ORIX Asia Limited

Climate-related Information Disclosure Report 2025

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1. About This Report

This report provides an overview of ORIX Asia Ltd (“OAL” or "the Bank") approach to climate-related management. The content covers our climate-related financial disclosures, including governance, strategy, risk management, and metrics and targets. The report's purpose is to inform stakeholders about the potential impact of climate change on OAL’s operations and how it intends to mitigate risks and capitalize on opportunities in the transition to a low-carbon economy. The report provides investors, lenders, insurers, and other stakeholders with valuable insights into the Bank’s preparedness to navigate the challenges and opportunities of a rapidly changing climate landscape.

We recommend that readers refer to the Bank’s Annual Report and the sustainable development-related policies available on our parent company – ORIX Corporation’s website for a more comprehensive understanding of our climate risk management concepts.

2. Overview

OAL considers climate risk as physical and transition risks posed by climate change which may lead to financial and non-financial impacts to the Bank through its manifestation into the various inherent risks faced by the Bank. Physical risk refers to the impacts of weather-related events and long-term shifts in climate leading to disruption in OAL's business operations, damages to property and assets owned or held as collateral, and negatively impacting the asset prices. Transition risk covers those that impact OAL's products and services as a result of the process of adjustment towards a lower-carbon economy. They include the extent to which OAL finance in companies which are in the high carbon emitting segments, and counterparties which become increasingly vulnerable to climate change impact that undermine their credit status. In view of the complex interactions between climate and the social, economic, regulatory, and technological systems, OAL will seek to identify the risks arising from climate change and assess the impact on its business activities and operations.

3. Governance

3.1 Climate Risk Management Governance Structure

OAL recognized the significance of climate change in its corporate structure to improve its ability to adapt to climate risk. The Board of Directors provides oversight of OAL's approach to climate change, which includes how the Bank manages climate-related risks and opportunities. The Climate Risk Management Working Group was established in June 2023 to carry out the duties in relation to the climate risk management functions. The working group, led by the Chief Risk Officer, consists of Head of departments including Marketing, Credit, Human Resources & Administration, Legal & Compliance, Finance & Accounting and Risk Management. The working group meets semi-annually, and when required, to discuss, identify and assess climate-related risk and opportunities, review goals and strategy, as well as the annual climate risk disclosure report. The Risk Management Department is responsible for coordinating with the local management team to ensure the proper implementation and functioning of any climate risk management processes and monitors the status of the initiatives and regularly reports to the Board of Directors who remains ultimately responsible for the oversight of OAL's approach to managing climate risks.

3.2 Internal guidelines and policy

To address the impact of climate change on the Bank, OAL refers to the Risk Appetite Statement and the Terms of Reference of Climate Risk Management Working Group, which provide guidance to OAL's climate risk management. Other relevant departmental policies and guidelines will be enhanced in accordance with the implementation strategy of the specific area in managing climate risk.

3.3 Summary of key issues and initiatives

We have integrated climate change issues into the current governance structure and will review the necessity of further enhancement on a regular basis. The following key issues and initiatives have been reported to the Board during the quarterly Board meeting held in the fiscal year ending March 2025:

- To grow the EV car financing business and green power related equipment financing business.
- Raising staff awareness and continuing to promote green initiatives in the workplace. A decreasing trend in paper consumption and electricity usage is observed.

The Climate Risk Management Working Group have discussed the approach to climate-related sustainability initiatives for the coming fiscal year and beyond. Major initiatives are as follows:

- Reduce paper consumption through digitalizing internal operational processes
- To enhance our green and sustainable loan business capabilities by establishing a green finance framework and relevant product governance guidelines

4. Strategy

4.1 Climate-related Risks and Opportunities identification

We have defined three time horizons – short term (within one year), medium (2 – 5 years) and long term (over 5 years) - in the process of climate-related risk identification. The following transition and physical risk were taken into account in our risk identification process as listed in the table below:

Risk Type	Sub-Type	Climate-related risk description	Time Horizon affected
Transition Risk	Policy	▪ The HKSAR government has adopted policies to meet its pledged emission reduction targets and the use of subsidies and other means to develop carbon-reducing or low-carbon industries. ▪ Customers in low-carbon sectors may gain, while customers in high-carbon sectors may experience a deterioration in	Medium term

		profitability and solvency due to a significant increase in the price of carbon and operating costs.	
	Technology	▪ Technology change relating to energy-saving, low-carbon transportation, and increasing use of non-fossil fuels or other technologies that help reduce GHG emissions are required to meet policy goals. ▪ The new low-carbon industries and low-carbon technologies are rapidly maturing, and quickly occupying most of the market share, while the market share of traditional high-carbon emission industries has declined significantly, with deteriorated profitability, and declined solvency.	Medium - Long term
	Market	▪ Increased production costs due to changing input prices may lead to narrowing profit margin and hence adversely impacted repayment ability of our customers.	Medium – Long term
	Regulatory	▪ Banks are required to meet regulatory requirements of managing climate change and climate-related financial disclosure. Sufficient resources are allocated should be ensured to implement the relevant framework.	Short - Medium term
	Reputation	▪ Lack of climate and environmental awareness in conducting business activities may adversely affect the company's ability to maintain or establish business relationships.	Medium – Long term
Physical Risk	Acute	▪ The bank's real estate collateral in areas prone to impact from acute weather conditions such as typhoons and flooding will decrease in value.	Medium - Long term
	Chronic	▪ Long term climate change (e.g. Rising mean temperatures and sea level and shifts in weather patterns and climate zones) resulting in decreasing the expected value of some climate sensitive assets and business of certain industries.	Long term

Considering the exposure characteristics of OAL where loans, including vehicle loans, equipment loans and mortgages loans, are regarded as the primary composition of the portfolio, credit risk was assessed to be the most material risk to OAL. We focus on the short- and medium-term strategies in view of the product nature and loan tenor of our current lending portfolio in vehicle finance and commercial finance.

Associated opportunities identified as the market continue to shift towards environmentally friendly products include the increasing demand for EV cars and green powered equipment for the construction sector. OAL is in the process of establishing a Green Finance Framework as a strategic commitment to green finance development.

To minimize the potential impact of climate-related risks on our operations, we have established business continuity plans to address risks of business disruption from natural hazard events. We have arranged the necessary solution which facilitates remote access in times of business interruption.

4.2 Scenario analysis

We performed stress testing and scenario analysis on asset portfolio as of 31 March 2025 with climate risk sensitivity to assess the impact of climate scenarios on the Banks' earnings and capital levels. The methodology and assumptions we adopt are in line with the requirements of module GS-1 "Climate Risk Management" and IC-5 "Stress Testing" of the Hong Kong Monetary Authority's Supervisory Policy Manual.

4.2.1 Transition Risk

Scenario selection

The transition risk scenario has been formulated based on the 2°C with a delayed transition scenario developed by the Network of Central Banks and Supervisors for Greening the Financial System ("NGFS"). Due to the inadequate internal data, the transmission of transition risk into credit risk is assessed by applying sectorial logit Probability of Default ("PD") to conduct stress testing. Only the high transition risk sectors (including transportation, construction, capital goods, real estate, and chemicals) of the loan portfolio are evaluated. Year 2025 is taken as the base year, and 2035 is used for scenario analysis.

Methodology

Bottom-up climate scenario analysis is conducted on the samples, where the climate scenario is translated into key financials at the obligor level. The key financials include unit price growth, unit cost growth, volume growth and capital expenditure growth. Financial statement analysis further translates the stress on key financials into the financial statements, then the stressed financial statements are leveraged to evaluate the stressed ratings for assessing the financial impact under the scenario in which the borrowers' repayment ability is weakened. The average notch-down, stressed rating and stressed PD of each sector can be calculated based on the fluctuations of credit ratings. The potential impact on the expected credit loss (ECL) is estimated by applying model logic implemented in the Bank's business-as-usual ("BAU") ECL model.

Insights from scenario analysis

Transition risk stress testing was subsequently performed on climate-related exposures within the Bank's loan portfolio under the disorderly transition scenario. The results indicated that the Bank's exposure towards transition risk is moderate, and any potential impact on the Bank's credit risk is deemed controllable. OAL has been engaging with our customers and will carry on the practice to better understand how they are approaching and preparing for climate risk which helps build up the data for us to progress our climate risk management.

4.2.2 Physical Risk

Scenario selection

The physical risk scenario is based on the Representative Concentration Pathway ("RCP") 8.5 adopted by the Intergovernmental Panel on Climate Change ("IPCC"). The physical risk causes damage to the Bank's real estate collateral located in Hong Kong and Japan, and the decrease in property values leads to higher loss given default ("LGD") in the Bank's BAU ECL model. The ECL increase reflects the transmission of physical risk on the real estate collateral loan portfolios into credit risk. Assessment is based on the impact from 2025 to 2060.

Methodology

- Physical risk tool for the Hong Kong property collaterals

The physical risk scenario analysis is conducted at counterparty level. By extracting Value at Risk ("VaR") data for baseline and scenario years from the HKMA physical risk assessment platform, the collateral value is stressed according to the change in VaR. Potential impact on ECL is then estimated with the change in collateral value.

- Physical risk tool for the Japan property collaterals

For the purposes of physical risk analysis of the property collaterals located in Japan, materiality assessment is adopted by deriving the locations with the most material expected impact from the identified physical risk prone areas. The VaR after climate stress is calculated by estimating the impacts of damage and disruption on revenue which would then translate into asset value.

Insights from scenario analysis

The Bank's exposure towards physical risk is assessed as low and the relevant impact on the Bank's credit risk is considered immaterial. OAL will maintain the practice of monitoring the physical risk in relation to the Bank.

5. Risk Management

As a subsidiary of ORIX Corporation, we continue to embrace the Group's identified material issues and key goals to reduce climate change-related risks as addressed in the Group's Sustainability Policy with reference to the environmental aspect in addressing climate change where applicable to our local business. OAL has updated the Risk Appetite Statement to include the risk measurement and risk appetite for management. OAL will seek to identify the risks arising from climate change and assess the impact on its business activities and operations.

5.1 Integrating climate risk into overall risk management

5.1.1 Three lines of defence

The roles and responsibilities of managing climate-related risks allocated among three lines of defence are described below:

- First line of defence is provided by the business units when conducting climate-related risk assessments during client on-boarding, credit application and credit review processes. Marketing and Credit officers should have awareness and understanding to identify and assess potential climate-related risks.
- Second line of defence is provided by independent Risk Management and Compliance functions. They undertake independent monitoring including challenging the assessment conducted by the frontline, and monitoring compliance with applicable regulations and internal policies.
- Third line of defence is provided by Internal Audit which is responsible for periodic audit review on the effectiveness of OAL's climate-related risk management.

5.1.2 Climate risk management

We have identified transmission pathways from climate risk to traditional financial risks, based on which we aim to gradually embed the consideration of climate-related risks throughout our risk management framework to ensure comprehensive consideration across our business activities.

Credit risk was assessed to be the most material risk to OAL, transmitted via transition risk which may reduce our borrowing customer's repayment ability as they adjust towards a low-carbon economy, as well as physical risks (such as extreme weather events including typhoons and floods) which may result in a reduction in the value of the collaterals.

Climate risk consideration is embedded into the credit risk assessment process of our lending business. We also refer to our parent company – ORIX Corporation's Sustainability Policy regarding reducing climate-change related risks and avoid exposure to those industry segments [1] identified as having high environmental impact.

In supporting an environmentally friendly operation, we strive to become a more energy efficient company by paying more attention to the use of electricity and paper. Even though OAL's Scope 1 and 2 emission is not materially relevant to the ORIX group, we aim to implement a resource saving plan as we gather further feedback from various departments. We will consider the appropriateness of setting metrics as our capabilities evolve.

5.2 Climate risk exposure

Based on our lending exposure, the identified high carbon / high climate risk sectors remain to be transportation sector and construction sector. Within our assets held as collateral for our loan portfolio, the proportion of real estate located in Hong Kong and Japan in the Bank's total exposure was considered as low.

Organizational level	Risk consideration	Exposures	Risk indicators	Environmental indicators
Sector level	Credit risk – transition risk transmitted into credit risk	Transportation sector	Proportion of the sector's exposure in the loan portfolio is considered moderate based on the transition risk scenario analysis	Carbon emission
Sector level	Credit risk – transition risk transmitted into credit risk	Construction sector	Proportion of the sector's exposure in the loan portfolio is considered low based on the transition risk scenario analysis	Carbon emission
Counterparty level	Credit risk – physical risk transmitted into credit risk	Real estate collateral located in Hong Kong and Japan	Proportion of the exposure in the total EAD is considered low based on the physical risk scenario analysis	Sea level rise leading to flooding

[1] Refers to fossil fuel mining, palm oil plantations, and forestry

5.3 Measures to control and mitigate climate-related risk

OAL aims to continuously improve our ability to identify climate risks and integrate them into our risk management and broader business strategy.

6. Metrics and Targets

6.1 Overview of metrics and targets

As we embrace the Group's environmental policy in addressing climate change, we aim to mitigate the impact of climate change on our operations and support the transition to a low-carbon economy. We are working towards the implementation of a resource saving plan with the involvements across various departments on energy and paper usage and will consider the appropriateness of setting metrics as our capabilities evolve.

6.2 GHG Emissions

As a wholly owned subsidiary of ORIX Corp., we have been providing our GHG emission data to headquarter for the purpose of group consolidated disclosure of Scope 1 and 2 emissions.

Unit: tCO_2	**FYE 31 March 2022**	**FYE 31 March 2023**	**FYE 31 March 2024**	**FYE 31 March 2025**
Scope 1 (Direct Emissions)	6	7	5	5
Scope 2 (Indirect Emissions)	158	116	124	137
Scope 1&2 total	**165**	**123**	**129**	**142**

The calculation method of ORIX Group's GHG emissions is as follows:

- GHG emissions (converted to CO_2) are calculated based on the GHG protocol and the "Ministerial Ordinance Concerning Calculation of Greenhouse Gas Emissions Associated with Business Activities of Specified Emitters".
- Emission factor adopted for calculation of gasoline for all subsidiaries, including OAL, is provided by Japanese Ministry of Environment according to Japan's Mandatory Greenhouse Gas Accounting and Reporting System.

- Calculation method for emissions related to electricity consumption is market-based, and for emissions factors related to electricity consumption at overseas offices, the International Energy Agency's CO_2 emissions factors from electricity generation by country are used. For OAL, Hong Kong's emission factor is used.

ORIX Group have received third party assurance for the GHG emissions data for overseas subsidiaries since FYE 31 March 2021.

6.3 Assurance

The Climate Risk Management Working Group is responsible for overseeing the content of the report. This report has been reviewed by OAL's Internal Audit Department and approved by the Managing Director of OAL.