Reducing GHG Emissions at Investees and Borrowers

Engagement with Clients

To realize a 50% reduction of GHG emissions, which is set forth in the Medium/Long-Term Goals FY2030, we will secure business opportunities and reinforce risk management, while sharing a recognition of climate-related issues and supporting the transition of our clients to a decarbonized society through engagement (constructive dialogue) with them.

Collaboration with the National Agriculture and Food Research Organization (NARO)

Agriculture is evaluated globally as a sector with high carbon emissions. Meanwhile, decarbonization-focused technologies and methodologies for agricultural production are limited, and no effective mechanism to properly reflect decarbonization initiatives in the computation of agricultural GHG emissions has yet been established.

To address this issue, the Bank launched an original initiative (the MABI Project*) in collaboration with the NARO to promote and support the efforts of agricultural producers to reduce GHG emissions. We intend to establish a standard for measuring emissions that would appropriately reflect previous decarbonization efforts and spread GHG reduction technology through this initiative. At the same time, we will strive to contribute to solving environmental issues in agriculture by implementing decarbonization management and measuring GHG emissions in support of agricultural corporations.

*MABI: Measurements of GHG in Agriculture and Better Implementation

Support for Clients' GHG Measurements

Toward creating a decarbonized society, disclosure of information related to climate change is keenly required nowadays. Accordingly, every company is requested to respond to the measurement and reduction of GHG emissions not only of itself but also of its overall supply chains. The Bank will therefore provide solutions for its customers' decarbonization in collaboration with consulting companies on the measurement of GHG emissions and assistance in responding to the CDP's questionnaire, thereby contributing to solving environmental and social issues.

From the Front Lines

Food & Agri Business Planning Division.

ITO Yumiko

GHG (emission) measurement is the first important step to achieving decarbonization. However, there is a structural problem regarding GHG measurements in the agricultural sector: Reductions in GHG emissions for agricultural production cannot be accurately reflected given the relevant international rules. We are therefore not only addressing GHG emission measurements by agricultural corporations and companies but also creating a new mechanism to fill in the gaps between these efforts and the existing GHG measurement system. To realize a decarbonized society, a mechanism to facilitate a GHG measurement-reduction cycle is essential, along with support to ensure that the cycle operates effectively. I am confident that we can develop solutions that the Bank could provide.

The Bank has a broad range of connections with administrative bodies and research institutes in the agricultural field and/or various companies centering on the food industry, with the aim of becoming a leading bank to support food and lives in communities. Given such circumstances, I feel that the Bank has a significant role to perform in addressing agriculture-related decarbonization issues. I hope that we can engage in developing the future of our Food and Agriculture Business, as well as the AFF industries, while focusing on dialogues with stakeholders in the food and/or agriculture sectors to address the role of regional AFF industries in a sustainable society.

Measuring GHG Emissions at the Investees and Borrowers

We are endeavoring to achieve the target "Reduce GHG emissions of the Bank's investees and borrowers by 50% by fiscal 2030 (vs. fiscal 2013)" as set forth in the Medium/Long-Term Goals FY2030. We recognize this as an important task to measure and reduce GHG emissions because indirect GHG emissions through investments and loans (Financed Emissions, Scope 3 Category 15) account for a sizable share of the total GHG emissions of financial institutions.
In fiscal 2021, we made a provisional estimate of GHG emissions to better understand the current situation of GHG emissions, targeting a broad range of asset classes in our investment and finance portfolios. The estimate covered loans, corporate bonds and stocks intended for industrial corporations (including matters for investment and finance in the form of any funds).

(1) Methodology to measure financed emissions

- In the provisional estimate of GHG emissions, we referred to the measuring methodology proposed by the PCAF. The PCAF is an international initiative that aims to formulate and disseminate measurement and reporting standards regarding GHG emissions for investment and financing portfolios. As of February 2022, 210 financial institutions had affiliated globally. The Bank became a member of the PCAF in March 2022. In the future, the Bank will further improve initiatives related to the measurement and disclosure of GHG emissions of its investment and financing portfolios by leveraging the PCAF's knowledge and databases.
- According to the measuring technique proposed by the PCAF, the GHG emissions by the investee or borrower of each financial institution are computed based on the exposure to the borrowers and the value of the investment in a company/project (investment/finance share). The specific computation is as follows:

$$\left[\text{Total GHG emissions at the Bank's investees and borrowers}\right] = \sum \left(\frac{\text{Outstanding amount of the Bank's investment/financing to each company}}{\text{Shareholders' equity + Dept. of each company}} \times \text{Total GHG emissions at each investee/borrower}^{*1} \right)$$

*1 Covering Scope 1 and Scope 2

(2) Results

The provisional estimate for investments and financing intended for industrial corporations was 20.2 million tCO_2.

	As March 31, 2020
Emissions (million tCO_2)	20.2
Emissions (tCO_2) per investment/financing amount of ¥100 million	110
Computed exposure of the investments and loans (trillion yen)	18.4
(Reference) Non-computed exposure of the investments and loans (trillion yen)	1.8

Notes:
1. This table reflects provisional estimates at this time. The values could vary depending on whether the measurements are further refined in the future.
2. The Bank has not obtained a third-party certificate for the provisional estimates.

(3) Issues

- The disclosure situation of emission data by the respective investees and borrowers is often disorganized and different. We also recognize a significant issue is that the computed emissions at our investment and finance clients need to be estimated to a certain degree in case they are not disclosed.
- If the emission data at our investees and borrowers were not disclosed, we assumed "emissions based on economic activity" by utilizing assumption data provided by outside information vendors, as well as the relevant data on sales and emissions intensity at the Bank's investees and borrowers as supplementary information. The PCAF has determined the following Data Quality Score methodology to assess the quality of the assumed emission data and recommends computing said scores. Meanwhile, the computed result of this provisional estimate reflected a score of approximately 2.75. We intend to continue raising the score.

High ↑ Reliability ↓

Level	Methodology to measure financed emissions		
Score 1	Company's disclosed data	1a	• There are data on the balances of investments and financing, and financial data of the target company. • Certified emissions are disclosed.
Score 2	Company's disclosed data	1b	• There are data on the balances of investments and financing of the target company, and financial data of the target company. • Uncertified emissions are disclosed.
Score 2	Emissions based on physical activities	2a	• There are data on the balances of investments and financing, financial data and energy consumption data of the target company, but emissions are not disclosed. • Emissions are computed using energy consumption and relevant coefficients.
Score 3	Emissions based on physical activities	2b	• There are data on the balances of investments and financing, and financial data of the target company. Emissions are not disclosed. • Emissions are computed using production volume and emission intensity.
Score 4	Emissions based on economic activities	3a	• There are data on the balances of investments and financing, financial data and sales data of the target company, but emissions are not disclosed. • Emissions are computed using sales and emission intensity.
Score 4	Emissions based on economic activities	3b	• There are data on the balances of investments and financing of the target company, but emissions are not disclosed. • Emissions are computed using the data on the balances of investments and financing of the target company, as well as emission intensity per asset unit.
Score 5	Emissions based on economic activities	3c	• There are data on the balances of investments and financing of the target company, but emissions are not disclosed. • Emissions are computed using the data on the balances of investments and financing of the target company, emission intensity per sales unit and asset turnover.