BOJ Reports & Research Papers

Financial System Report Annex Series

Financial System Report – Annex

Regional and *Shinkin* Banks' Recent Efforts to Address Climate Change (FY2023)

FINANCIAL SYSTEM AND BANK EXAMINATION DEPARTMENT
BANK OF JAPAN

MAY 2024

The total of regional banks and *shinkin* banks covered in this *Report* is as follows (as of end-March 2023).

Regional banks comprise the 62 member banks of the Regional Banks Association of Japan (Regional banks I) and the 37 member banks of the Second Association of Regional Banks (Regional banks II). *Shinkin* banks are the 247 *shinkin* banks that hold current accounts at the Bank of Japan.

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Background

The Bank of Japan's *Financial System Report* has two main objectives: to assess the stability of Japan's financial system from a macroprudential perspective and to communicate with all relevant parties on any tasks and challenges ahead in order to ensure the system's stability.

The *Financial System Report* provides a comprehensive assessment of the financial system twice a year and is occasionally supplemented by *Financial System Report Annex Series* papers, which provide more detailed analyses and insights on specific topics.

Abstract

With the growing awareness that climate change is a global issue that could have a wide-ranging impact on society and the economy in the future, regional and *shinkin* banks and their main clients, small and medium-sized enterprises (SMEs), are increasingly taking steps to address climate change on their own accord.

Against this background, regional banks are increasingly supporting their client firms' efforts to address climate change by providing financial and non-financial services, as well as making steady progress in their efforts to comply with regulations and to identify and manage climate-related financial risks. Moreover, *shinkin* banks, too, are making steady progress in supporting their client firms through the provision of financial and non-financial services.

These efforts allow regional and *shinkin* banks to gain new business opportunities and reduce their own climate-related financial risks, maintain their competitiveness, differentiate themselves, and strengthen their business foundations.

This paper, in order to serve as a reference for regional and *shinkin* banks in their efforts to further address climate change going forward, introduces the efforts especially of regional banks to address climate change, focusing on efforts in the area of risk management, and outlines expectations for progress in their climate change responses.

I. Introduction

Addressing climate change is increasingly recognized as a global issue that could have a wide-ranging impact on society and the economy in the future. In Japan, like in other countries, major banks are taking various measures to address climate change-related financial risks, while also devising measures that take their own specific characteristics into account.

Against this background, regional and *shinkin* banks are also making steady progress in their efforts to address climate change. This paper, as a sequel to the previous issue titled "Regional and *Shinkin* Banks' Recent Efforts to Address Climate Change," published in June 2023, presents regional and *shinkin* banks' recent efforts to address climate change and the challenges they face, focusing in particular on their risk management efforts, based on the results of a questionnaire survey of regional and *shinkin* banks conducted by the Financial System and Bank Examination Department of the Bank of Japan between June 26 to July 31, 2023.

II. Environment surrounding regional and *shinkin* banks

Climate change responses of small and medium-sized enterprises

Among small and medium-sized enterprises (SMEs), the main client firms of regional and *shinkin* banks, awareness of the United Nation's Sustainable Development Goals (SDGs) has been spreading, with the share of SMEs actively making efforts toward the SDGs increasing over the past few years. In particular, many of them have made addressing climate change a priority area among the 17 SDGs (Chart 1).

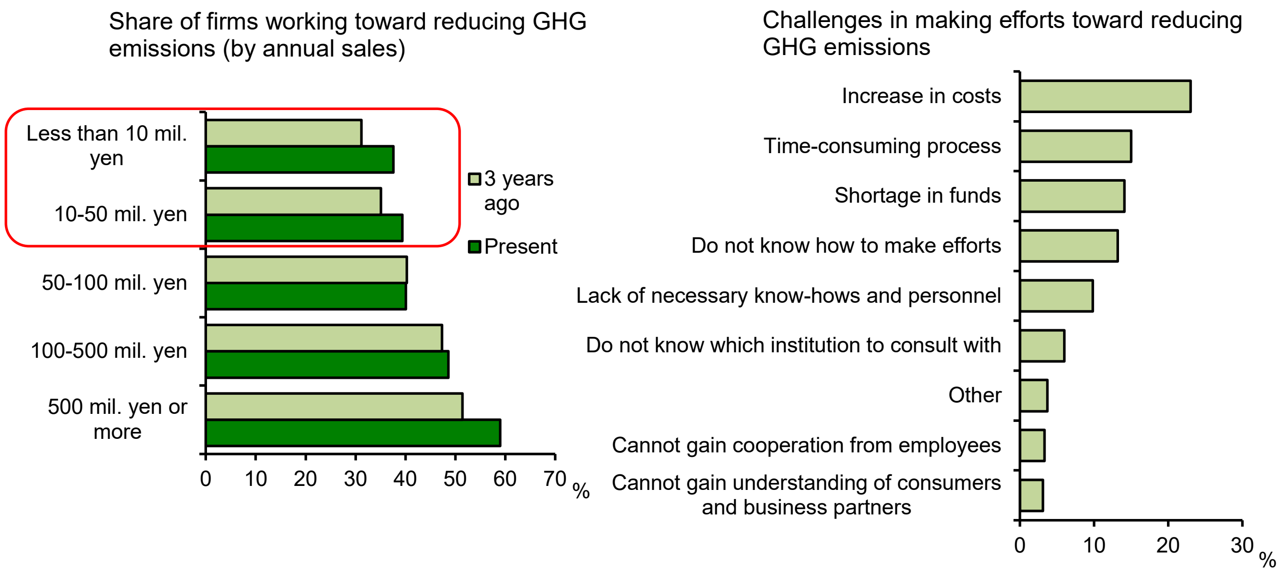
Chart 1: Firms' awareness of SDGs

Notes: 1. The latest survey is as of June 2023. The survey covers 27,771 firms in Japan, with 11,105 valid responses (including 9,408 SMEs).
2. The previous survey in the right panel is as of June 2022. The survey covers 25,405 firms in Japan, with 11,337 valid responses (including 9,469 SMEs).
3. The left panel shows the share of firms that responded that they were making or planning to make efforts to the questions about efforts toward the SDGs.
4. The right panel shows the share of firms that responded with areas that they were focusing on among the 17 SDGs (multiple answers were allowed).

Source: Teikoku Databank, "Survey of Corporate Attitudes Toward the SDGs."

While efforts by SMEs to decarbonize their operations have been spreading to firms with smaller annual sales in the past few years, there are a number of issues that need to be addressed with regard to efforts toward decarbonization (Chart 2). Expectations for support from regional and *shinkin* banks to address these issues are increasing.

Chart 2: SMEs' efforts toward decarbonization



Notes: 1. Covers SMEs with 5-299 employees (excluding real estate leasing businesses). 1,666 SMEs responded to the survey (conducted as of August 2022).
2. In the right panel, multiple answers up to three were allowed.
Source: Japan Finance Corporation, "Survey on SMEs' Efforts toward Decarbonization."

Developments in information disclosure, regulation, and supervision

The following is an overview of the environment surrounding regional and *shinkin* banks in terms of information disclosure, regulation, and supervision regarding responses to climate change. Starting with information disclosure, a Cabinet Office Order has made it mandatory for listed firms to disclose sustainability-related information in their annual securities reports, beginning with financial statements for the fiscal year ending March 31, 2023. In accordance with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), the Cabinet Office Order requires listed firms to disclose four components: governance, strategy, risk management, and metrics and targets.[1] Moreover, in June 2023, the International Sustainability Standards Board (ISSB) finalized the general sustainability-related and climate-related disclosure standards with a view to improving the comparability and consistency of disclosed information. Following this, the Sustainability Standards Board of Japan (SSBJ) aims to finalize domestic standards for Japan based on the ISSB disclosure standards by the end of fiscal 2024. Furthermore, from November 2023 to March 2024, the Basel Committee on Banking Supervision (BCBS) conducted a public consultation on disclosure standards for banks' climate-related financial risks with a view to ensuring the stability of the financial system.

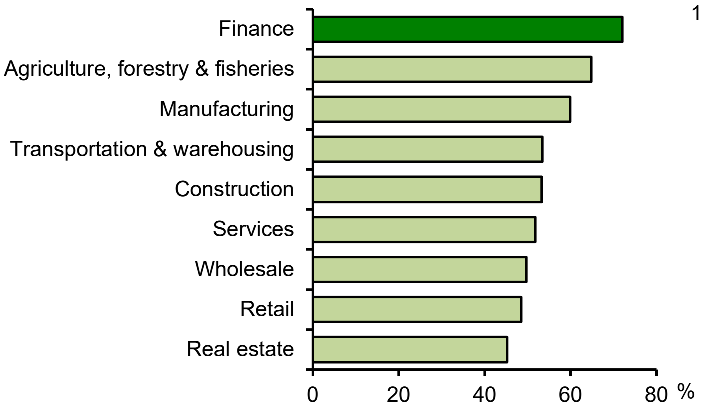
[1] All firms are required to make disclosures with regard to governance and risk management, while firms are required to make disclosures with regard to strategy and metrics and targets only if deemed material.

Next, turning to regulatory and supervisory issues, in June 2023, the Japan Financial Services Agency published the "Report by the Working Group on Financial Institutions' Efforts towards Decarbonization of the Economy: Recommendation (Guide) on Financial Institutions' Works toward Net-Zero" (hereafter, the "Guide"). Highlighting practical issues and discussion points to be addressed in banks' efforts toward decarbonization, the Guide provides advice to banks on how to support firms in their decarbonization efforts, including advice on the manner in which banks and firms should engage in dialogue to support the industry transition from a financial perspective.

III. Efforts by regional banks

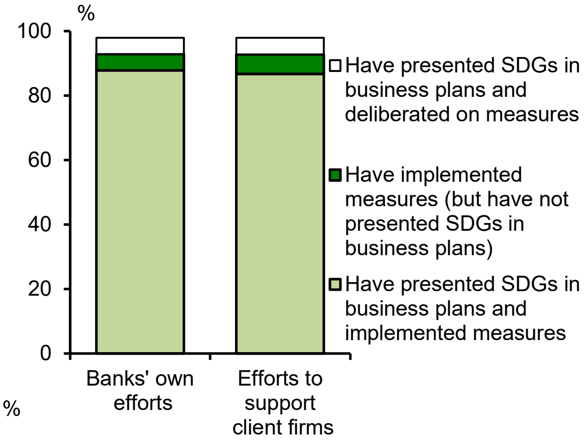
The financial sector has a high share of firms that are actively making efforts toward the SDGs, including addressing climate change (Chart 3). Among them, almost all regional banks have made SDG efforts a priority area in their business plans. Moreover, due to growing expectations for regional banks to play a central role in encouraging SMEs to decarbonize, they have also made efforts to support client firms a priority area (Chart 4).

Chart 3: Share of firms actively making efforts toward the SDGs



Note: The survey is as of June 2023. Covers 27,771 firms in Japan, with 11,105 valid responses (including 9,408 SMEs).
Source: Teikoku Databank, "Survey of Corporate Attitudes Toward the SDGs."

Chart 4: Positioning of SDGs in business plans



Note: Covers regional banks.
Source: BOJ.

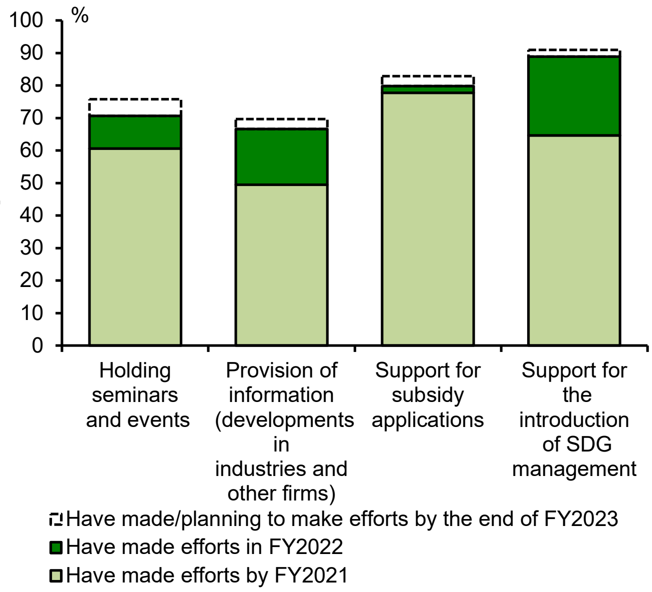
The following is a summary of regional banks' recent efforts to provide support for their client firms in addressing climate change, as well as specific efforts in regulatory compliance and climate-related financial risk management, based on the results of a questionnaire survey and banks' disclosure materials.

Efforts to support client firms

In order for regional banks to encourage SMEs to take concrete steps toward decarbonization, they must first foster a shared understanding with their clients of the significance and necessity of addressing climate change. In this respect, regional banks are already focusing on fostering and deepening awareness among their client firms by holding seminars and events and providing information (Chart 5). Furthermore, an increasing number of regional banks are now focusing their efforts not only on fostering awareness among client firms but also on supporting client firms to actually incorporate the SDGs into their management objectives and put them into practice, for example by encouraging SMEs to link their efforts toward the SDGs, including addressing climate change, to their business challenges and providing support for the development of action plans to address climate change.

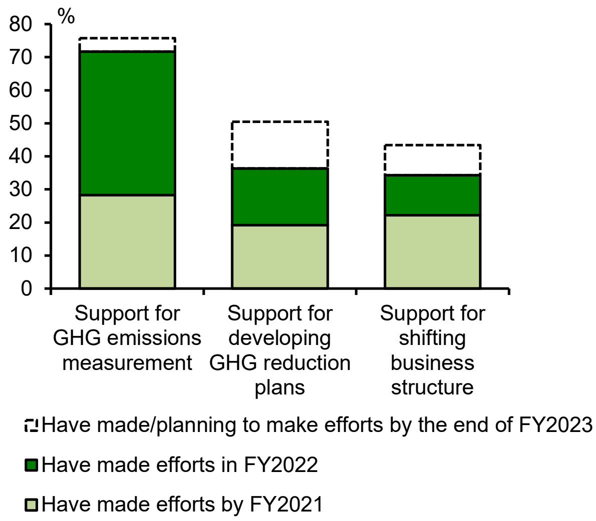
The next phase of SMEs' decarbonization efforts is to measure their greenhouse gas (GHG) emissions. In this regard, efforts by regional banks to support client firms by providing emissions measurement services and consulting services for the formulation of reduction targets and plans in cooperation with outside firms have been making rapid progress, so that by fiscal 2022, more than 70 percent of regional banks were making some form of effort in this area (Chart 6). Moreover, there is a growing trend among larger regional banks to support client firms in formulating plans to reduce their measured GHG emissions. Regarding these efforts to support client firms through non-financial services, about 40 percent of regional banks have set targets for the number of services provided and outstanding balances, and about 80 percent of these regional banks have achieved their targets (Chart 7).

Chart 5: Efforts in terms of non-financial services



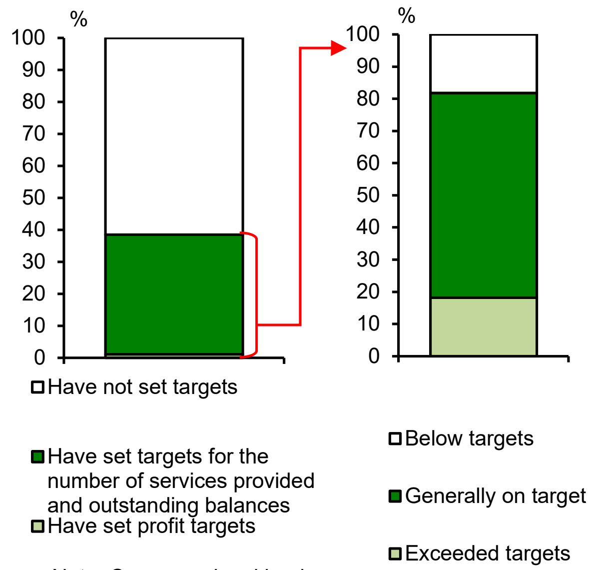
Note: Covers regional banks.
Source: BOJ.

Chart 6: Efforts regarding GHG emissions



Note: Covers regional banks.
Source: BOJ.

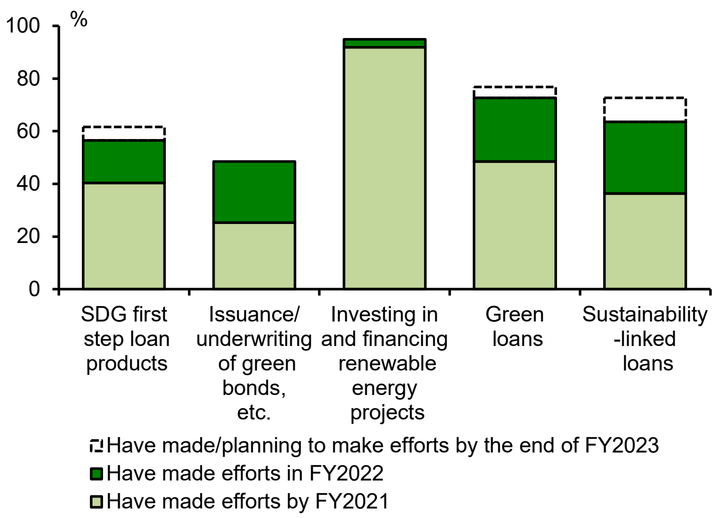
Chart 7: Targets regarding efforts to support client firms



Note: Covers regional banks.
Source: BOJ.

In terms of financial services, more than half of regional banks have announced their targets with regard to sustainable finance and are actively making efforts in this area. Many of them are actively making efforts to provide first step products such as SDG loans that do not specify how the funds are to be used to achieve SDG targets and private placement bonds, and over the past year or two, there has been a large increase in the number of regional banks engaged in green loans, which provide funds for projects that contribute to decarbonization, and sustainability-linked loans to funding entities engaged in efforts contributing to decarbonization (Charts 8 and 9).

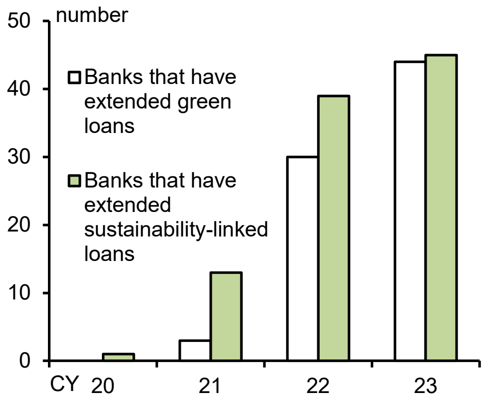
Chart 8: Efforts in terms of financial services



Note: Covers regional banks.

Source: BOJ.

Chart 9: Number of regional banks that have extended green loans and sustainability-linked loans



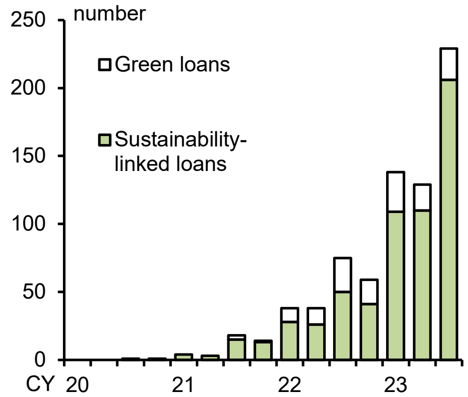
Notes: 1. Covers regional banks.

2. The data for 2023 are up to end-August 2023.

Source: Ministry of the Environment.

The number of these loans has increased substantially since 2023, reflecting increasing corporate needs for funding where the use of funds for projects that contribute to environmental improvements is clearly defined (Chart 10). Reflecting these developments, the amount of sustainable finance provided by regional banks has been steadily increasing (Chart 11).

Chart 10: Number of green loans and sustainability-linked loans

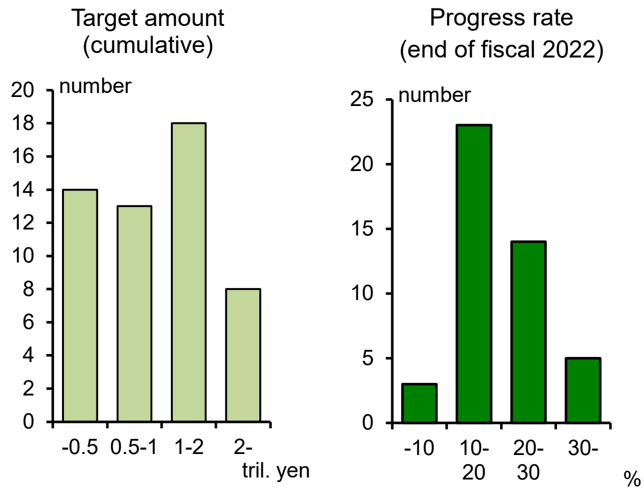


Notes: 1. Covers regional banks. For syndicated loans, the number of loans in which regional banks act as arrangers is aggregated.

2. Latest data as of the July-September quarter of 2023.

Source: Ministry of the Environment.

Chart 11: Sustainable finance



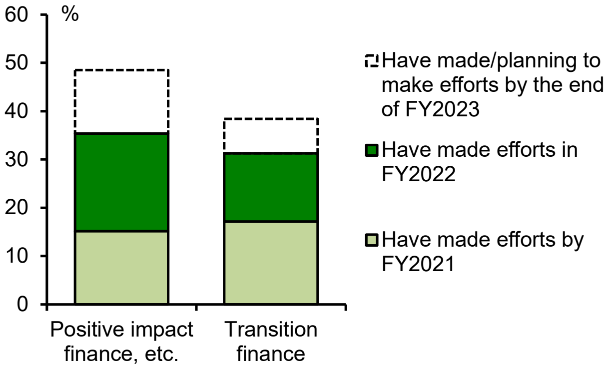
Notes: 1. Covers regional banks. For holding companies that do not disclose the amount by subsidiary bank, the target amount and actual amount of a holding company as a whole are aggregated.

2. The target amount is the cumulative amount for fiscal 2029-2031.

Sources: Published accounts of each bank and financial group; BOJ.

Over the past year, there has also been a rise in the number of regional banks providing transition finance, which contributes to the gradual decarbonization of the economy through the efforts of funding entities, and positive impact finance, which supports firms that pursue technological innovations to achieve decarbonization, for the transition toward a net-zero society (Chart 12). The importance of transition finance for a smooth transition to a net-zero society was also reaffirmed at the G7 Hiroshima Summit in May 2023. Moreover, since positive impact finance is expected to accelerate the switch to technologies and business models addressing climate change, efforts in this area are expected to make further progress.

Chart 12: Efforts regarding transition finance and positive impact finance



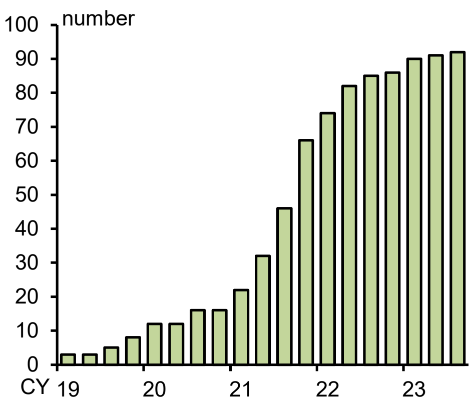
Note: Covers regional banks.
Source: BOJ.

Disclosure and risk management efforts

This section reviews regional banks' disclosure and climate-related financial risk management efforts. About 90 percent of regional banks support the TCFD recommendations (Chart 13). The content of disclosures in terms of the items recommended for disclosure in the TCFD recommendations has increased substantially over the past year, partly because, as reviewed in Section II, the disclosure of the four components of the TCFD recommendations in annual securities report is now mandatory as a result of the Cabinet Office Order.

Chart 13: Endorsement of TCFD recommendations

Number of banks that have endorsed TCFD recommendations



Disclosure based on the framework of TCFD recommendations

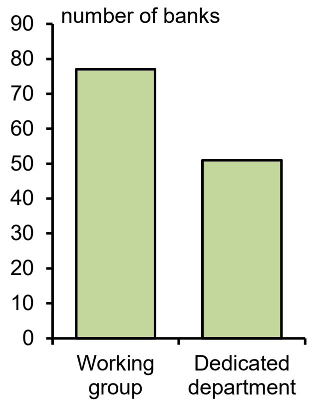
number

			Recent	One year ago
Disclosure of information			98	76
	Governance		98	76
	Strategy	Carbon-related exposure	67	52
		Scenario analysis	82	75
		Quantitative analysis	64	35
	Risk management	Investment and lending policies	78	67
		Identification of top risks	11	8
	Metrics and Targets	Investment and lending targets	74	64
		Emission reduction targets	87	68
		Scope 3 reduction targets	9	5

Notes: 1. Covers regional banks that have disclosed information. (Those for which such disclosure could be confirmed. Unless otherwise noted, the same applies to Charts 14, 17-19, and 22-26.)
2. Subsidiary banks are considered to have endorsed TCFD recommendations if their holding companies (or parent companies) endorse them (same as above).
3. Based on documents released by each bank as of the beginning of August 2023 (same as above).
Sources: TCFD; Published accounts of each bank and financial group.

In terms of governance, about 80 percent of regional banks have established an independent working group headed by a senior executive and have put in place systems to discuss their response to sustainability issues, including climate change (Chart 14). Moreover, half of regional banks have established a dedicated department in charge of the banks' efforts to address climate change. Meanwhile, among regional banks that have introduced performance-based stock compensation programs for directors, some have begun to use indicators that measure the extent to which climate change efforts have been achieved, such as the percentage decrease in GHG emissions and the amount of loans extended to renewable energy projects, as part of their performance indicators in order to encourage directors to take action on climate change.

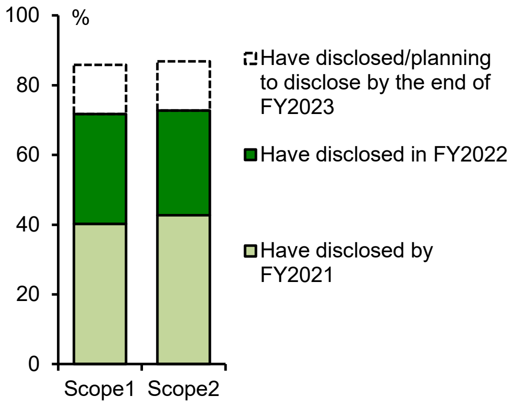
Chart 14: Governance system



Note: Covers regional banks that have disclosed information.
Source: Published accounts of each bank.

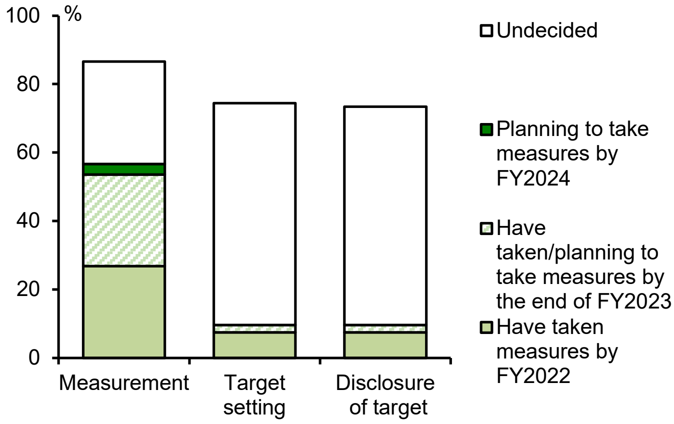
Looking at regional banks' recent efforts to reduce their own GHG emissions shows that the number of banks disclosing reduction targets for both Scope 1 and Scope 2 emissions (direct emissions of a firm itself and indirect emissions from the use of energy supplied by other firms, respectively) has increased substantially over the past year (Chart 15).[2] Moreover, some banks have been making efforts to expand, enhance, and refine their information disclosure, with some moving up the deadline for achieving their reduction targets, some expanding the scope of their reduction targets to include all group firms and consolidated subsidiaries, and some having their GHG emissions verified by a third party. On the other hand, only about 30 percent of regional banks are making efforts to measure Scope 3 emissions (emissions by other firms related to the firm's own activities), partly due to the difficulty of measurement, and only a limited number of banks are disclosing reduction targets (Chart 16).

Chart 15: Disclosure of Scope 1 and 2 reduction targets



Note: Covers regional banks.
Source: BOJ.

Chart 16: Measurement of Scope 3 emissions and setting/disclosure of reduction targets



Notes: 1. Covers regional banks.
2. Includes banks that responded that they measure a part of their emissions.
Source: BOJ.

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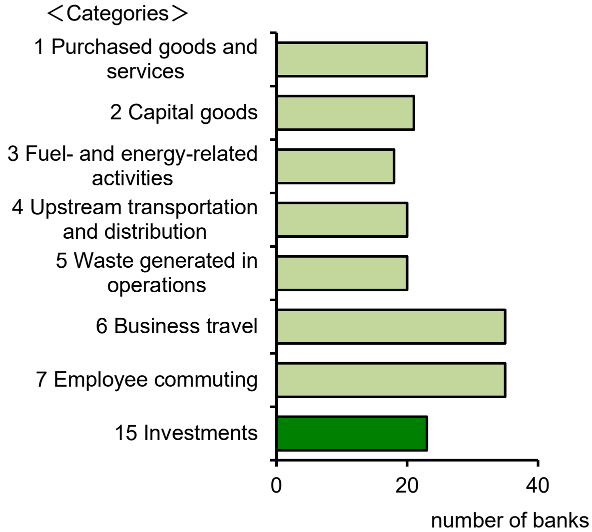
[2] Under the Greenhouse Gas Protocol, firms' GHG emissions are the total amount of all emissions related to a firm's business activities, not just the emissions of the firm itself, and consist of Scope 1 to 3 emissions.

Looking more closely at the measurement of Scope 3 emissions, regional banks have started to make efforts to measure emissions in those of the 15 categories that are considered relatively easy to measure, such as Category 6, "Business travel," and Category 7, "Employee commuting" (Chart 17). With regard to Category 15, "Investments," which is an important category for regional banks, there has been a trend among larger regional banks to make efforts to measure related emissions using the Partnership for Carbon Accounting Financials' standard measurement method.[3]

Many regional banks have set their GHG emission reduction targets for 2030 and 2050, based on the government's goals of a 46 percent reduction in Japan's GHG emissions by fiscal 2030 (compared to fiscal 2013) and achieving carbon neutrality by 2050. Looking at the actual emission reduction of regional banks that have set targets for Scope 1 and 2 emissions for around 2030 shows that, as of the end of fiscal 2022, approximately 40 percent had already achieved reductions of 40 percent or more, indicating that they are making steady progress toward their targets (Chart 18).

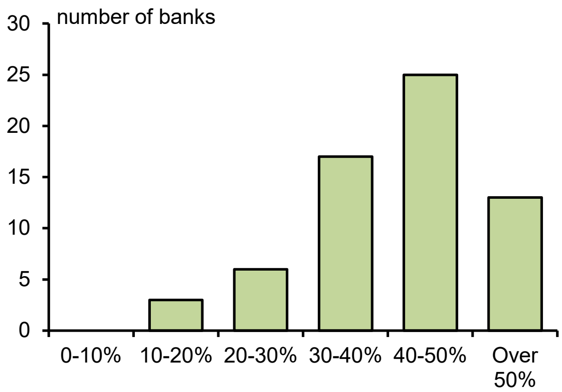
Next, regional banks' efforts to manage climate-related financial risks are examined. Starting with loans to carbon-related industries,[4] these account for about 30 percent of regional banks' total loan portfolios, which is comparable to the shares for the three major financial groups (30.2 percent, simple average).[5] However, the share of loans to carbon-related industries varies considerably across regional banks, with the share exceeding 40 percent for some (Chart 19).

Chart 17: Disclosure of measurement of the main categories of Scope 3 emissions



Notes: 1. Covers regional banks that have disclosed Scope 3 emissions. Includes banks that measure a part of their emissions and disclose such information.
2. Category 3 refers to fuel- and energy-related activities that are not included in Scope 1 or 2.
Source: Published accounts of each bank.

Chart 18: Rate of reduction in GHG emissions



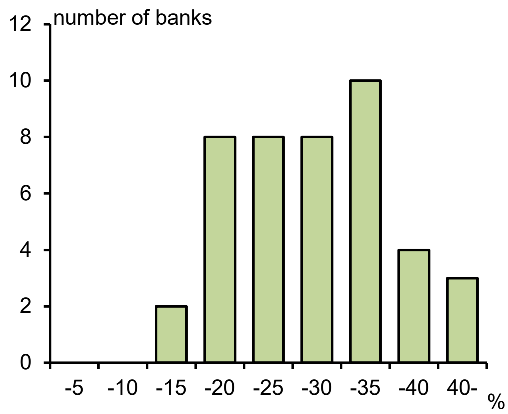
Note: Covers 64 regional banks that have set targets for around 2030 and disclosed actual reductions as of the end of fiscal 2022. Scope 1 and 2 emissions are aggregated.
Source: Published accounts of each bank.

[3] The Partnership for Carbon Accounting Financials is a global partnership established at the initiative of financial institutions to develop a standardized methodology for measuring and disclosing the GHG emissions associated with financial institutions' loans and investments.

[4] The industries are energy, transportation, materials and buildings, and agriculture, food, and forest products, as presented in the October 2021 revision of the Annex of the TCFD recommendations.

[5] Specifically, the shares are 37.8 percent for Mitsubishi UFJ Financial Group, 24.1 percent for Sumitomo Mitsui Financial Group, and 28.6 percent for Mizuho Financial Group (as of the end of fiscal 2022; based on each group's disclosure materials).

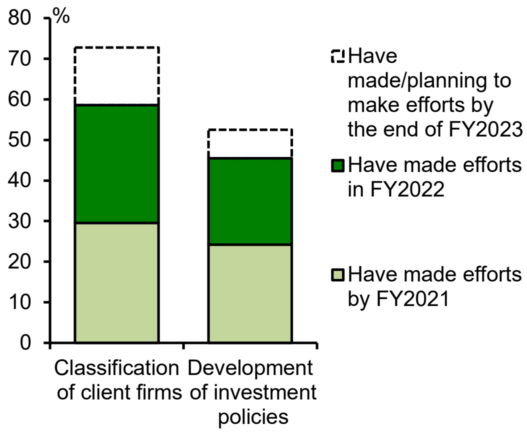
Chart 19: Share of loans to carbon-related industries



Note: Covers 43 regional banks that have disclosed the share of loans to carbon-related industries, as presented in the October 2021 revision of the Annex of the TCFD recommendations.
Source: Published accounts of each bank.

Given these loan portfolios, over the past year a growing number of regional banks have identified specific sectors and businesses that are considered to have a significant impact on the environment and society, and have formulated investment and loan policies for these sectors and businesses (Chart 20).

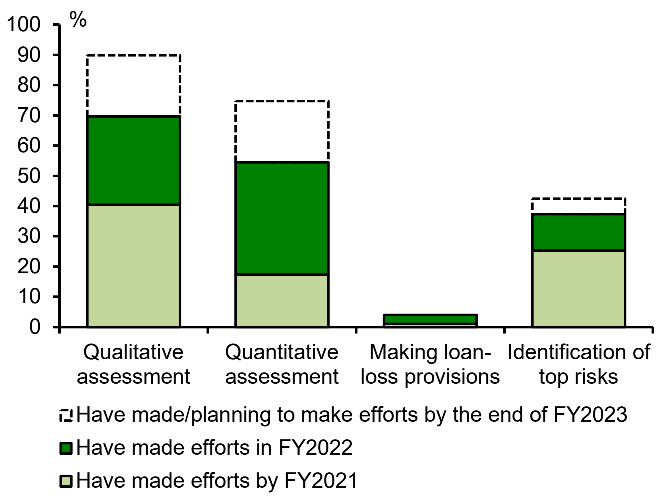
Chart 20: Efforts regarding loans and investments that take into account the environment and society



Note: Covers regional banks.
Source: BOJ.

In addition, they have been making efforts to quantitatively assess risks. Climate-related financial risks can be broadly divided into "transition risks" -- risks posed by changes in regulations, technologies, market conditions, and other factors associated with the transition to carbon neutrality -- and "physical risks" -- risks posed by the intensification of natural disasters and changes in temperature and precipitation. Both risks are measured using scenario analysis, and over the past year, the number of regional banks making not only qualitative assessments using scenario analysis but also making quantitative assessments to measure credit costs has increased substantially (Chart 21).

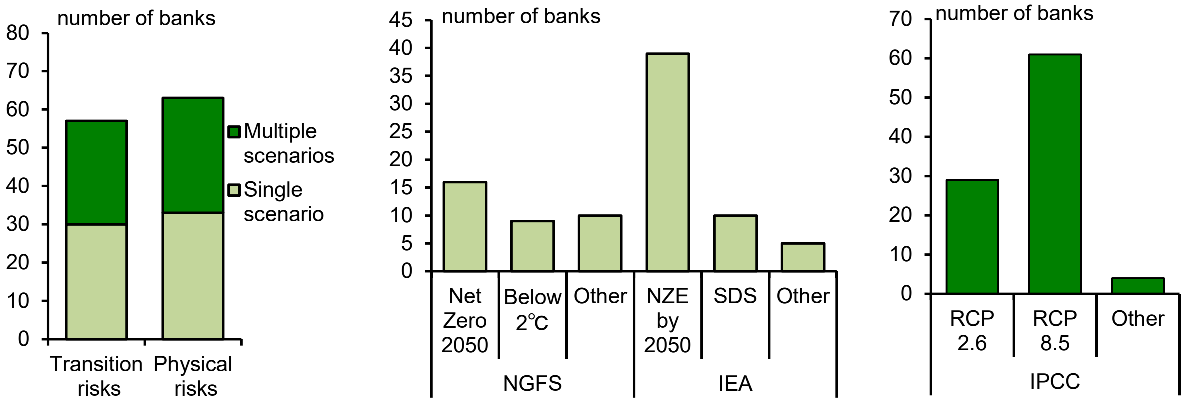
Chart 21: Efforts regarding quantitative and qualitative assessment



Note: Covers regional banks.
Source: BOJ.

The scenarios used in the quantitative assessment of transition and physical risks are those presented by the Network for Greening the Financial System (NGFS), the International Energy Agency (IEA), and the Intergovernmental Panel on Climate Change (IPCC) (Chart 22).

Chart 22: Scenarios used in the analysis



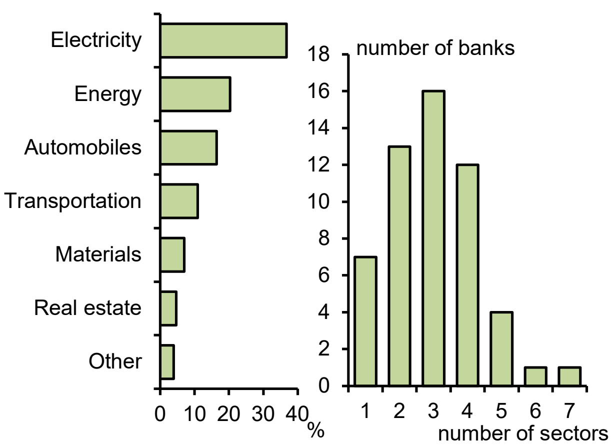
Notes: 1. Covers regional banks that have disclosed information (in the left panel, 57 banks for transition risks and 63 banks for physical risks).
2. "Net Zero 2050" by the NGFS is a scenario that aims to limit global warming to 1.5°C through stringent climate policies and innovation, reaching global net zero CO_2 emissions around 2050. "Below 2°C" by the NGFS is a scenario that assumes a 67 percent chance of limiting global warming to below 2°C. "NZE by 2050" by the IEA is a scenario that presents a pathway to achieve net zero global CO_2 emissions by 2050. "SDS" by the IEA is a scenario in which advanced economies, China, and other countries reach net zero by 2050, 2060, and 2070, respectively.
3. "RCP2.6" and "RCP8.5" by the IPCC are scenarios in which global average temperature at the end of the 21st century is highly likely to rise by 0.9-2.3°C and by 3.2-5.4°C, respectively, compared to pre-industrial temperatures.

Source: Published accounts of each bank.

In terms of measuring transition risks, many regional banks have focused on the electricity and other energy sectors, which have large GHG emissions (Chart 23). Meanwhile, some banks have recently added sectors such as automobiles, chemicals, metals, and real estate, given the shares these sectors account for in their loan portfolios and the impact that climate-change issues have on these sectors, while others have focused on locally-funded SMEs due to regional industry characteristics.

Turning to the measurement of physical risks, regional banks mainly focus on flood scenarios in measuring the impact of physical risks, taking past disasters in their business region into account, and about half of all regional banks measure both the impact that flooding would have on the value of collateral pledged by client firms, such as their production facilities and stores, and the impact flooding would have on client firms' financial conditions mainly due to

Chart 23: Transition risks



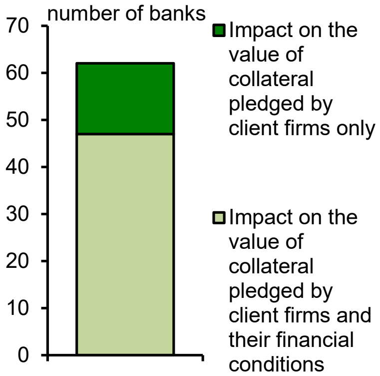
Notes: 1. Covers 54 regional banks that have disclosed information.
2. "Electricity" includes utilities; "Energy" covers oil, gas, and coal; "Automobiles" covers automobiles and components; "Transportation" covers land, air, and marine transportation; "Materials" covers metals, mining, chemicals, and steel.

Source: Published accounts of each bank.

the suspension of business (Chart 24). Many regional banks are working to develop more sophisticated and refined measurement methods of physical risks, with some planning to lengthen the analysis period, while others are adding housing loans and loans to self-employed workers to the measurement, and yet others are measuring the impact that flood damage would have on each floor of a building.

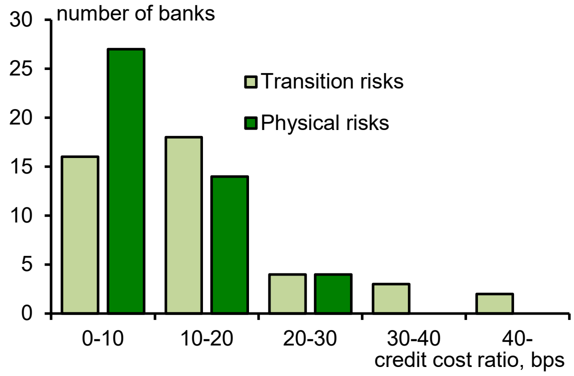
The credit costs (credit cost ratios) that regional banks could incur by fiscal 2050 as a result of both risks measured in this way at most banks are less than 20 basis points for each risk (Chart 25). However, due to its nature, measuring climate-related financial risk is not easy. The risk of natural disasters, which have become increasingly severe in recent years, is reflected only to a limited extent in historical data, so that risk measurement models based on historical data may underestimate climate-related financial risks. Scenario analysis methods are still evolving and continued efforts taking international developments into account should be made to improve their sophistication.

Chart 24: Measurement of physical risks



Note: Covers 62 regional banks that have disclosed information.
Source: Published accounts of each bank.

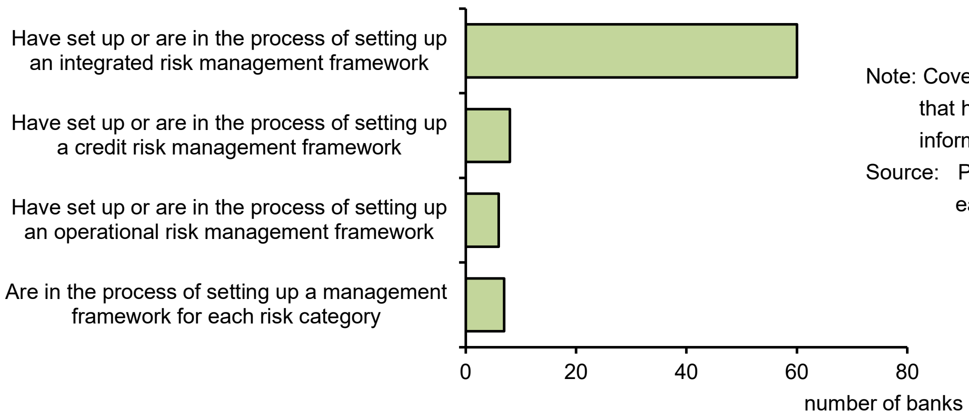
Chart 25: Credit cost ratios resulting from transition and physical risks



Notes: 1. Covers regional banks that have disclosed credit costs to be incurred by fiscal 2050 (calculated on a holding company basis for some banks). Covers 43 banks for transition risks and 45 banks for physical risks.
2. The denominator of credit cost ratios is the average outstanding amount of loans for fiscal 2022.
Source: Published accounts of each bank; BOJ.

Finally, in terms of the management of climate-related financial risks, many regional banks have either already set up, or are in the process of setting up, an integrated risk management framework in which such risks are first categorized into different types of risk, such as credit risk and operational risk, to measure their impact (Chart 26).

Chart 26: Management of climate-related financial risks



Note: Covers 81 regional banks that have disclosed information.
Source: Published accounts of each bank.

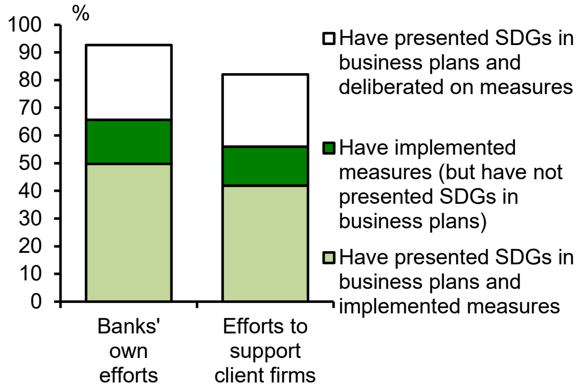
IV. Efforts by *shinkin* banks

Half of all *shinkin* banks have made SDG initiatives a priority area in their business plans (Chart 27). In addition, with awareness of the SDGs spreading among SMEs and efforts to decarbonize their business reaching those with smaller annual sales (Charts 1 and 2), about 40 percent of *shinkin* banks have made efforts to support client firms a priority area (Chart 27).

In terms of efforts to support client firms, looking at non-financial services, the number of banks that have been making efforts to spread awareness and deepen client firms' understanding of the SDGs by holding seminars and events and providing information has increased over the past year (Chart 28). Although the share is lower than that among regional banks, most of which started their efforts in fiscal 2022 or earlier, the number of *shinkin* banks that are making efforts in this area has been steadily increasing.

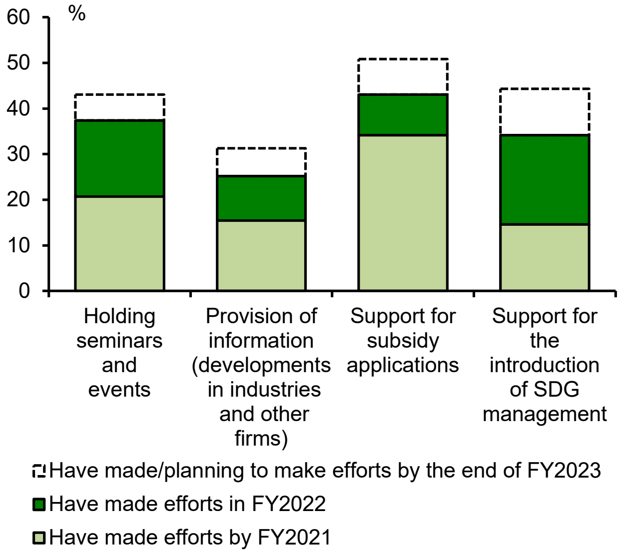
Moreover, the share of *shinkin* banks that provide support for the measurement of client firms' GHG emissions is slightly more than 20 percent. Although this is lower than the share for regional banks, among which more than 70 percent provide some form of support for the measurement of GHG emissions, it represents a substantial increase over the past year, and the number of *shinkin* banks that are assisting clients in developing GHG reduction plans has also increased, indicating that they are making steady progress in their efforts to provide measurement support (Chart 29). With SMEs that form part of the supply chains of large firms increasingly required to measure their GHG emissions, many *shinkin* banks are planning to provide measurement support in the future, so that further progress in the provision of measurement support to SMEs can be expected.

Chart 27: Positioning of SDGs in business plans



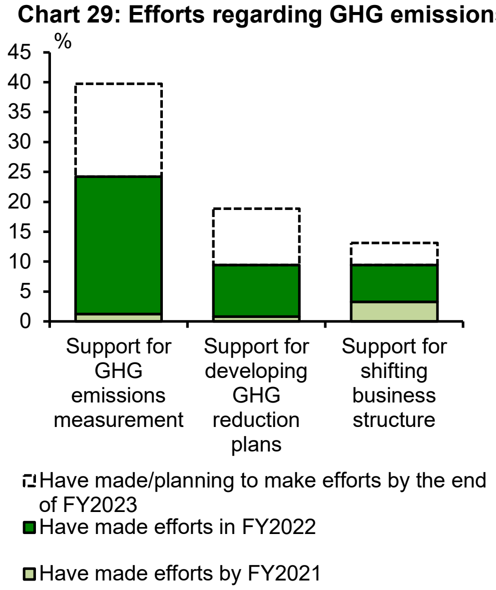
Note: Covers *shinkin* banks.
Source: BOJ.

Chart 28: Efforts in terms of non-financial services



Note: Covers *shinkin* banks.
Source: BOJ.

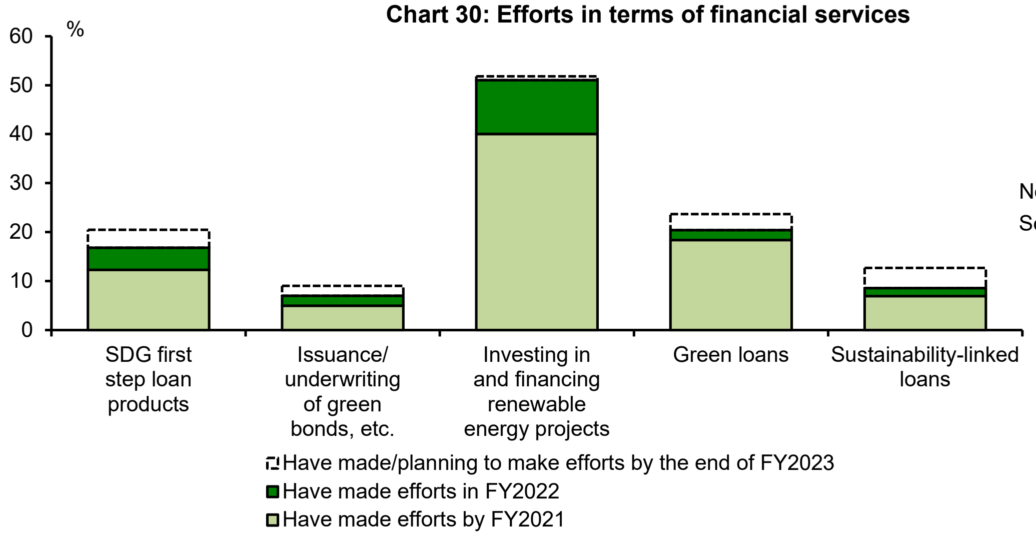
Chart 29: Efforts regarding GHG emissions



Note: Covers *shinkin* banks.
Source: BOJ.

In terms of financial services, the share of *shinkin* banks providing first step products such as SDG loans that do not specify how the funds are to be used to achieve SDG targets by fiscal 2022 was slightly less than 20 percent, while the share that had extended green loans was around 20 percent (Chart 30). Although these levels are low compared to regional banks, which have set sustainable finance targets and are actively promoting support through financial services, the number of *shinkin* banks making efforts in this area has been steadily increasing over the past year. While their efforts are still limited compared to those of regional banks, *shinkin* banks have also made steady progress in supporting client firms in terms of both non-financial and financial services over the past year.

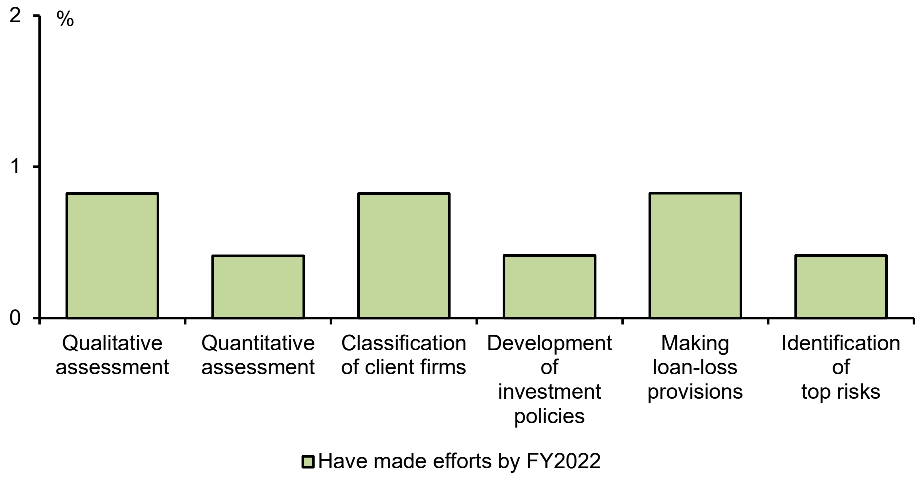
Chart 30: Efforts in terms of financial services



Note: Covers *shinkin* banks.
Source: BOJ.

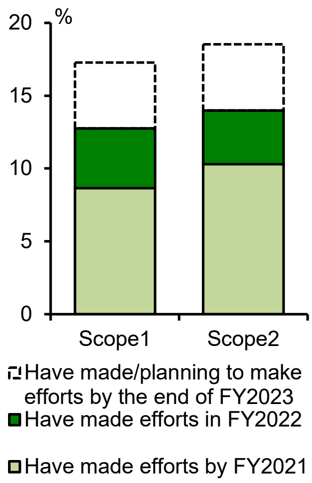
In terms of disclosure efforts by *shinkin* banks, as of early October 2023, only four *shinkin* banks supported the TCFD recommendations. As a result, the number of *shinkin* banks that conduct qualitative and quantitative assessment of climate-related financial risks, or that have formulated investment and loan policies for specific sectors and businesses that are considered to have a significant impact on the environment and society, remains limited (Chart 31). However, looking at recent efforts to measure their own GHG emissions, the number of *shinkin* banks measuring Scope 1 and Scope 2 emissions has steadily increased over the past year (Chart 32).

Chart 31: Efforts regarding quantitative and qualitative assessment



Note: Covers *shinkin* banks.
Source: BOJ.

Chart 32: Measurement of Scope 1 and 2 emissions



Note: Covers *shinkin* banks.
Source: BOJ.

V. Conclusion

Regional banks are making progress in efforts to address climate change, in terms of both providing support to their client firms and risk management. In terms of client support, the nature of support has become more substantial, including support for the introduction of SDGs into client firms' management and support for the formulation of plans to reduce GHG emissions. Moreover, in terms of financial services, the extension not only of SDG first step loan products but also of loans such as green loans and sustainability-linked loans has been increasing. In terms of risk management, the content of climate change-related disclosures has increased substantially and the reduction of GHG emissions has made progress. In addition, the number of regional banks conducting quantitative assessments of transition and physical risks has increased, and it is expected that going forward they will continue to improve the sophistication of such assessments over the medium to long term in accordance with their size and characteristics. Moreover, *shinkin* banks, too, are making steady progress in providing support to client firms through the provision of financial and non-financial services.

However, while regional and *shinkin* banks have made steady progress in their efforts to provide support to client firms and in their risk management, the extent and substance of these efforts remain varied across banks. Given that climate change is a global challenge likely to have a wide-ranging impact on society and the economy, banks will need to expand and enhance their efforts to address climate change in line with their size and characteristics. In particular, in order to boost efforts by SMEs to decarbonize their operations, regional and *shinkin* banks need to improve the effectiveness of their support to client firms by, for example, gaining a clear understanding of the challenges facing SMEs and their needs, presenting potential measures and a menu of support services they offer, and helping with setting specific targets. Furthermore, in terms of their management, regional and *shinkin* banks need to not only increase the sophistication of their risk management efforts, but also to utilize climate change responses as one of their new business priorities. In this regard, it would be desirable for regional and *shinkin* banks to incorporate climate change efforts, including the promotion of sustainable finance, into their business models by raising awareness among senior management and employees and through organizational reforms.

Meanwhile, with regard to climate change-related information disclosure, the SSBJ is aiming to finalize domestic standards based on the ISSB disclosure standards by the end of fiscal 2024, and the BCBS conducted a public consultation on disclosure standards for climate-related financial risks for banks. Regional and *shinkin* banks are expected to continue paying attention to these developments in disclosure standards.

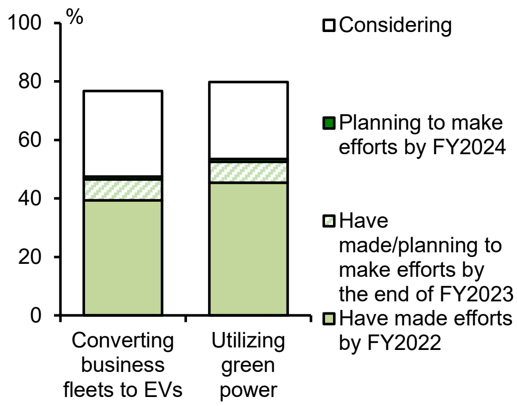
Using the results of the questionnaire and other information obtained, the Bank will continue to engage in in-depth dialogue with regional and *shinkin* banks to ascertain the progress in their efforts and challenges, according to their size and characteristics, with respect to (1) the identification and management of climate-related financial risks, (2) measures to enhance the quality and quantity of disclosure based on the recommendations of the TCFD, and (3) engagement with client firms in pursuit of decarbonization. Moreover, reflecting the progress in their efforts, the number of regional and *shinkin* banks eligible for loans under the Funds-Supplying Operations to Support Financing for Climate Change Responses has been increasing.[6] The Bank will continue to support private financial institutions' various efforts in fields related to climate change with funding through the funds-supplying operations.

[6] As of March 12, 2024, 64 regional and *shinkin* banks were eligible for loans.

Box: Regional banks' efforts to achieve regional decarbonization

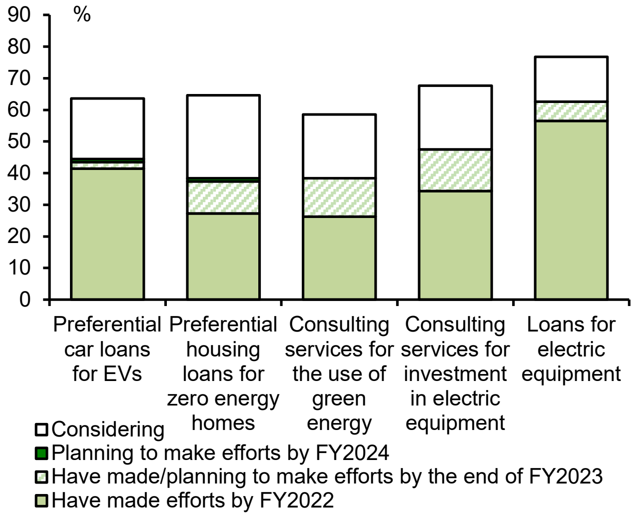
Regional banks are making efforts to work toward the decarbonization not only of their client SMEs but also the regional economy in which they operate. Some regional banks are working to increase the supply of renewable energy through the establishment of renewable energy firms in order to achieve early decarbonization and expand the use of renewable energy. Moreover, some are making efforts to electrify their own operations by converting their business fleets to EVs and utilizing green power, offering preferential car loans for EVs and preferential housing loans for zero energy homes to their client firms and customers, and providing consulting services for the use of green energy (Charts B-1 and B-2).

Chart B-1: Regional banks' own efforts



Note: Covers regional banks.
Source: BOJ.

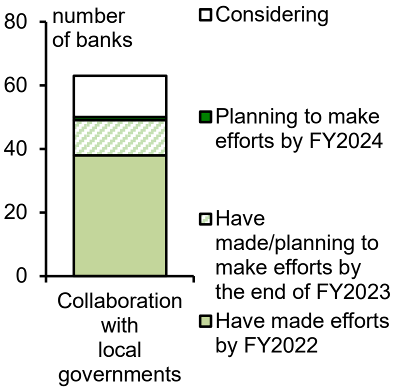
Chart B-2: Efforts for client firms and customers



Note: Covers regional banks.
Source: BOJ.

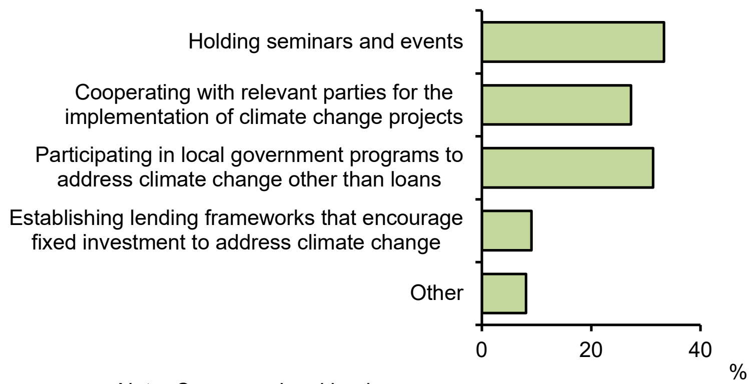
Some are also collaborating with local governments to accelerate decarbonization efforts in their region as a whole (Chart B-3). They are co-hosting seminars and events to raise awareness with regard to decarbonization and actively participating in local government programs to address climate change (Chart B-4). It is hoped that, going forward, these efforts will be enhanced and become widespread to further advance efforts to achieve regional decarbonization.

Chart B-3: Collaboration with local governments



Note: Covers regional banks.
Source: BOJ.

Chart B-4: Specific efforts regarding collaboration with local governments



Note: Covers regional banks.
Source: BOJ.