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**Measures to achieve net zero GHG Emissions within Our Investment and Loan portfolios**

# Measures to achieve net zero GHG Emissions within Our Investment and Loan portfolios

In the Daiwa Securities Group Net Zero Carbon Declaration, which was formulated in August 2021 with the aim of realizing a carbon-neutral society, the Group has set out the following guidelines: "Achieve net zero greenhouse gas emissions within our investment and loan portfolios, etc. by 2050 (Scope 3)". In order to clarify a concrete path toward this goal, we will measure emissions and set intermediate targets for each sector by 2030.

This time, we first conducted measurements based on PCAF Standards, focusing on high-emission sectors. Additionally, we have set targets for project finance in the power generation sector, which currently accounts for the largest proportion of emissions in our own investment and loan portfolios.

## (1) Measurement of actual values in FY2022

### Measurement scope

Regarding emissions in FY2022, we conducted measurements for the following 10 high-emitting sectors and asset classes that are subject to calculation by PCAF.

- Sectors

Power generation, transport, real estate, automobile manufacturing, coal, oil and gas, steel, cement, agriculture, aluminum

- Asset classes

Listed equity, unlisted equity, corporate bonds, commercial real estate, business loans, project finance

\* Subjects are Scope 1 and 2 of Daiwa Securities Group Inc.'s invested companies, assets managed by the Asset Management Division (own holdings, excluding unlisted stocks via funds), and companies managed by Daiwa Next Bank, Ltd.

\* Not applicable for commercial real estate and business loans. In addition, for other asset classes, if there is no subject, a hyphen will be displayed, and if the number will be rounded down, 0 will be displayed.

\* Some estimates are based on the PCAF Database (excluding subjects that cannot be referenced in the Database)

### Measurement results

	Listed equity include REIT	Unlisted equity include REIT	Corporate bonds	Project finance	Total
Power generation	33,113	0	28,420	409,667	471,200
Transport	28,629	0	0	-	28,629
Real estate	12,400	5,539	0	-	17,939
Automobile manufacturing	701	-	1,925	-	2,626
Coal	67	-	-	-	67
Oil and gas	61	-	0	-	62
Steel	4	-	0	-	4
Cement	1	-	-	-	1
Agriculture	1	-	0	-	1
Aluminum	0	-	-	-	0
<b>Total</b>	<b>74,978</b>	<b>5,539</b>	<b>30,344</b>	<b>409,667</b>	<b>520,529</b>

## (2) Setting intermediate target

First, we set target for project finance in the power generation sector, which currently accounts for the largest proportion of emissions within our investment and loan portfolios. We will continue to consider setting targets, starting with high priority sectors.

### Emissions from project finance in the power generation sector

\* Emission Scope is Scope1.

#### FY2022 actual values \*1

Total emissions	409,667 t-CO2
Emission intensity (g-CO2/kWh)	379 g-CO2/kWh
PCAF Score	Average PCAF score 2.73

#### Intermediate target value for FY2030

Metric	Emission intensity (g-CO2/kWh)
Target value	186~255 g-CO2/kWh

\*1. Some calculations are based on estimated values

## (3) How to think about goal setting

### Sector/Asset class

For the following reasons, we will first set intermediate target by 2030 for emissions from project finance in the power generation sector.

1. Total emissions from project finance in the power generation sector currently account for the largest proportion of emissions within our investment and loan portfolios.
2. The power generation sector accounts for approximately 40% of Japan's total industrial emissions. Additionally, it is a sector where demand is expected to increase as the industry as a whole moves towards decarbonization.
3. In the power generation sector, progress is being made in disclosing GHG emissions records, transition paths toward net zero in 2050, and various international guidance.

### Metric

Since it is necessary to support the increasing demand for electricity while promoting clean energy at the same time, we will use the emission intensity (emissions per amount of electricity generated), which indicates GHG emission efficiency, as a measurement index. We consider that if absolute emissions are set as a target indicator, it may hinder the flow of funds for the growth and expansion of power generation businesses with low emission factors.

### 2030 target value

Based on the IEA's NZE and APS scenarios, we have set reduction targets in a range that is well below the 2°C target of the Paris Agreement and consistent with the 1.5°C target. We set the targets based on our engagement with investment and loan recipients, as well as the outlook for existing investments and loans and anticipated transition scenarios. We also take into consideration each local government's GHG reduction goals and room for introducing renewable energy.

## (4) Efforts to achieve goals

In the power generation sector, we will strengthen engagement with investment and loan recipients and provide financing for renewable energy in order to achieve the mid-term target in 2030 and net zero in 2050.

### Strengthening engagement -supporting transition strategies-

Among our project finance in the power generation sector being measured, a business with the largest emissions is the coal-fired power plant project in Hokkaido. This project started with the hope that local production and consumption of coal would revitalize the

region and secure a stable power source. Even in the harsh natural conditions of Hokkaido's vast expanses of snow and cold, thermal power plants can generate power stably, 24 hours a day, 365 days a year, as a base power source that is unaffected by constraints such as weather conditions and therefore those enable stable power supply. Additionally, because the coal-fired power plant already co-fires biomass fuel, GHG emissions per unit of power generation are limited compared to other domestic coal-fired thermal power plants. From the perspective of further strengthening our response to climate change, the Group has been conducting engagements regularly and supporting the formulation and realization of the following transition strategies.

## Specific transition strategy

- Expansion of biomass co-firing

The coal-fired power plant is currently co-firing about 30% of its biomass, and it aims to increase co-firing to more than 50% by 2030. In the future, it will consider switching to dedicated combustion through additional capital investment. It has taken voluntary efforts to ensure the sustainability (legality) of the wood pellets and PKS used as fuel based on the business planning guidelines established by the Agency for Natural Resources and Energy. Even as it increases co-firing in the future, it will procure fuel while taking environmental and social responsibility into account.

- Utilization of CCUS

The coal-fired power plant aims to start a carbon recycling by 2030 by collaborating with a local company's research, development, and demonstration experiments on CCUS that utilize coal mining sites. It will also consider future business expansion based on the country's demonstration results, policies and systems.

## Implementation of financing for renewable energy

Daiwa Energy & Infrastructure Co. Ltd., a member of the Group, aims to solve social issues by building new energy systems through investment and loan in renewable energy fields such as solar, biomass, and wind power plants. In addition to investing and lending to domestic businesses, it also has capital and business alliances with leading European companies that are leading the way in the fields, and we will continue to contribute to the diversification of energy sources and the reduction of environmental burden.

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