

When considering making investments or loans for biomass power generation, the Aozora Bank Group will confirm the customer's implementation of initiatives that take into account environmental and social issues such as the measures to mitigate greenhouse gas emissions for the entire life cycle. In the case of woody biomass power generation, the Aozora Bank Group will also confirm the customer's implementation of initiatives that take into account environmental and social issues, including combustion materials.

### ⑨ [Specific Sector] Deforestation

<Issue overview>

Forests are important for conservation of biodiversity, and also play an significant role in mitigating climate change through their natural ability to capture and store carbon dioxide.

For businesses involved in unregulated and large-scale deforestation for the purpose of producing timber, paper and pulp, the Aozora Bank Group will take into account factors including a higher risk of climate change attributable to an increase in CO<sub>2</sub> emissions, damage to biodiversity, damage to soils due to ground subsidence or flood, and a substantial negative impact on local residents' living environment.

<Policy>

When considering making investments or loans for businesses involved in deforestation, the Aozora Bank Group will confirm the customer's implementation of initiatives that take into account environmental and social issues.

When making an investment or loan for the development of large agricultural farms involving deforestation, the Aozora Bank Group requests its customers to disclose their compliance with NDPE (No Deforestation, No Peat, No Exploitation).

### ⑩ [Specific Sector] Palm oil

<Issue overview>

The production of palm oil may cause human rights issues, such as infringement on indigenous peoples' rights and child labor, as well as environmental issues, including deforestation or burning of native trees and damage to biodiversity.

<Policy>

When providing investments or loans for the development of palm oil plantations, the Aozora Bank Group requests its customers to disclose their compliance with NDPE. When considering making investments or loans for businesses associated mainly with the distribution of palm oil, the Aozora Bank Group will confirm the customer's implementation of initiatives that take into account environmental and social issues, including whether they have obtained RSPO (Roundtable on Sustainable Palm Oil) certification.

In addition, the Aozora Bank Group requests its customers to enhance their supply chain management and traceability so that the same initiatives also take place in their supply chain.

#### ⑪ [Specific Sector] Tobacco manufacturing

<Issue overview>

The Aozora Bank Group will take into account human rights issues with the aim to abolish child and forced labor during the cultivation of tobacco plants as the raw material. Smoking tobacco may also cause health hazards such as lung cancer and impaired respiratory function.

<Policy>

When considering making investments or loans for tobacco manufacturing, the Aozora Bank Group will confirm the customer's implementation of initiatives that take into account environmental and social issues regarding child and forced labor and health hazards.

#### ⑫ [Specific Sector] Inhumane weapons

<Issue overview>

Cluster munitions, which are a form of air-dropped explosive weapons that release smaller submunitions over a wide area, and their undetonated submunitions have also caused substantial damage to civilians. The international community, including Japan, has recognized cluster munitions as inhumane weapons and ratified the "Convention on Cluster Munitions."

Similar to cluster munitions, nuclear, biological, and chemical weapons, as well as antipersonnel land mines, that have been manufactured to be used for military purposes have a non-discriminatory and substantial impact, including on civilians, and are recognized within the international community as an important humanitarian concern.

<Policy>

The Aozora Bank Group will decline to make an investment or loan for the manufacturing of inhumane weapons such as cluster munitions.

### ⑬ [Specific Sectors] Nuclear power

<Issue overview>

Nuclear technologies, equipment and materials have the potential to be diverted for military use. There are also concerns that a nuclear incident may have a long-term and wide-ranging impact on the environment or society.

<Policy>

When considering making investments or loans for nuclear-related businesses, the Aozora Bank Group will gather information regarding the customer's implementation of, and stance on, initiatives that take into account environmental and social issues.

### ⑭ [Specific Sectors] Plastics

<Issue overview>

While plastics contribute to the reduction of food waste, etc., the effective usage rate of recycled and reused plastic materials is low compared to other materials such as metal, and there are concerns about environmental contamination caused by plastic waste flowing into the ocean as a result of inadequate processing.

<Policy>

When considering making investments or loans for plastic-related businesses, the Aozora Bank Group will gather information regarding the customer's implementation of, and stance on, initiatives that take into account environmental and social issues.

### ⑮ [Specific Sectors] Shipping

<Issue overview>

While ships emit less CO<sub>2</sub> per unit of transportation compared to other means of transportation, they still cause other environmental issues, including the emission of sulfur oxides, greenhouse gases, ballast water, ocean plastic waste, and oil spills.

<Policy>

When considering making investments or loans for ship-related businesses, the Aozora Bank Group will gather information regarding the customer's implementation of, and stance on, initiatives that take into account environmental and social issues.

### ⑯ [Specific Sectors] Mines

<Issue overview>

The Aozora Bank Group will take into account the impact of the development of

mines, such as the effect of forest destruction and hazardous waste on ecosystems, the forced displacement of inhabitants, child and forced labor, and corruption in politically unstable regions.

<Policy>

When considering making investments or loans for mine-related businesses, the Aozora Bank Group will gather information regarding the customer's implementation of, and stance on, initiatives that take into account environmental and social issues.

#### **4 Measures to promote these initiatives**

##### **(1) Internal training**

The Aozora Bank Group conducts educational training seminars and disseminates information in order to deepen the understanding by its officers and employees of the risks to the environment and society as well as promote their compliance with relevant rules and procedures.

##### **(2) Engagement**

The Aozora Bank Group works to make sure its investments and loans that take into consideration environmental and social issues are in line with common sense and societal expectations by engaging in dialogue with customers (engagement).