

Regarding the revision of our TCFD Reports and Sustainability Reports
due to the partial non-compliance of projects subject to the Equator Principles

In FY 2023, we internally reviewed the status of compliance with sustainability-related initiatives we have adopted. As a result, we identified that some project finance loans did not entirely comply with the fourth edition of the Equator Principles (the “EP4”), which was revised in July 2020.

The EP4 stipulates that the two covenants described below are to be included in the financing documentation and that the lender is to periodically assess the EP4 compliance status for a project bearing potential environmental and social risks and impacts that may exceed a certain level:

- (1) the borrower shall prepare and comply with an Environmental and Social Management Plan (“ESMP”) and, where applicable, an Equator Principles Action Plan in all material respects, and
- (2) the borrower shall provide periodic reports to the lender stating the status of compliance with these plans, etc.

With regard to such assessment process, in our TCFD Reports and Sustainability Reports, we state that compliance with important items is reflected in the financing documentation and the compliance thereof is regularly confirmed with the use of project compliance status reports. In addition, in our Green Bond Framework, we state that, for projects subject to the EP4 to which the proceeds of bonds are allocated, we confirm compliance with rules relating to the environment and communities based on the periodic reports submitted by the borrowers.

Our internal review revealed that the preparation of ESMP and periodical assessments of the status of compliance with such ESMP had not been entirely implemented. We took these findings very seriously and initially conducted additional in-house investigations or intensive investigations by an external consultant on the ESMP compliance status for our primary financial transactions (transactions in which we have participated since the organization of the loan for the project in question) among all projects subject to the EP4. For those projects whose ESMP compliance status had not been appropriately verified, we took additional steps to retroactively confirm their compliance status, such as requesting assistance from the borrower (this includes all projects subject to the EP4 where loans were funded using the proceeds from our green bond issuances).

Since the ESMP compliance status for some projects that are subject to the above-mentioned additional investigations has not been determined yet, we will continue deliberating with the relevant project parties. In addition, we will now move on to conduct investigations for our secondary financial transactions (transactions in which we took over accounts receivable from the participating financial institutions after the organization of the loan for the project in question).

Based on the results of our investigations to date, after analyzing the causes of these issues, we have improved the EP4 compliance framework by taking measures such as clarifying the process to confirm the EP4 compliance status, introducing interdepartmental cross-checking between the relevant departments within our company, and increasing the number of employees in such departments. Further, as recurrence prevention measures, we have also raised employee awareness regarding the key points to consider when financing projects subject to the EP4. We will continue to strive to improve our proficiency in dealing with such projects and to maintain proper management of loan projects.

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