Responses Against Climate Change Risks

Risk identification

We identify risks based on our assumptions of future social and environmental changes brought about by climate change.

The following is an overview of the climate change risks assumed by the Shoko Chukin Bank.

Transition risks

Risks that arise in the process of transitioning to a low-carbon society

Strengthening of policies and regulations

- Introduction of carbon tax
- Strengthened regulations related to greenhouse gas emission targets

Market and technology changes

- Development, selection, and spread of new technologies such as renewable energy and EVs
- Obsolescence of existing products, changes in supply and demand

Risk of increased credit costs for the Shoko Chukin Bank due to impact on customers' business models and business performance

Growing social demands

- Growing public interest in climate change issues
- Demands for corporate initiatives and disclosures

Risk of reputational damage and difficulty in obtaining financing if the Shoko Chukin Bank's climate change initiatives and disclosures are deemed insufficient

Physical risks

Risks that arise from increasingly severe natural disasters and climate change

Acute risks

- Occurrence of typhoons, torrential rains, floods, or other wind or water disasters

Risk of customers' business performance being affected and credit costs increasing if a customer is affected by a disaster
Risk that business continuity may be difficult, or costs for countermeasures and recovery increasing if the Shoko Chukin Bank is affected by a disaster

Chronic risks

- Gradual increase in average temperature and sea level

Risk of increase in heat strokes and infectious diseases, ecological changes, etc., resulting in macroeconomic deterioration and an increase in the Shoko Chukin Bank's credit costs

In particular, we consider credit risk*1 and reputational risk*2 to be important risks with significant management impact. We will seek to reduce these risks by providing support through customer engagement and other means, and by strengthening risk management through measures such as scenario analysis.

*1 Risk of an increase in the Shoko Chukin Bank's credit costs due to the negative impact on customers' business models as the transition to a low-carbon society progresses

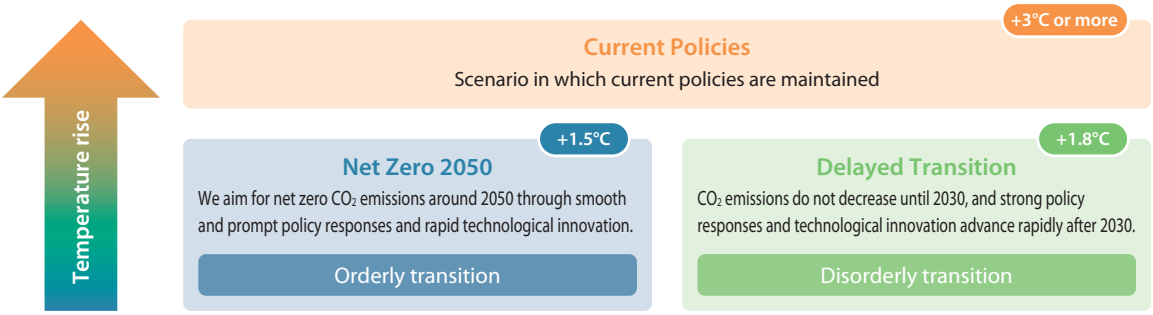
*2 Risk of damage to the Shoko Chukin Bank's reputation due to efforts and disclosures on climate change issues being deemed insufficient

Conducting scenario analysis

With a view to enhancing the organization's resilience to climate change, we use scenarios (hypotheses) to analyze how the business environment will change and how management will be affected if transition risks and physical risks materialize.

[Scenarios used]

Three scenarios (net zero 2050, delayed transition, and current policies) formulated by NGFS (Network for Greening the Financial System) are used in the scenario analyses of transition risks and physical risks. The worldview of each scenario is as shown in the figure below.



Transition risks

The increase in credit-related expenses associated with transition risk is estimated by sectors selected in consideration of climate change impact and the size of exposure in the portfolio.

Selection process for sectors to be analyzed

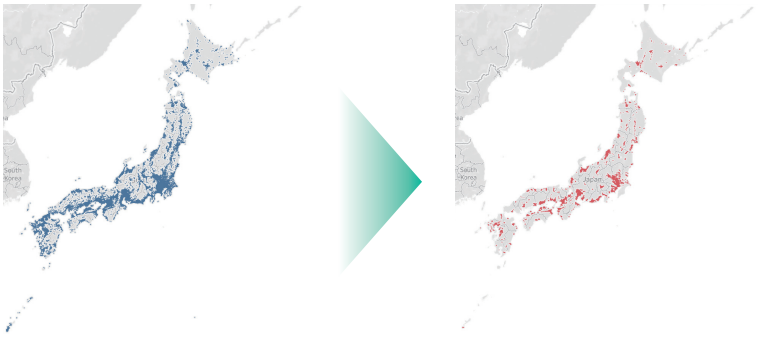
Sectors with a certain amount of outstanding loans are assessed among the carbon-related asset sectors in the TCFD recommendations. Three sectors were selected for analysis: automobiles and components, trucking services, and metals and mining, based on the climate change impact (transition risks) of each sector and the balance of the Shoko Chukin Bank's investments, loans and other factors.

Qualitative assessment of sectors in scope of analysis (main transition risks)

Automobiles and components	[Laws and regulations] Introduction of carbon tax (carbon tax on CO_2 emissions from manufacturing processes, etc.) [Technologies and markets] Conversion to electric vehicles (downsizing of engine parts, etc.) [Reputation] Change in customer preference (low-carbon preference of consumers and finished product manufacturers)
Trucking services	[Laws and regulations] Introduction of carbon tax and strengthening of GHG emission regulations [Technologies and markets] Conversion to electric trucks (higher vehicle prices and lower payloads) [Reputation] Change in customer preference (modal shift toward low-carbon conversion, etc.)
Metals and mining	[Laws and regulations] Introduction of carbon tax (carbon tax on CO_2 emissions from manufacturing processes, etc.) [Technologies and markets] Increase in raw materials and manufacturing costs due to higher electricity prices and introduction of low-carbon technologies [Reputation] Change in customer preference (low-carbon preference of consumers and sales partners)

Physical risks

We identify potential inundation points due to water-related disasters caused by typhoons, etc., based on location information for all loan recipients. For each loan recipient that could be flooded, financial condition is estimated based on the probability of a water-related disaster, and the increase in credit-related expenses is calculated based on changes in borrower category.



Location distribution of all loan recipients

Location distribution of loan recipients that could be flooded

[Results of scenario analysis]

	Transition risks	Physical risks
Scope of analysis	Loan recipients in the automobiles and components, trucking services, and metals and mining sectors, with the most recent borrower category.	Loan recipients among those who could be flooded with the most recent borrower category.
Scenarios used	Three of the NGFS scenarios, net zero 2050, delayed transition, and current policies	
Analysis results	Increase in credit-related expenses as of 2050 Up to ¥5.0 to 6.0 billion on a single year basis	Cumulative amount of credit-related expenses by 2050 Up to approximately ¥18.0 billion