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Basic Concept of Transition Finance

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1. Background

In recent years, global climate change has intensified, highlighting the importance of efforts towards decarbonization. In Japan, the government has set a goal of achieving carbon neutrality by 2050 and is promoting a shift to a decarbonized social structure, known as Green Transformation (GX). In February 2023, "The Basic Policy for Realization of GX" was approved by the Cabinet, followed by the "Strategy for Promoting Structural Transition based on Decarbonization" (GX Promotion Strategy) in July of the same year. To significantly transform industrial structures and economic activities, it is essential to implement "transition" measures that achieve steady decarbonization through the development and introduction of new technologies, such as next-generation energy.

2. What is Transition Finance?

"Transition Finance" provides financial support for these measures. It is a financing method aimed at supporting companies that are making consistent efforts to reduce greenhouse gas emissions in line with a long-term strategy for realizing a decarbonized society (Transition Strategy), which is positioned as an important strategy aligned with government goals.

3. Basic Concept of Transition Finance

As a responsible institutional investor, we promote Transition Finance to support the realization of a sustainable society, in line with government policies, while ensuring profitability. By responding to the funding needs of companies, there may be a temporary slowdown in the pace of CO2 emissions reduction in our investment portfolio, but we prioritize the decarbonization of society.

However, we continue to uphold our goal of achieving net-zero emissions in our investment portfolio by 2050 and support the decarbonization of investee companies through ESG investments, including Transition Finance, and engagement.

4. Requirements for Transition Finance

We define the requirements for Transition Finance as follows and will review them in accordance with revisions to various laws, regulations, and guidelines.

《Requirements for Transition Finance》

	Content
Target Industries	Primarily domestic CO2-intensive sectors (Note 1)
Target Assets	Bonds issued by the Japanese government or local governments, loans and corporate bonds for domestic companies, domestic project finance, domestic non-recourse loans
Target Projects	Primarily projects with second-party opinions or projects that meet the requirements set by the International Capital Market Association (ICMA) and the Japanese government (Notes 2, 3)

(Note 1) Industries for which technology roadmaps are created by public institutions such as the Ministry of Economy, Trade and Industry.

(Note 2) Judged in accordance with the International Capital Market Association (ICMA) "Climate Transition Finance Handbook" and the Ministry of Economy, Trade and Industry's "Basic Guidelines on Climate Transition Finance."

(Note 3) Negative screening is defined separately. As for coal, oil, and gas-related projects for both new and renewed, it is required that 1) CO2 emission reduction measures such as CCUS are implemented, and a reduction in CO2 emissions over the life cycle is expected, and 2) measures to avoid carbon lock-in are in place.

5. Follow-up after Execution of Transition Finance

After executing Transition Finance, we will monitor changes in the external environment related to the Transition Strategy and regularly confirm through engagement that the investee companies are making the best-effort towards transition.

6. Policy for Disclosure of Transition Finance Initiatives

The status of Transition Finance initiatives will be disclosed through responsible investment reports and other means.