Report on Financial Institutions' Current Status of Scenario Analysis based on TCFD Recommendations and the Related Transition Plans
(Summary)

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I. Background, Objective and Study Policy

Background and Objective

Background (state of scenario analysis and transition plan initiatives by financial institutions)	• Global responses to the issue of climate change have been gathering pace in recent years, following the finalization of the TCFD recommendations and the development of the IFRS Sustainability Disclosure Standards (ISSB Standards). • As such, financial institutions and non-financial firms are bolstering their climate change initiatives in such areas as scenario analysis and the transition plans, and also enhance disclosures. • Amid this situation, Japanese financial institutions are leveraging their creativity as they embark on trial efforts to conduct scenario analysis and develop transition plans.
Study objective	• In light of this situation, the objective of this study is to provide suggestions that will assist financial institutions in future initiatives. Concentrating on the three financial sectors of Japanese banks, nonlife insurance companies, and life insurance companies, we focus on differences between these financial sectors in terms of the status of scenario analysis and transition plan development and implementation. In doing so, we seek to undertake more in-depth consideration of risks peculiar to each sector and the risk recognition behind development and implementation, as well as investigating the extent to which the results of scenario analysis are used in transition plans.
Study content	• Comparison of scenario analysis coverage and methods in each financial sector, followed by identification and analysis of the differences between them and the backgrounds. • Analysis of the relationship between transition plans and scenario analysis, based on the recognition of climate-related risks and the results of scenario analysis. • Survey of overseas financial institutions that serve as a reference point in regard to scenario analysis and the development of transition plans.

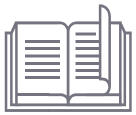
Implementation policy

- We implemented a literature and Interview-based surveys to ascertain what risk recognition informs scenario analysis in each financial sector, and the relationship between transition plans and scenario analysis.

Study policy

- Investigate and compare the status of scenario analysis and transition plan development and implementation by each financial sector, and summarized the features of each sector

Study techniques



Literature survey
(desktop survey)

- Reports published by financial institutions (TCFD reports, etc.)

Interview-based surveys

- Interviews with the responsible departments at financial institutions (risk management departments, sustainability-related departments, etc.)

Financial institutions targeted by the study

Domestic financial institutions	In order to ascertain the situation in each of the financial sectors, namely banking, nonlife insurance, and life insurance, we selected three representative companies from each sector that have published the results of scenario analysis and transition plans	Overseas financial institutions	Focusing on issues identified from the survey of domestic financial institutions and results of comparison between them, we conducted a survey of large financial institutions (banks, nonlife insurers, and life insurers), in order to identify examples that could serve as a point of reference from the perspective of creative approaches to analytical methods and the content of analysis

Study framework

Scenario analysis	We analyzed whether the financial sectors conduct scenario analysis tailored to risk recognition, what methods each financial sector uses for scenario analysis in regard to the same risks, and, where there are differences between sectors, what the reasons for those differences are (whether they can be explained by business or portfolio differences)	Transition plans	We conducted an analysis of the relationship between transition plans and scenario analysis, based on the recognition of climate-related risks and the results of scenario analysis.

II. Study Findings (Overview)

Overview of Results (Scenario Analysis)

Consideration of the status of implementation and differences in methods of scenario analysis across financial sectors

- Each financial institutions prioritizes material businesses and risks in conducting scenario analysis. Businesses and risk management priorities are one of the important factors in the differences between financial sectors.
- There is room for consideration for financial institutions to expand the focus of scenario analysis if importance levels will change as they amass data and insights.

		Differences in conduct of scenario analysis	Major differences in scenario analysis methods
Business Areas	**Lending (credit risk)**	[Transition risks] [Physical risks (acute/chronic)] ✓ Mostly conducted in the banking sector (Some financial institutions in the banking sector do not analyze chronic physical risks) ✓ Mostly not conducted in the nonlife and life insurance sectors (Some financial institutions in the nonlife insurance sector analyze acute physical risks)	• Risk drivers*2 differ between the banking and nonlife insurance sectors (Some financial institutions in the banking sector analyze a wider range of risk drivers)
Business Areas	**Investment (market risk)**	[Transition risks] [Physical risks (acute/chronic)] ✓ Not conducted in the banking sector ✓ Mostly conducted in the nonlife and life insurance sectors (Some financial institutions in the nonlife insurance sector do not analyze chronic physical risks)	• Risk drivers for transition risks and physical risks differ
Business Areas	**Insurance underwriting (underwriting risk)**	[Transition risks] ✓ Not conducted in the nonlife or life insurance sectors (no difference) [Physical risks (acute)] ✓ Conducted in the nonlife insurance sector, but only by some financial institutions in the life insurance sector [Physical risks (chronic)] ✓ Not conducted in the nonlife insurance sector, but conducted in the life insurance sector	• No differences

Consideration of background to differences	[Response to high-importance businesses /risks] • Each financial sector prioritizes scenario analysis of high-importance businesses (lending in the case of banks, and insurance underwriting in the case of nonlife and life insurers) and risks • Risk drivers used for analysis is based on each company's judgment, including perspectives on importance [Response to relatively low-importance businesses /risks] • Decisions on whether to make businesses and risks deemed to be of low importance a focus of analysis are based on each financial institution's judgment, taking into account such factors as constraints on the resources required for analysis
Implications for the future	• There is room for consideration, as well as continuing to ascertain the degree of impact, for financial institutions to expand the scope of scenario analysis in cases where they deem the level of impact to be high.

(*1) This overview of results includes internal management as ascertained from interviews with financial institutions (details are provided in "III Details of Study Findings (Scenario Analysis)").
(*2) In this study, risk drivers are defined as "factors that amplify risk, such as fluctuations arising from the transition to a zero-carbon society, and natural disasters."

Overview of Results (Transition Plans)

Overview of transition plan and the status of transition plan development in each financial sector

- There is room for consideration for each sector to make progress in developing and revising transition plans, and considering how to use the results of scenario analysis in accordance with their risk recognition.

Sector	Overview of transition plans	Consideration of transition plans enhancement
Banking	• Centered on targets and initiatives relating to investment and lending ✓ Targets: Targets for reduction of GHG emission attributed by investees and borrowers, sectoral balance targets, sustainable finance targets, etc. ✓ Initiatives focused on high-emitting sectors: Engagement with investees and borrowers , transition support, cessation of specific new loans, etc.	• Transition risks relating to lending ✓ There are cases in which the sectors subject to targets and actions do not match the sectors on which scenario analysis focuses, as well as actions for which no time horizon is indicated. There is room for consideration to take a more sophisticated approach in order to choose sectors of focus and set time horizons. • Physical risks relating to lending ✓ Although financial institutions are aware of the need to address risks, they have not yet developed transition plans. There is room for consideration to consider the development of transition plans tailored to risk recognition.
Nonlife Insurance	• Centered on targets and initiatives relating to investment, lending, and insurance underwriting ✓ Targets: Targets for GHG emission attributed by investees and borrowers and underwritten clients, targets for numbers and income of insurance products that contribute to decarbonization, improvement of society resilience, engagement targets (number of companies, etc.),etc. ✓ Initiatives focused on high-emitting sectors: Engagement with investees and borrowers and underwritten clients, cessation of investment, lending, and underwriting for specific new projects, promotion of sustainable finance, etc.	• Transition risks relating to investment and physical risks relating to underwriting ✓ There are actions for which no time horizon is indicated. There is room for consideration to take a more sophisticated approach in order to set time horizons. • Physical risks relating to investment ✓ Although financial institutions are aware of the need to address risks, they have not yet developed transition plans. There is room for consideration to consider the development of transition plans tailored to risk recognition.
Life Insurance	• Centered on targets and initiatives relating to investment and lending ✓ Targets: Targets for reduction of GHG emission attributed by investees and borrowers, engagement targets (number of companies, etc.), sustainable finance targets, etc. ✓ Initiatives focused on high-emitting sectors: Engagement with investees and borrowers, cessation of investment and lending for specific new projects, etc.	• Transition risks relating to investment ✓ There are cases in which asset classes subject to targets are not included in the asset classes on which scenario analysis focuses, as well as actions and targets for which no time horizon is indicated. There is room for consideration to take a more sophisticated approach in order to choose sectors of focus and set time horizons. • Physical risks relating to investment and physical risks relating to insurance underwriting ✓ Although financial institutions are aware of the need to address risks, they have not yet developed transition plans. There is room for consideration to consider the development of transition plans tailored to risk recognition.