



Business Strategy for Value Creation

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The core strategies of the Medium-Term Business Plan are indicated with this symbol:



Shoko Chukin Bank is working to resolve material issues such as responding to global warming and climate change by supporting the efforts of SMEs and also pursuing its own efforts.

We have established “Sustainability Basic Guidelines” and, in April 2024, formulated the “Shoko Chukin Bank Group Human Rights Policy,” which set forth our basic approach and policy on the environment and human rights. Our goal is for each and every executive and employee treat various environmental and societal issues as their own personal challenges, and contribute to the realization of a sustainable society.

Sustainability Basic Guidelines

[Basic approach]

1. Consideration of the environment

Considering the stability of the global environment, which is fundamental to all our business activities, actively work towards reducing our impact on the environment, including the climate.

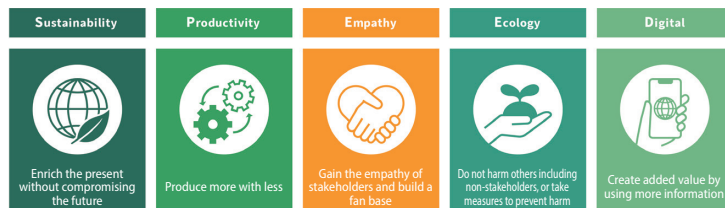
2. Respect for human rights

Respect human rights, which are the foundation for equitable public order, and conduct fair and appropriate transactions with all stakeholders.

3. Improved governance of SMEs

Contribute to improving governance of SMEs through customer support rooted in business evaluations, including investments, financing and personnel dispatch.

[Customer support policy]



We strive to engage in constructive dialogue and promote mutual understanding with all stakeholders, including customers, from the perspective of SPEED*.

*The basic perspective on sustainability initiatives of the organization and its officers and employees, as defined independently by the Shoko Chukin Bank

Please see our website for the full document of “Sustainability Basic Guidelines.” (in Japanese only)

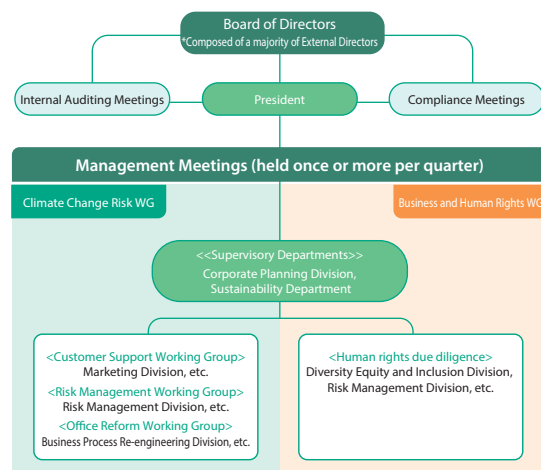
Shoko Chukin Bank Group Human Rights Policy

We recognize respect for human rights as being a critical management issue that we must proactively tackle in order to satisfy our social responsibilities. For that reason, in April 2024, we formulated the “Shoko Chukin Bank Group Human Rights Policy.” We strive to carry out appropriate human rights due diligence in order to prevent or reduce the negative impact of our business activities on human rights.

▶▶ Please see pages 46 and 47 for information on our executives’ and employees’ diversity, equity, and inclusion-related initiatives.

The full document of “Shoko Chukin Bank Group Human Rights Policy” can be found on our website. (in Japanese only)

Sustainability-related governance chart



Main discussion topics

In fiscal 2023, the main topics of discussion in Board of Directors meetings and Management Meetings were as follows. Matters related to climate change risks were discussed in Management Meetings once per quarter or more and reported sequentially to the Board of Directors.

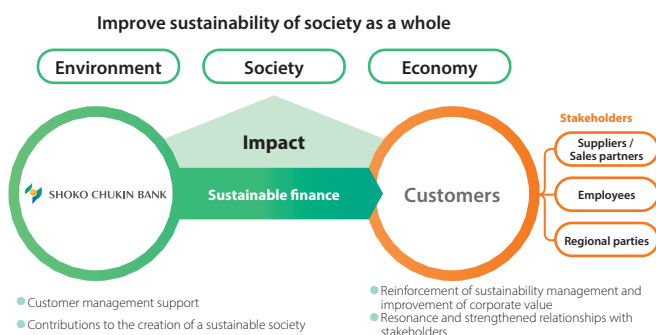
Meeting body		Main discussion topics
Supervision	Board of Directors	<ul style="list-style-type: none"> • Status of initiatives related to climate change risks (discussed once per quarter or more, roughly four times per year) • Top risks in fiscal 2023 (roughly six times per year) • Publication of TCFD report • Formulation of a Human Rights Policy and direction of responses on human rights issues
	Management Meetings	<ul style="list-style-type: none"> • Status of initiatives related to climate change risks (discussed once per quarter or more, roughly four times per year) • Top risks in fiscal 2023 (roughly six times per year) • Initiatives to support decarbonization management • Sustainability-related risk management • Publication of TCFD report • Formulation of a Human Rights Policy and direction of responses on human rights issues

Supporting Customer Initiatives

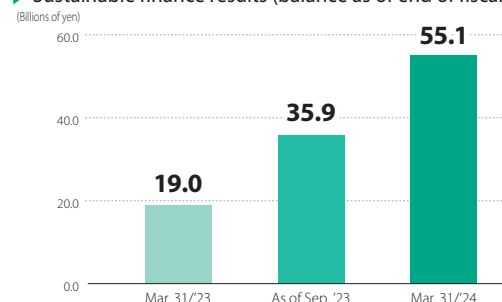


► Sustainable finance

Through sustainable finance, we support our customers' sustainability initiatives. Primarily focusing on positive impact financing, we offer green loans, social loans, sustainability loans, and sustainability-linked loans.



► Sustainable finance results (balance as of end of fiscal year)



We receive third-party opinion briefs from the Japan Credit Rating Agency, Ltd. regarding whether financing, based on individual financing frameworks, is conformant with international rules and regulations.

Please see our website for details on these opinion briefs and evaluations.

TOPIC

Creating an impact through positive impact financing (PIF)

We have provided positive impact financing (PIF) to 162 recipients (as of March 31, 2024). By working with our customers to achieve the KPIs set by PIF, we are working to create an impact on the environment and society throughout Japan. Furthermore, we use the "impact deposits" entrusted to us by customers nationwide as a source of funds for PIF, with the aim of creating a virtuous circle throughout society.

[Main KPIs set through PIF (examples for each SDGs item)]

	No. of KPI set	Examples of KPI		No. of KPI set	Examples of KPI
7 AFFORDABLE AND CLEAN ENERGY	105	Introduction of solar power generators, increase in LED usage rate, increase in percentage of battery-powered forklifts	13 CLIMATE ACTION	108	Visualization and reduction of CO2 emissions, BCP plan formulation, acquisition of ISO14001 certification
8 DECENT WORK AND ECONOMIC GROWTH	508	Use of Happy Design Surveys (▶▶ P.47), increase in sales from new sites/new businesses, creation of local jobs, reduction in overtime hours	10 REDUCED INEQUALITIES	176	Increase in percentage of female employees, acquisition of public certifications such as PrivacyMark certifications, workshops on human rights DD
9 INDUSTRY, INNOVATION AND INFRASTRUCTURE	170	Yield improvements, participation in new semiconductor precision processing business, increase in sales, etc.	12 RESPONSIBLE CONSUMPTION AND PRODUCTION	157	Reduction in amount of waste generated, increase in eco product sales, reuse of food waste, etc.

[No. of PIF financing projects and balance by region]

Region	No. of PIF financing projects	Balance
Hokkaido, Tohoku	16	¥3.1 billion
Kanto	24	¥4.3 billion
Tokyo	38	¥10.5 billion
Chubu	19	¥4.7 billion
Kinki	44	¥8.7 billion
Chugoku, Shikoku	7	¥0.9 billion
Kyushu, Okinawa	14	¥3.4 billion

► Impact deposits

We offer impact deposit products for corporate customers as time deposits that provide the capital for positive impact financing.

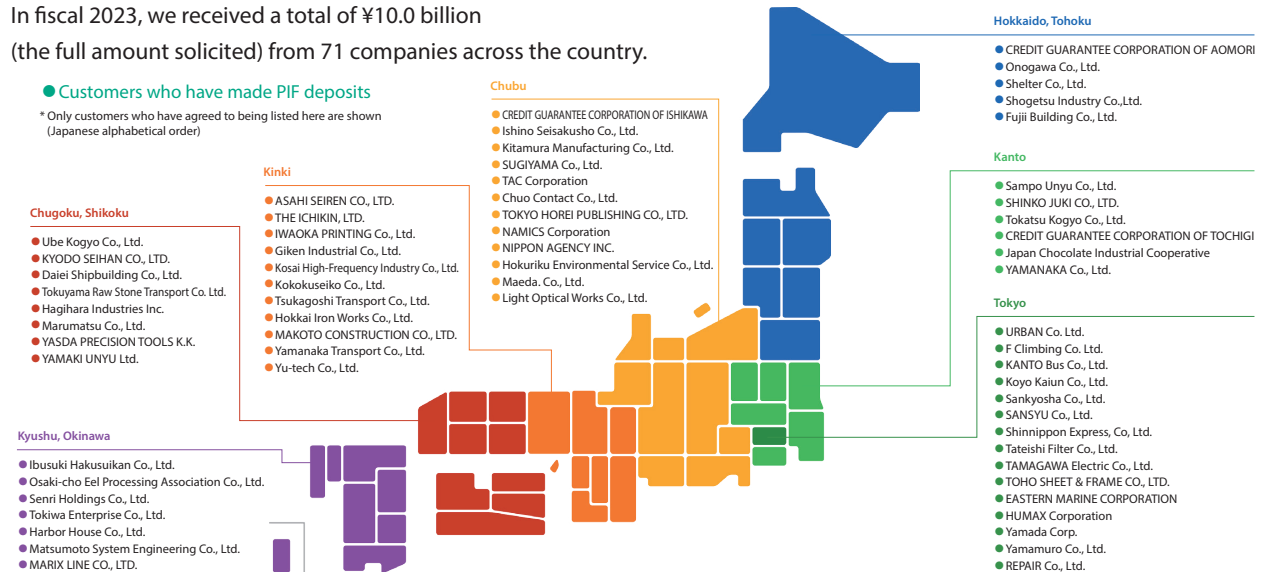


We developed the “Impact Deposit Framework” after receiving an opinion brief from the Japan Credit Rating Agency, Ltd., confirming its alignment with the “Basic Approach to Impact Finance” guidelines set by the Ministry of the Environment. Please see our website for more details.

In fiscal 2023, we received a total of ¥10.0 billion (the full amount solicited) from 71 companies across the country.

● Customers who have made PIF deposits

* Only customers who have agreed to being listed here are shown (Japanese alphabetical order)



► Cooperation with Regional Financial Institutions

To contribute to regional revitalization and help create new jobs, we collaborate and partner with regional financial institutions in our sustainable financing operations. With them, we meet the financing needs of local SMEs and leverage their functions and features to create synergistic effects, thereby increasing the value of SMEs.

Operational partnerships and collaborations with 10 financial institutions nationwide

List of financial institutions we partner and collaborate with (as of March 31, 2024)

Hokkaido, Tohoku: North Pacific Bank, Ltd., THE SENDAI BANK LTD.
 Kanto: The Saitamaken Shinkin Bank, The Yokohama Shinkin Bank
 Chubu: THE TAIKO BANK, LTD., Kitaisei Ueno Shinkin Bank, The Kuwanamie Shinkin Bank
 Chugoku, Shikoku: THE BANK OF KOCHI, LTD.
 Kyushu, Okinawa: KUMAMOTO DAI-ICHI SHINKINBANK, MINAMI NIPPON BANK, LTD.

TOPIC

SDGs Workshops — Supporting education aimed at creating a sustainable society



As one of our projects to connect local companies with local communities, we provide educational assistance to students, who will become leaders of the future, with the aim of creating a sustainable society.

At Seibu Gakuen Bunri Senior High School, in Sayama, Saitama Prefecture, we conducted a special workshop on SDGs with the assistance of Moritasansho Co., Ltd., a steel processing manufacturer headquartered in Saitama Prefecture.

► For details of the workshop, please click here to watch the video.

<https://www.youtube.com/watch?v=UgsPwu4bTtA>





► Supporting decarbonization management

To increase our customers' corporate value over the medium to long term and help bring about a sustainable society, we actively support SMEs in their efforts to promote carbon neutrality.

In addition to assisting with CO2 emissions calculations and providing business matching services related to solar power generation and the like, in May 2023 we also began providing a decarbonization management consulting service. This service supports companies in the formulation of decarbonization plans and acquisition of international certifications, as well as hands-on support for the implementation of decarbonization measures.

In April 2024, we established an Industry Strategy Division to reinforce industrial structure transformation efforts and strengthen competitiveness. By combining industry-specific problem-solving and DX perspectives, we will contribute improving the GX and sustainability of SMEs.



TOPIC Case studies of support

Considering the stability of the global environment, which is fundamental to all our business activities, we are actively working towards reducing our impact on the environment, including the climate. Realizing the interconnection with climate change, we will support our customers' initiatives to promote a circular economy and biodiversity.

Supporting SME SBT certification for decarbonization management plans leading to 2030

Wakakou Co., Ltd. (Fukuoka Prefecture)

Wakakou Co. is a marine civil engineering company port development and conservation, and is committed to environmental management, including reducing CO2 emissions and introducing environmentally friendly ships. Using our decarbonization management consulting service, the company formulated carbon emissions reduction targets for 2030 and acquired the SBT certification for SMEs.

Climate change

Circular economy

Using PIF to support initiatives to realize a circular economy through ship recycling

Shinko Syoji, Co., Ltd. (Kumamoto Prefecture)

Shinko Shoji is a ship recycling company that engages in ship dismantling and other ship recycling activities globally, including recycling of ferrous and non-ferrous metals and promoting the reuse of engines and hull parts. One of its PIF KPIs is to promote ship recycling with consideration towards the environment and safety.

Biodiversity

Supporting startup companies that contributes to the sustainable development of the aquaculture industry

UMITRON K. K. (Tokyo)

UMITRON is a startup company that develops smart feeders for aquaculture using data analysis technology. They are working to reduce on-site labor through remote management and prevent oceanic pollution through appropriate feeding.

Initiatives for Implementing TCFD Recommendations

» Please click here to view the TCFD report.

<https://www.shokochukin.co.jp/share/library/tcf/>



TCFD disclosure

Among sustainability issues, climate change risk is a particularly important issue that affects many SMEs and is recognized as one of the top management risks at the Shoko Chukin Bank. Based on the recommendations of the TCFD* and the importance of disclosing information on efforts to address climate change, the Shoko Chukin Bank will continue to work on expanding disclosure of information (governance, strategies, risk management, indicators and targets) in the form recommended by the TCFD.

Governance

- Any matters that relate to the identification, evaluation, and management of climate-related opportunities and risks are regularly discussed at our Management Meeting, which is attended by the President and Executive Officer. We also submit reports on climate-related developments to the Board of Directors in order.
- We have formulated our Sustainability Basic Guidelines in order to play an active role in resolving material issues for society, including climate change, and to help realize a sustainable society, and they have been approved by the Board of Directors.
- We have identified material issues for society (materiality) to which we will make a focused and effective contribution through our business activities.

Strategy

- We analyze qualitative and quantitative scenarios regarding the opportunities and risks that climate change poses to management of the Shoko Chukin Bank. More specifically, we analyze the impact of physical risks in the wake of recent natural disasters caused by climate change, and the impact of transition risks and opportunities created by the development of climate change policies and technological innovations associated with the transition to a low-carbon economy.
- We will contribute to the realization of a sustainable society by engaging in dialogue with our customers to overcome climate change risks together and supporting the implementation of necessary measures, starting from a business prospects evaluation from the perspective of SPEED.

Risk Management

- We recognize addressing climate change risk as one of our top management risks.
- As a financial institution dedicated to facilitating the financing of SMEs, we will strive to engage in constructive dialogue and mutual understanding with our customers from the perspective of SPEED, and will continue to understand and provide information. Transactions with businesses that are likely to have a negative impact on the environment and society, as identified in the process, will be handled in accordance with the Environmental and Social Considerations Policy.
- We commit to appropriately recognizing risks (transition risks and physical risks) that arise as a result of climate change, and striving to build a risk management approach that incorporates these risks.

Metrics and Targets

- We aim to reduce CO2 emissions at our offices in Japan by 50% by fiscal 2030 from the fiscal 2013 levels, and achieve carbon neutrality by fiscal 2050 (For Scope 1 and 2).
- The Shoko Chukin Bank's CO2 emissions in fiscal 2022 calculated based on the amount of gas, electricity and other utilities used at its offices in Japan totaled 9,736 tons, down 36% from the fiscal 2013 level. (For Scope 1 and 2)

* TCFD: Task Force on Climate-related Financial Disclosures

GHG supply chain emissions

The results of our tentative calculations of GHG supply chain emissions (Scope 3) are indicated below. We attempted to perform tentative calculations for all of Category 15 (Investments) and were able to determine emissions for approximately 90% of all investments (on an investment balance basis). The methods currently being used to perform calculations may change in the future in line with ongoing discussions regarding international standards.

(Unit: Thousand t-CO2)

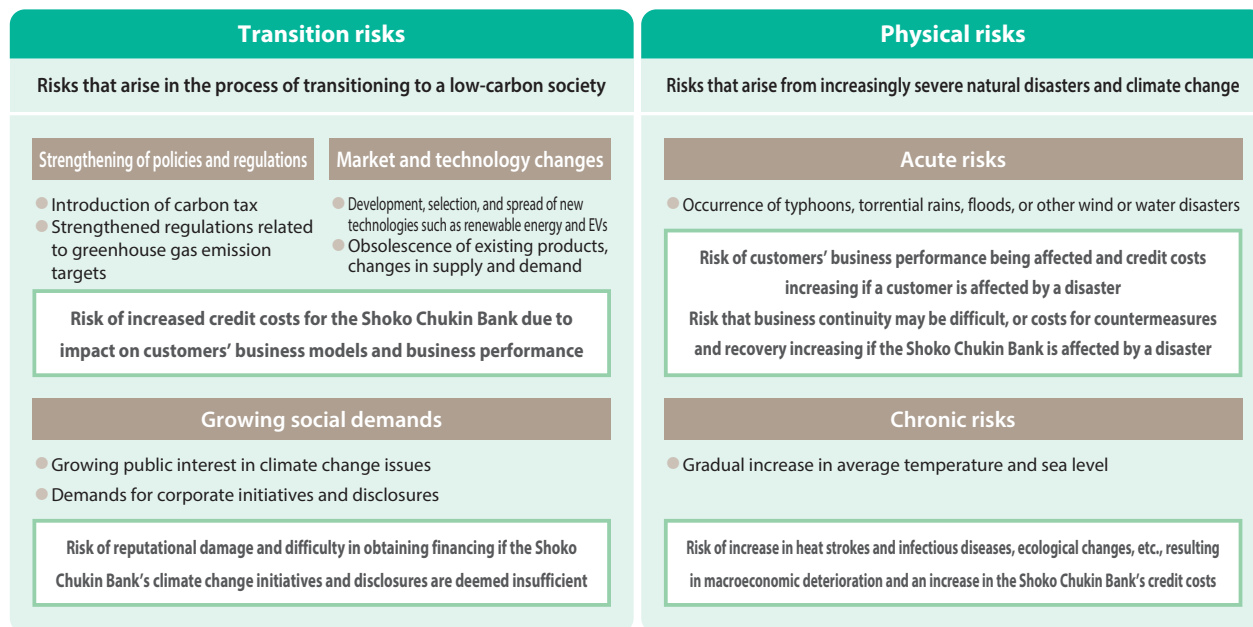
Cat 1	Purchased Goods and Services	Approx. 21
Cat 2	Capital Goods	Approx. 7.5
Cat 3	Fuel- and Energy-Related Activities	Approx. 1.5
Cat 6	Business Travel	Approx. 0.6
Cat 7	Employee Commuting	Approx. 1.1
Cat 15	Investments	Approx. 8,200

- For categories 1-3, 6, and 7, our calculations were based on fiscal 2022 activity levels and were performed as indicated in the Basic Guidelines on Accounting for Greenhouse Gas Emissions Throughout the Supply Chain Ver. 2.4 (Ministry of the Environment, Ministry of Economy, Trade and Industry). For category 15, the calculation scope was business loans, and calculations were performed in accordance with the PCAF's Global GHG Accounting and Reporting Standard. The numerator of the ownership ratio was the loan balance as of March 31, 2023, and the denominator was calculated using information such as financial data held by the Shoko Chukin Bank.
- For business loan recipients that are subject to the disclosure system (Ministry of the Environment) established in accordance with the Act on Promotion of Global Warming Countermeasures (approx. 11%*), calculations were performed using the data publicly disclosed under this system. For other business loan recipients (approximately 78%*), emissions per sales by industry was estimated using publicly available data and information held by the Shoko Chukin Bank. The emissions intensity was then set and multiplied by the Shoko Chukin Bank equity ratio to arrive at the estimate.

* Percentage of total loan balance

► Identifying climate change risks

We have identified risks by anticipating future social and environmental changes brought about by climate change. The following is an overview of the climate change risks that Shoko Chukin Bank anticipates.



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 customer support through engagement with customers and other means, and strengthening risk management through scenario analysis, etc.

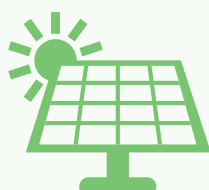
^{*1} Risk of an increase in the Shoko Chukin Bank's credit costs due to the negative impact on customers' business models and businesses caused by the transition to a low-carbon society or climate change

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

TOPIC Utilizing renewable energy

The greatest factor in the Bank's CO₂ emissions (for Scopes 1 and 2) is electrical purchased by our branches, etc. To date, we have sought to reduce purchased power by optimizing the scale of our business sites through consolidation or relocation, switching to LED lighting, and other measures. Going forward, we will continue to work toward achieving our CO₂ emissions target by utilizing renewable energy and other measures to reduce our emissions.

Introduction of offsite solar PPAs



We plan to use offsite corporate PPAs^{*1} to introduce power from renewable energy sources with additionality^{*2} (approx. 3,100,000 kWh per year).

Introducing renewable energy from wind power



We have switched the electricity used at the Kanagawa Business Division (approx. 400,000 kWh per year) to renewable energy derived from wind power.

^{*1} Corporate PPAs (Power Purchase Agreements) are long-term agreements between companies and power suppliers to purchase renewable energy at fixed prices. With offsite PPAs, the power is procured from remote power generation facilities and sent via ordinary power transmission lines.

^{*2} Additionality refers to direct involvement with an increase in the total amount of renewable energy electricity generation from newly developing renewable energy sources.

Analyzing Climate Change Risks

Carbon-related assets

As part of our efforts to assess climate change risks, we have defined the following industries, which we recognize as being significantly impacted by climate change, as carbon-related sectors* and are monitoring them. We have reviewed the scopes of these sectors in light of the October 2021 revisions to the TCFD recommendations.

Four sectors were selected for analysis: automobiles and components, land transport, metals and mining, and, starting this year, marine transport, 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.

* Applicable industries in the non-financial sector identified based on GICS codes. The methods used to categorize these sectors are subject to review in the future.

	Sector	Transition risks	Percentage of outstanding loans (%)
Energy	Oil and gas	High	1.6
	Electricity	High	0.4
	(Subtotal)		2.0
Transport	Land transport	Medium	8.2
	Automobiles and components	High	2.9
	Marine transport	Medium	2.1
	Air transport	Medium	0.1
	(Subtotal)		13.3
Materials and buildings	Construction materials and capital goods	Low	8.6
	Property management services and development	Low	6.3
	Metals and mining	High	4.7
	Chemicals	Medium	3.1
	(Subtotal)		22.7
Agriculture, foodstuffs, and forestry	Food and beverage	Medium	4.1
	Papermaking and forestry	Low	2.0
	Agriculture	Low	0.3
	(Subtotal)		6.5
Total			44.5

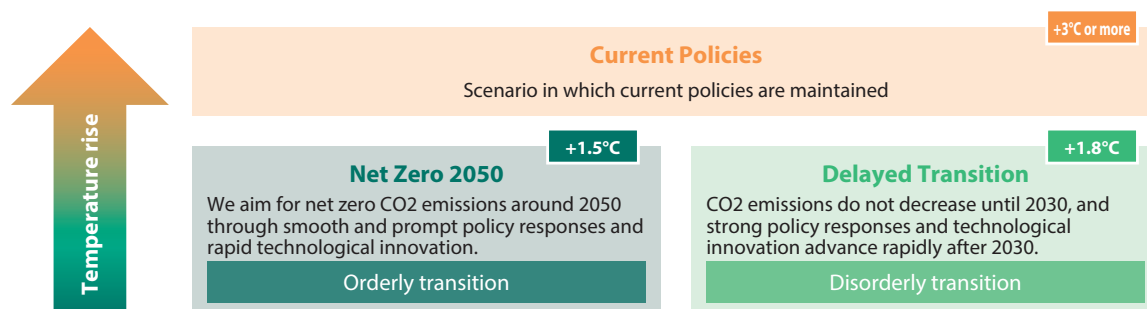
(As of March 31, 2024)

Scenarios 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. The following four sectors were selected for analysis based on the climate change impact (transition risks) of each sector and the balance of investments, loans and other factors.

For each loan recipient in an analyzed sector, financial conditions are estimated based on the probability of the transition scenario, and the increase in credit-related expenses is calculated based on changes in borrower category. For the automobiles and components sector and the metals and mining sector, we considered transition risks for the transition from loan recipients' main products (internal combustion engines and drive systems) to electric vehicles (EVs).

[Qualitative assessment of sectors in scope of analysis]

Sectors in scope of analysis	Main transition risks	
Automobiles and components	Introduction of carbon tax	Downsizing of engine parts, etc., in conjunction with conversion to electric vehicles
Metals and mining		The metals and mining sector also includes many automobile-related companies such as foundry and punching press processed metal products manufacturing businesses, so the above factors were also taken into consideration.
Land transport	Introduction of carbon tax on CO2 emissions from manufacturing and transport processes, etc.	Modal shift toward low-carbon conversion Conversion to electric trucks (higher vehicle prices)
Marine transport		Decrease in amount of goods transported in conjunction with decrease in use of fossil fuel, main materials transported Transition to ships that meet stricter environment regulation standards (increase in ship value)

Physical risks

Among all loan recipients, we identify potential inundation points due to water-related disasters caused by typhoons, etc., based on location information. For each loan recipient, 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. Furthermore, starting this year, we have added the impact of damage to building collateral.

[Results of scenario analysis]

	Transition risks	Physical risks
Scope of analysis	Loan recipients in the automobiles and components, metals and mining, land transport and marine transport sectors, with the most recent borrower category	Loan recipients among those who may be flooded or who have used buildings as collateral with the most recent borrower category
Scenarios used	Use net zero 2050 of the NGFS scenarios	Use current policies of the NGFS scenarios
Analysis period	Until 2050	
Analysis results	Credit-related expenses: total of approx. ¥90.0 billion	Credit-related expenses: total of approx. ¥70.0 billion