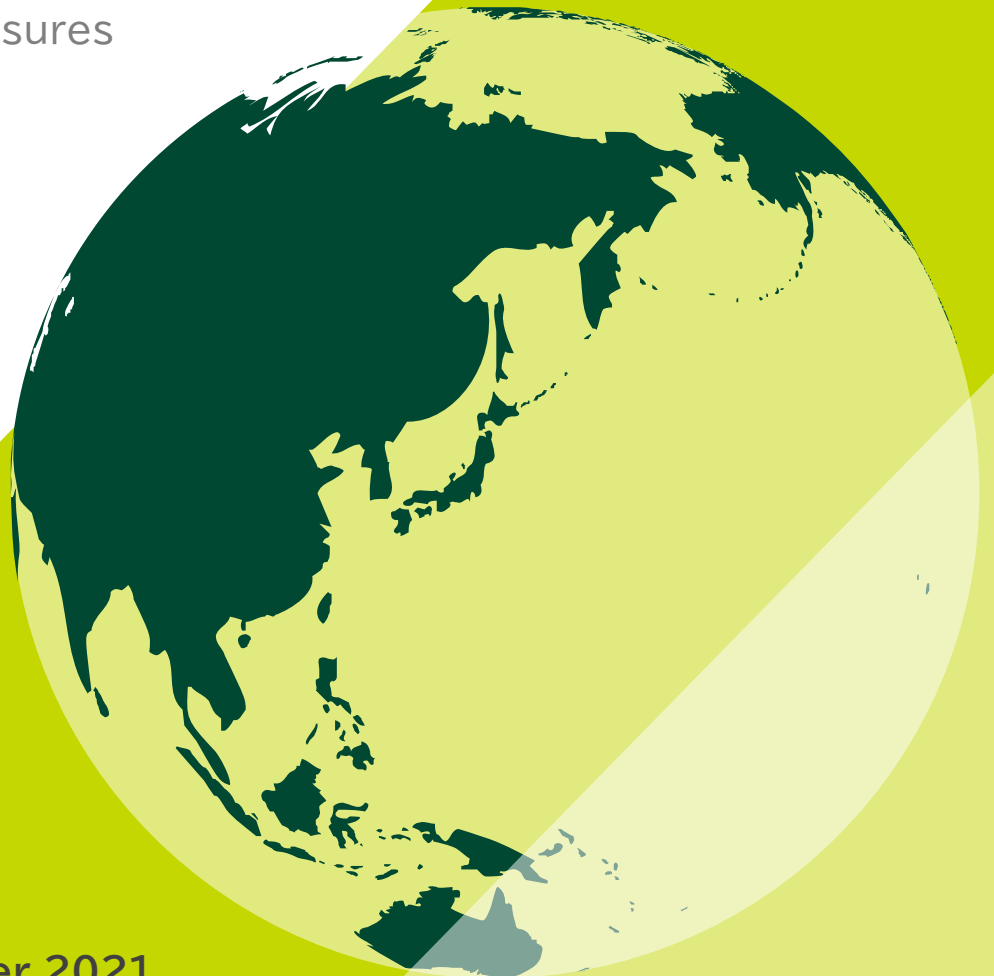


SMBC Group

# TCFD Report 2021

SMBC Group's Climate Change Initiatives

- T ask Force on
- C limate-related
- F inancial
- D islosures



September 2021



In line with the goals of the Paris Agreement, SMBC Group is committed to achieving net zero emissions across our overall loan and investment portfolio by 2050

## **The Earth is angry**

The earth has a 4.6-billion-year history, and it is alarming to see that its temperature has increased by approximately 1°C in the 200-years following the industrial revolution. If additional measures combating climate change are not undertaken, there are concerns that earth's temperature will increase by 3°C or more by the end of this century. Even human body has trouble carrying out daily activities with a fever of just 1°C increase, and if he/she suffers from a fever of close to 40°C over an extended period of time, that would be considered as being in a life-threatening situation. In the recent years, torrential rainstorms and floods of so called "once in a century" levels are occurring on a yearly basis. I believe this surge of natural disasters is a proof of the earth's anger towards humanity as we have violated rich nature that has been passed down from our ancestors, in addition to the pain of the earth not being able to adapt to its own rising temperature.

## **As Part of our Efforts to**

realize sustainability, we are striving to create a society in which all members of the current generation can achieve happiness and enjoy the benefits of economic growth while also passing on such benefits to future generations. A key prerequisite of this vision is to pass on the earth to future generations in the same green, lush state as we received, which is an obvious thing to do. We understand that SMBC Group, given our status as a global financial institution with clients in various sectors, is expected to coordinate with our stakeholders to realize a sustainable society by not only reducing our own GHG emissions, but also by supporting our clients transition to a carbon neutral business model.

## To Pass on this Lush, Green Earth to Future Generations

SMBC Group recognizes climate change risk as one of its Top Risks and continues to engage in cutting-edge initiatives for realizing a decarbonized society. In 2017, we announced our support of the TCFD Recommendations, and in 2019, we became the first global financial institution to disclose financial impact of climate change based on climate change scenario analyses. More recently, we commenced efforts to enhance our ability to analyze physical risks of climate change by using AI technology. Furthermore, in May 2021, SMBC Group established a long-term roadmap to further enhance our climate change-related initiatives. Based on this roadmap, SMBC Group itself will realize net zero emissions by 2030 in its groupwide operations, while executing sustainable finance equivalent to JPY 30 trillion that supports clients' efforts addressing climate change and transition.

Here, SMBC Group is making a commitment to realizing net zero emissions across our overall loan and investment portfolio by 2050, in line with the goals of the Paris Agreement. While we have just launched our new roadmap in this fiscal year, we have seen a significant increase in the number of customers raising carbon neutrality as their climate change goal since then. Through my communications with stakeholders, I was able to confirm their deepening understanding and heightening expectations in terms of the reduction of Scope3 emissions by financial institutions, without a doubt. I would like to take this opportunity to clearly demonstrate, both externally and internally, our commitment to realizing a carbon neutral society, and that we will continue enhancing our efforts against climate change.

However, we cannot simply judge matters on a “White” or “Black” basis, for example, determining whether projects are purely carbon free or not, or if the project is identified as “Greenfield” or “Brownfield.” Given our duty to supply finance, which is lifeblood of the economy, we must take great care in how we address the issue of climate change. If we abruptly turn to and proceed down an incorrect path, not only could we disrupt the steady supply of energy, we could also impede our customers' efforts to develop technologies that supports decarbonization. We will strive to realize a decarbonized society, working together with our customers and supporting their transition to carbon neutral business models while engaging in careful discussions with all stakeholders and paying close attention to the impact on businesses and to trends of innovation.

Humanity is at a critical crossroad: will we be able to continue passing on the lush, green earth to future generations? We, as SMBC Group, will further devote ourselves to realize the smooth transition to a decarbonized society. We will appreciate receiving ongoing support and understanding from our stakeholders.

**Sumitomo Mitsui Financial Group  
Director, President and Group CEO**



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# 1. Our approach against climate change

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## (1) Our approach against climate change

Addressing climate change issues is one of the most important global concerns of the 21st century. Since the adoption of the Paris Agreement, the imperative to address climate change concerns continues to grow. In October 2020, the Japanese Government announced a net zero emissions goal for 2050, committing to achieving a transition toward a decarbonized society.

As a result, SMBC Group (hereinafter, “SMBC Group” and the “Group” are used interchangeably) is committed to achieving net zero greenhouse gas<sup>1</sup> (GHG) emissions across our overall investment and loan portfolio by 2050, as well as our own operations by 2030 (hereinafter, “net zero” and “carbon neutral” are used interchangeably.) Therefore, we will continue to take measures to combat climate change and support the activities of our clients contributing to the transition toward and realization of a decarbonized society.

## (2) Group Mission, SMBC Group Statement on Sustainability and the Group Environmental Policy

Concerning the urgency to act on global environmental and social issues, SMBC Group revised its Group Mission in April 2020 to add the following statement: “We contribute to a sustainable society by addressing environmental and social issues”. This signals our commitment to making an even greater contribution to the sustainable development of society.

We then established the SMBC Group Statement on Sustainability<sup>2</sup>, which lays out the basic principles of how the Group will drive forward its efforts to actualize sustainability. Within the Statement on Sustainability, we outline our aim to realize the SDGs and to resolve social issues. We also commit to engaging and cooperating with customers and other stakeholders to contribute to the global transformation into a better society. Moreover, the statement clarifies the Group’s intent to support the spirit of the Paris Agreement and contribute to resolving environmental issues based on the understanding that innovation is essential to resolve such issues including climate change.

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<sup>1</sup> We changed the description of greenhouse gas emissions from “CO2” to “GHG” in this report. This is to remain consistent with the environmental load data disclosed by SMBC Group, whose calculation target is overall GHG emissions including CO2 in accordance with the calculation, reporting and disclosure system of GHG emissions.

<sup>2</sup> Group website [https://www.smfg.co.jp/english/sustainability/group\\_sustainability/](https://www.smfg.co.jp/english/sustainability/group_sustainability/)

Furthermore, we established the Group Environmental Policy<sup>3</sup> recognizing the importance of realizing a sustainable society and continuously making efforts to harmonize environmental preservation and pollution control with corporate activities.

SMBC Group will promote disclosure in line with the TCFD recommendations and initiatively contribute to the achievement of sustainability while acting in compliance with the Group Mission, SMBC Group Statement on Sustainability, and Group Environmental Policy.

**Figure 1-1 Group Mission, Vision, and Values**



<sup>3</sup> Group website [https://www.smfg.co.jp/english/sustainability/materiality/environment/manage\\_environment/](https://www.smfg.co.jp/english/sustainability/materiality/environment/manage_environment/)

**Figure 1-2 SMBC Group Statement on Sustainability (abstract)**

Throughout its 400-year history, the Group has continuously upheld its commitment to sustainability. We hereby declare that we will drive forward our efforts to make sustainability a reality.

**Definition of sustainability**

SMBC Group defines sustainability as “creating a society in which today’s generation can enjoy economic prosperity and well-being and pass it on to future generations.”

**Understanding of the Present Situation and Our Role**

As a financial institution, we will engage and act together with customers and other stakeholders to contribute to the global transformation into a better society.

**Figure 1-3 Group Environmental Policy**

### Group Environmental Policy

1. We provide environment-friendly financial products, information and solutions which support our clients in their efforts to preserve the eco-system.
2. We devise means to reduce environmental risks posed by our own activities and the society.
3. We are determined to fulfill our social responsibilities through the conservation of resources and energy, and the reduction of waste.
4. We strictly comply with environment-related laws and regulations.
5. We practice the highest level of information disclosure related to the Group's environmental activities and consistently improve our efforts to contribute to environmental preservation by communicating with our staff as well as the third parties.
6. We place high priority on thoroughly educating our staff about our environmental principles to ensure that they conform to these principles in the performance of their work.
7. We actively and effectively implement "environmental management", and make continuous efforts to improve our system to deal with environmental issues by setting goals and targets for every fiscal year and reviewing them as deemed necessary.
8. These policies are disclosed on the Group's website, and the printed version is available upon request



### (3) Overall picture of climate change countermeasures in SMBC Group

#### ① Roadmap Addressing Climate Change

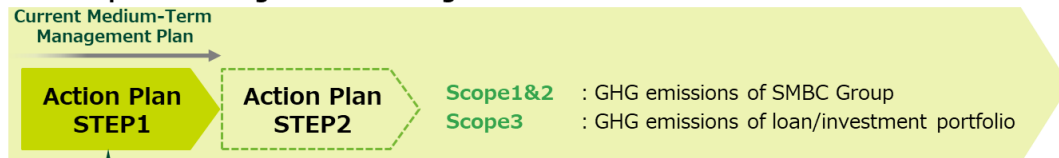
SMBC Group is actively taking measures towards the realization of carbon neutrality by 2050. Specifically, long-term action plan for climate change is called the "Roadmap Addressing Climate Change," and the concrete measures to be implemented in a short- to medium-term are called the "Action Plan". The first step is to set starting measures and implement them during the period of the current Medium-Term Management Plan, which is called the "Action Plan STEP1." Furthermore, to steadily execute Action Plan STEP1, a cross-functional working group was established for each initiative in the Group. This way, SMBC Group is making efforts to resolve climate change issues as a whole.

We refer "Scope3" to Scope3 Category 15 (Investments) in the GHG Protocol<sup>4</sup> which is a standard for the calculation and reporting of GHG emissions. This can be described as "GHG emissions of investments and loans portfolio", "Financed Emissions" or other similar ways in this report.

**Figure 1-4 Roadmap Addressing Climate Change**



#### Roadmap Addressing Climate Change



	Main measures	Specific efforts
① Governance	Enhance business management framework	Establish <b>Group CSuO (Chief Sustainability Officer) position</b>
② Strategy	Measure Scope3* and set targets	<b>Measure GHG emissions of loan/investment portfolio; Set medium- to long-term targets</b>
③ Strategy	Accelerate efforts to reduce Scope1&2* emissions	<b>Achieve net zero at SMBC Group's operation by 2030</b>
④ Strategy	Enhance businesses addressing climate change and decarbonization	<b>Execute JPY 30 trillion of sustainable finance by 2030</b>
⑤ Risk Management	Enhance risk management framework	<b>Enhance climate change scenario analyses; Review policies for businesses and sectors, etc.</b>
Metrics and Targets	Setting and managing KPIs and targets	-

\* Definition of Scope1~3 each:  
 • Scope1: GHG emissions from an organization itself  
 • Scope2: Indirect GHG emissions associated with the use of electricity, etc. supplied by other entities  
 • Scope3: GHG emissions from other entities that are related to the business activities of an organization  
 (In the case of a financial institution, a large portion is accounted for by the emissions from Category 15 investees and loan borrowers.)

<sup>4</sup> GHG protocol (WBI/WBCSD) "Technical Guidance for Calculating Scope 3 Emissions – Supplement to the Corporate Value Chain (Scope 3) Accounting & Standard"

## ② Status of responding to the TCFD recommendations

Positioning “Environment” as a priority subject for corporate management, SMBC Group has been working earnestly to resolve environmental issues since the establishment of the environmental policy in 1998. In December 2017, we announced our support for recommendations set forth by the Task Force on Climate-related Financial Information Disclosures (TCFD) and are accelerating efforts against climate change issues since then. Specifically, we have established initiatives for each of the basic disclosure items proposed by the TCFD recommendations (“Governance,” “Strategy,” “Risk Management,” and “Metrics and Targets”) and are working to improve our initiatives on a regular basis. Main efforts related to the environment and updates of our TCFD Report so far are as follows.

**Figure 1-5 Our history of sustainability-related measures**

Item	Status of initiatives
1998	<ul style="list-style-type: none"> <li>Established the environmental policy</li> </ul>
2002	<ul style="list-style-type: none"> <li>Announced support for the Finance Initiative of the UN Environment Programme</li> </ul>
2006	<ul style="list-style-type: none"> <li>Adopted the Equator Principles</li> </ul>
2007	<ul style="list-style-type: none"> <li>Announced support for the UN Global Compact</li> </ul>
2017	<ul style="list-style-type: none"> <li>Announced support for the TCFD recommendations</li> </ul>
2018	<ul style="list-style-type: none"> <li>Announced policies on coal-fired power generation, palm oil plantation development, and projects involving deforestation</li> <li>Established the Corporate Sustainability Committee</li> </ul>
2019	<ul style="list-style-type: none"> <li>Announced the results of scenario analysis regarding physical risks (First global financial institution in the world to disclose such assumed risk)</li> <li>Signed the Principles for Responsible Banking</li> </ul>
2020	<ul style="list-style-type: none"> <li>Announced the results of scenario analysis regarding transition risks</li> <li>Revised Group Mission (Added "We contribute to a sustainable society by addressing environmental and social issues")</li> <li>Announced the SMBC Group Statement on Sustainability and SMBC Group GREEN×GLOBE 2030</li> <li>Released a statement on the "Consideration of ESG risks" (Expanded policies on individual businesses and sectors)</li> </ul>
2021	<ul style="list-style-type: none"> <li>Released long-term action plan "Roadmap Addressing Climate Change" (Targets in "SMBC Group GREEN x GLOBE 2030" were revised upward)</li> <li>Revised sector / business policy regarding coal-fired power generation</li> <li>Newly introduced Group CSuO (Chief Sustainability Officer) position</li> <li>Newly established "Sustainability Committee" as a committee inside the Board of Directors</li> <li>Expressed commitment to achieve net zero GHG Emissions (by 2030 for our own operations; by 2050 for our overall investment and loan portfolio)</li> </ul>

**Figure 1-6 Status of responding to the TCFD Recommendations**

Status of responding to the TCFD Recommendations													
Governance	<ul style="list-style-type: none"> <li>• Reports on climate change-related measures are submitted to the Management Committee as well as to internal committees of the Board of Directors (i.e., Sustainability Committee; and Risk Committee)</li> <li>• Climate change-related measures are promoted under the Group CSuO (Chief Sustainability Officer)</li> <li>• ESG measures, including climate change-related measures, are incorporated as one of the evaluation factors of executive compensation</li> </ul>												
Strategy	<ul style="list-style-type: none"> <li>• Scenario analyses on physical risks and transition risks</li> <li>• Strategic efforts on a groupwide basis (e.g., calculation of the amount of GHG emissions of investment and loan portfolio; promotion of businesses addressing decarbonization)</li> </ul>												
Risk Management	<ul style="list-style-type: none"> <li>• Scenario analyses are conducted, positioning climate change as one of the top risks</li> <li>• Policies for businesses and sectors impacting the situation of climate change are set</li> <li>• Environmental and social risks are assessed based on the Equator Principles</li> </ul>												
Metrics and Targets	<ul style="list-style-type: none"> <li>• The following metrics and targets are set</li> </ul> <table border="1"> <thead> <tr> <th>Metrics</th> <th>Goal</th> </tr> </thead> <tbody> <tr> <td>GHG emissions in SMBC Group</td> <td>Net zero emissions by 2030</td> </tr> <tr> <td>Carbon-related asset ratio</td> <td>-</td> </tr> <tr> <td>Loan balance for coal-fired power generation (Project finance)</td> <td>Reduce balance by 50% by 2030 Zero balance by 2040</td> </tr> <tr> <td>Financed emissions by sector</td> <td>Net zero emissions by 2050 (Interim goal is under consideration)</td> </tr> <tr> <td>Amount of green finance/finance that contributes to realizing sustainability</td> <td>JPY30 trillion by 2030 (Of which, JPY 20 trillion will be for green finance)</td> </tr> </tbody> </table>	Metrics	Goal	GHG emissions in SMBC Group	Net zero emissions by 2030	Carbon-related asset ratio	-	Loan balance for coal-fired power generation (Project finance)	Reduce balance by 50% by 2030 Zero balance by 2040	Financed emissions by sector	Net zero emissions by 2050 (Interim goal is under consideration)	Amount of green finance/finance that contributes to realizing sustainability	JPY30 trillion by 2030 (Of which, JPY 20 trillion will be for green finance)
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GHG emissions in SMBC Group	Net zero emissions by 2030												
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Financed emissions by sector	Net zero emissions by 2050 (Interim goal is under consideration)												
Amount of green finance/finance that contributes to realizing sustainability	JPY30 trillion by 2030 (Of which, JPY 20 trillion will be for green finance)												

**Figure 1-7 Major updates from TCFD Report 2020**

	Major updates compared to SMBC Group TCFD Report 2020
Approach to Climate Change	<ul style="list-style-type: none"> <li>• <b><u>Commitment to Net Zero</u></b> Commitment to becoming net zero in our groupwide operations by 2030 and across our overall investment and loan portfolio by 2050.</li> </ul>
Governance	<ul style="list-style-type: none"> <li>• <b><u>Establishment of Sustainability Committee</u></b> Sustainability Committee chaired by an outside director was newly established as an internal committee of the Board of Directors.</li> <li>• <b><u>Additional description regarding the executives' compensation system</u></b> Description about ESG initiatives incorporated into our executives' compensation system as a performance indicator is added.</li> <li>• <b><u>Establishment of Group CSuO (Chief Sustainability Officer)</u></b> We newly established the Group CSuO position to oversee and promote overall sustainability initiatives, including climate change issues.</li> <li>• <b><u>Disclosure of governance status regarding climate change</u></b> Status of governance and attendance of committee members in major committees including the Board is described.</li> </ul>
Strategy	<ul style="list-style-type: none"> <li>• <b><u>Revisions in our awareness of risks</u></b> Target scope of scenario analysis for physical risks is expanded to global; As for transition risks, analysis based on 1.5°C scenario is added.</li> <li>• <b><u>Revisions in our awareness of opportunities</u></b> Opportunities expected from the perspective of leasing, asset management, and consulting are sorted and added.</li> <li>• <b><u>Grouping of strategic measures based on our awareness of risk and opportunity</u></b> We organized SMBC Group's efforts on securing the resilience to climate change and capturing growth opportunities.</li> </ul>
Risk management	<ul style="list-style-type: none"> <li>• <b><u>Scenario analysis (physical risks): Expansion of target scope</u></b> We analyzed the global impact of water disasters on credit costs using AI technology.</li> <li>• <b><u>Scenario analysis (transition risks): Readjustment of the method</u></b> Scenario analysis was readjusted based on the 1.5°C scenario; then, the impact on global credit costs was analyzed while considering carbon price.</li> <li>• <b><u>Enhancing policies on certain sectors and businesses</u></b> We enhanced the policies on coal-fired power plants, palm oil plantation development, and deforestation.</li> </ul>
Metrics and Targets	<ul style="list-style-type: none"> <li>• <b><u>Upward revision on targets to reduce GHG emissions in our own operation and provide finance that contributes to realizing sustainability</u></b> We enhanced our 2030 targets to become net zero in our own operation and provide JPY 30 trillion of finance that contributes to realizing sustainability.</li> <li>• <b><u>Adding carbon-related asset ratio as an indicator</u></b> We have set loan ratio of the energy and power sectors in SMBC as an indicator.</li> <li>• <b><u>Calculating GHG emissions of our investment and loan portfolio</u></b> Current results of calculating carbon intensity of SMBC's power sector portfolio are disclosed.</li> </ul>

SMBC Group supports initiatives (guidelines and principles of corporate activity) in Japan and overseas as a member of the global society considering our influence as a financial institution. As a result of our efforts contributing to sustainability including climate change-related measures, we are incorporated in major global ESG indices.

**Figure 1-8 Initiatives in Japan and Overseas/ESG indices**

■ **Support for initiatives in Japan and overseas**



■ **ESG Indices on which Sumitomo Mitsui Financial Group is listed**



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## 2. Governance

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### (1) Supervision of sustainability

#### ① Board of Directors

Main roles of the Board of Directors of SMBC Group are as follows: decision making regarding items legally and internally mandated such as through our basic policies for corporate management and overseeing the execution of duties by executive officers and directors. In addition, in principle, executive officers are entrusted with decision making on execution of the operations other than the matters that should be exclusively covered by the Board of Directors, for the purpose of further strengthening the supervisory function of the Board of Directors and speeding up business execution. Note that in FY2020, our Board of Directors regularly carried out or discussed sustainability-related matters as follows: new installation of Group CSuO (Chief Sustainability Officer) position to strengthen the governance; deliberation on management policy of sustainability-related operations and the basic policy of risk management; and discussions on the status of the long-term plan for sustainability (SMBC Group GREEN x GLOBE 2030).

#### ② Sustainability Committee

The Sustainability Committee covers the following subjects in its discussion: matters related to the progress of sustainability promotion measures (e.g., climate change countermeasures); matters related to sustainability-related trends whether domestic or overseas; and other important sustainability-related matters. It also regularly submits reports to the Board of Directors and provides them with advice. The Sustainability Committee was newly established in July 2021 as a committee inside the Board of Directors. It consists of six members, which specifically consist of two outside directors, two internal directors, and two experts (internal and/or external). Eriko Sakurai, an outside director, currently acts as the Committee Chair. Its engaged experts are Yukari Takamura, Professor of Institute for Future Initiatives (IFI), The University of Tokyo; and Eiichiro Adachi, Senior Counselor of Japan Research Institute, Limited (JRI). In the Sustainability Committee, the Group CSuO reports on domestic and international sustainability-related trends as well as on the progress of sustainability-related measures in SMBC Group. It also leads the discussions on sustainability-related policies. It is supervised and deliberated by the directors and outside expert(s).

### ③ Risk Committee

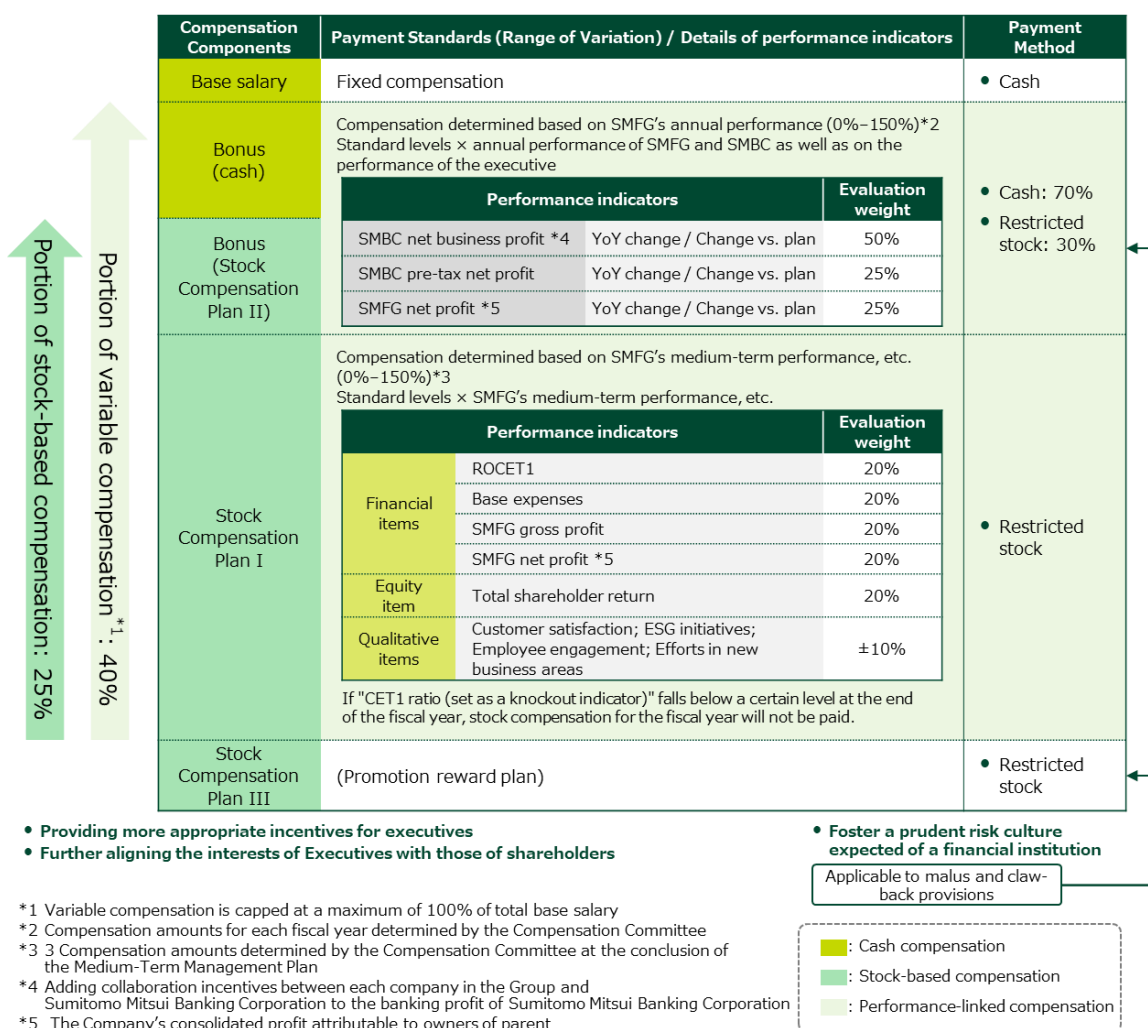
The Risk Committee, which is a committee inside the Board of Directors, is commissioned by the Board of Directors to recognize the environment and risks surrounding the Group, and to discuss the matters related to our risk appetite, matters related to the operation system of risk management, and other important matters for risk management, as well as to give advice to the Board of Directors. Regarding climate change issues, the Sustainability Committee deliberates on the formulation and progress of overall climate change countermeasure policies, while at the Risk Committee, the Group CRO (Chief Risk Officer) regularly reports on the awareness of environment and risks, risk appetite, status of executing risk management-related measures in the Roadmap Addressing Climate Change, etc.; leads discussions on such topics; and provides advice to the Board of Directors.



#### ④ Executives' compensation system

Since 2020, SMBC Group incorporated ESG initiatives as an element of the evaluation system for executives' compensation, to further strengthen the commitment among the officers to address sustainability and to achieve the "SMBC Group GREEN × GLOBE 2030." Degree of achievement for long-term sustainability-related goals, including climate change measures, is included as one of the qualitative evaluation items for medium-term performance-linked compensation. The compensation system and compensation level are determined by the Compensation Committee, of which the majority of its members comprises of outside directors, based on the following: results of a third-party survey on management compensation; economic and social conditions; business environment, etc.

**Figure 2-1 Executives' compensation system**



## **(2) Execution of sustainability**

### **① Group CSuO (Chief Sustainability Officer)**

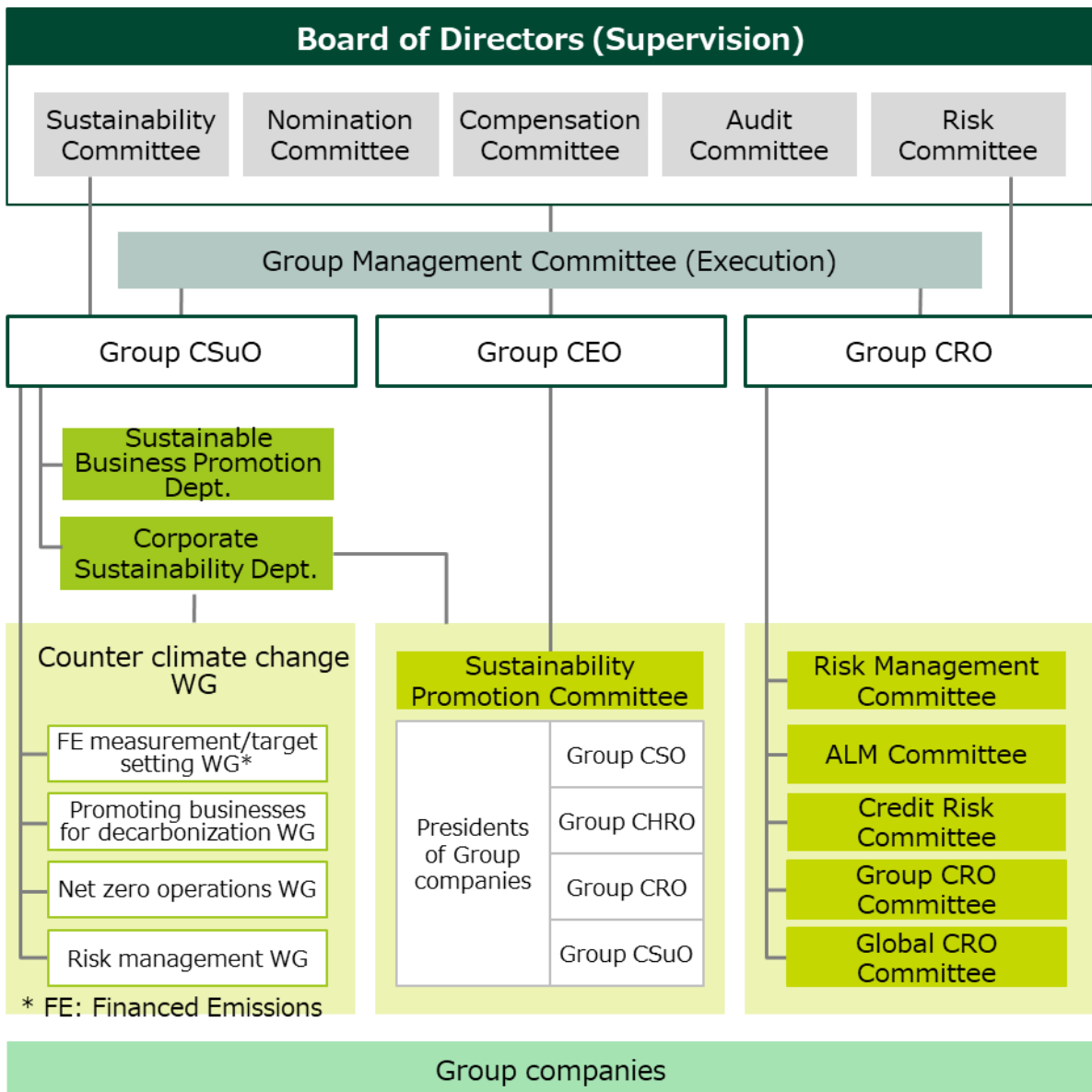
To strengthen our measures towards sustainability (e.g., climate change response), the Group CSuO (Chief Sustainability Officer) position was newly introduced in April 2021 as part of the Group CxO system. The Group CSuO oversees and promotes overall sustainability-related initiatives, including responses to climate change. The establishment of the Group CSuO and its personnel selection were determined in the discussions by the Board of Directors as well as by the Nomination Committee, a committee inside the Board of Directors. Furthermore, in order to steadily execute the aforementioned Roadmap Addressing Climate Change and the Action Plan, a cross-functional working group was established for each initiative in the Group under the guidance of the Group CSuO. This way, SMBC Group as a whole takes climate change countermeasures.

The Group CSuO reports to the Management Committee as well as to the committees inside the Board of Directors, concerning not only about matters related to the situation surrounding sustainability whether domestic or overseas, but also about sustainability-related measures and their progress as well as sustainability-related programs of SMBC Group.

### **② Management Committee / Sustainability Promotion Committee**

Efforts to respond to the TCFD recommendations are reflected in SMBC Group's strategy based on the decisions made by the Group Management Committee and the Sustainability Promotion Committee. Under the Board of Directors, SMBC Group has the Group Management Committee as the highest decision-making body for business execution and corporate management of the entire Group. Groupwide measures for the realization of sustainability, including climate change measures, are planned and drafted by the Sustainability Promotion Dept. of Corporate Planning Department, and they are discussed at the Group Management Committee meetings. In addition, operational details are discussed and determined by the "Sustainability Promotion Committee" as well. The Sustainability Promotion Committee, chaired by the Group CEO, was established with the aim of achieving sustainability from an executive standpoint under the commitment of the top management, and is also discussing countermeasures on climate change.

**Figure 2-2 Sustainability management structure of SMBC Group**



**Figure 2-3 Status of governance concerning climate change**

Committee in charge		Examples of reports/discussions related to climate change	
Supervision	Board of Directors	<ul style="list-style-type: none"> <li>• Adjustment to the Group CxO system (introduction of Group CSuO)</li> <li>• Status of long-term plans for sustainability (SMBC Group GREEN×GLOBE 2030)</li> <li>• Operational policy on sustainability-related tasks</li> <li>• Basic policy for risk management (expansion of scenario analyses; operation of credit management policy, etc.)</li> </ul>	
	Committees inside the Board	Nomination Committee	<ul style="list-style-type: none"> <li>• Appointment of Group CSuO and Deputy CSuO</li> </ul>
		Compensation Committee	<ul style="list-style-type: none"> <li>• Evaluation of executive compensation (qualitative indicator: evaluation of ESG initiatives)</li> </ul>
		Audit Committee	<ul style="list-style-type: none"> <li>• Report on revision of long-term plan for sustainability</li> <li>• Report on basic policy for risk management (expansion of scenario analysis; operation of credit management policy, etc.)</li> <li>• Report on risk recognition at portfolio level</li> </ul>
		Risk Committee	<ul style="list-style-type: none"> <li>• Recognition of current environment and risks (regulatory trends related to climate change; expected risk events, etc.)</li> <li>• Status of risk management measures on Roadmap Addressing Climate Change</li> </ul>
		Sustainability Committee	(Newly established in FY2021)
Execution	Management Committee	<p><b>&lt;Business promotion&gt;</b></p> <ul style="list-style-type: none"> <li>• Revision of long-term plan for sustainability (SMBC Group GREEN×GLOBE 2030)</li> <li>• Operational policy on sustainability-related tasks</li> </ul> <p><b>&lt;Risk management&gt;</b></p> <ul style="list-style-type: none"> <li>• Report on basic policy for risk management (expansion of scenario analysis; operation of credit management policy, etc.)</li> <li>• Recognition of current environment and risks (regulatory trends related to climate change; expected risk events, etc.)</li> <li>• Status of risk management measures on Roadmap Addressing Climate Change                             <ul style="list-style-type: none"> <li>• Revision of policies for business and sectors and that influence climate change (coal-fired power generation)</li> <li>• Strengthening of scenario analyses</li> <li>• Status of structure on recognizing and analyzing risks at portfolio level</li> </ul> </li> </ul>	
	Risk Management Committee	<ul style="list-style-type: none"> <li>• Status of risk management measures on Roadmap Addressing Climate Change</li> </ul>	
	Sustainability Promotion Committee	<ul style="list-style-type: none"> <li>• Report on the status of initial activities of SMBC Group GREEN×GLOBE 2030</li> <li>• Penetration of sustainability management in SMBC Group</li> </ul>	

**Figure 2-4 Composition of Internal Committees and Meeting Attendance  
(FY2020)**

Committee member		Nomination Committee	Compensation Committee	Audit Committee	Risk Committee	Sustainability Committee
		1 internal 5 outside	2 internal 4 outside	2 internal 3 outside	1 internal 4 outside	3 internal 3 outside
<b>Masayuki Matsumoto</b>	Outside Director	● Attended 4/4 meetings		● Attended 15/15 meetings		
<b>Arthur M. Mitchell</b>	Outside Director	● Attended 4/4 meetings	● Attended 6/6 meetings			
<b>Shozo Yamazaki</b>	Outside Director			● Attended 15/15 meetings	● Attended 4/4 meetings	
<b>Masaharu Kohno</b>	Outside Director	● Attended 4/4 meetings			● Attended 4/4 meetings	● (Newly set up)
<b>Yoshinobu Tsutsui</b>	Outside Director	● Attended 4/4 meetings	● Attended 6/6 meetings			
<b>Katsuyoshi Shinbo</b>	Outside Director		● Attended 6/6 meetings	● Attended 15/15 meetings		
<b>Eriko Sakurai</b>	Outside Director	● Attended 4/4 meetings	● Attended 6/6 meetings			● (Newly set up)
<b>Takeshi Kunibe</b>	Director and Chairman of the Board	● Attended 4/4 meetings	● Attended 6/6 meetings			● (Newly set up)
<b>Jun Ohta</b>	Director, Executive Officer and President		● Attended 6/6 meetings			● (Newly set up)
<b>Toru Nakashima</b>	Director and Senior Managing Executive Officer				● Attended 4/4 meetings	
<b>Atsuhiko Inoue</b>	Director			● Attended 15/15 meetings		
<b>Toru Mikami</b>	Director			● Attended 15/15 meetings		
<b>Eiichiro Adachi</b>	JRI Managing Director					● (Newly set up)
<b>Hirohide Yamaguchi</b> <sup>*1</sup>	Outside expert				● Attended 4/4 meetings	
<b>Tatsuo Yamazaki</b> <sup>*2</sup>	Outside expert				● Attended 4/4 meetings	
<b>Yukari Takamura</b> <sup>*3</sup>	Outside expert					● (Newly set up)

● : Chair    ● : Committee member

\*1 Chairman of Nikko Research Center; Former Deputy Governor of BOJ

\*2 Specially Appointed Professor, International University of Health and Welfare

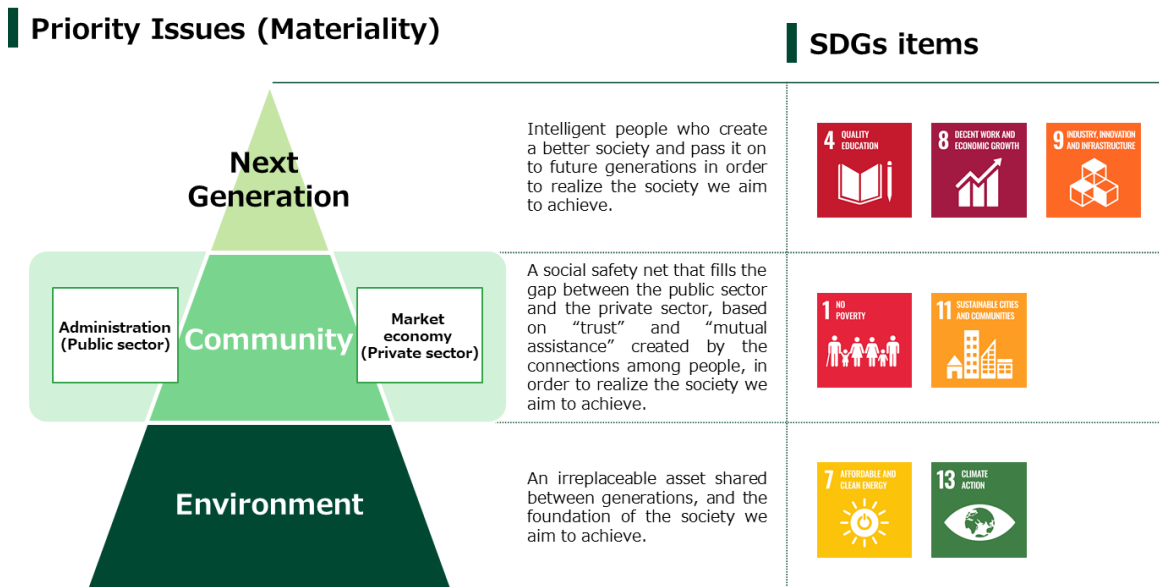
\*3 Professor, Future Vision Research Center, The University of Tokyo

### 3. Strategy

In order to contribute to solving social issues, SMBC Group has set "Environment," "Community," and "Next Generation" as its priority issues (materiality). In addition, with an eye on 2030 when the SDGs are to be achieved, we clarified the items and issues to be addressed. Of these, "Environment" is the prerequisite for realizing a sustainable society, and it is a common asset for all mankind across regions and generations. Both "Community" and "Next Generation" could exist only based on the "Environment."

Based on such recognition, SMBC Group identified the spread of clean energy (Goal 7) and climate change countermeasures (Goal 13) as the SDGs items that should be addressed in particular. SMBC Group believes that financial institutions will play an extremely important role in achieving these goals. We will clearly show the resilience to climate change impacts, by actively supporting businesses that contribute to the realization of the Paris Agreement as well as through analyzing climate change risks and disclose them in line with the TCFD recommendations.

**Figure 3-1 Priority issues that SMBC Group tackles**



## **(1) Awareness of risks and opportunities associated with climate change**

### **① Awareness of risks**

SMBC Group identifies the financial impact of climate change on us by anticipating changes in the external and business environment due to emergence of climate related problems and identifying risk events based on various transmission channels. The followings are the outlines of risk events that we anticipate and its major impacts:

#### **[Physical risks]**

##### **■ Acute meteorological phenomenon and chronic climate change**

The progress of global warming may lead to increase in acute natural disasters such as typhoons and floods, and chronic climate changes such as an increase in precipitation due to a rise in average temperature.

[Anticipated major impacts on SMBC Group]

There are risks that the Group becomes unable to continue its business operations due to a disaster that strikes our head office or branch offices and a risk of the increase in costs due to countermeasures and recoveries.

In addition, there are risks such as an increase in our credit costs and a decrease in deposits associated with deterioration in customer performance and collateral damage due to natural disasters.

#### **[Transition risks]**

##### **■ Strengthening of policies and regulations, changes in technologies and markets**

The transition to a decarbonized society may involve tighter regulations in countries, including stricter carbon emission targets and carbon tax hike, and may also promote transformation in the industrial structure due to the introduction of new technologies and energy sources and changes in consumer preferences.

[Anticipated major impacts on SMBC Group]

An increase in carbon emission control costs and changes in the supply and demand balance for products and services cause deterioration in customer performance due to revenue decline and impairment of existing assets for some customers, and as a result, there is a risk of increase in credit costs of the Group. In addition, it may be necessary to review our business strategies such as the policy on sectors.

## ■ Reputation for corporate efforts

Companies are required to take measures such as business model transformation and carbon emission reduction that are appropriate for a decarbonized society. Growing demand for disclosure from stakeholders, efforts to address climate change are becoming one of the criteria for evaluation of companies.

[Anticipated major impacts on SMBC Group]

Lack of efforts to address climate change and delays in responding to demand for information disclosure may lead to deterioration of SMBC Group's reputation, and, as a result, there is a risk of deterioration of funding environment, etc.



## ② Scenario analysis on climate change

SMBC Group is conducting scenario analyses on physical risks and transition risks at Sumitomo Mitsui Banking Corporation, which is the core company of the Group, and calculating the amount of assumed risk.

In FY2021, regarding physical risks, we expanded the target geography of analysis for business corporations from domestic to global. Also, regarding transition risks, we readjusted our analysis based on the 1.5°C scenario (i.e., scenario expecting less than 1.5°C temperature increase in 2100 relative to pre-industrial levels.) assuming the realization of carbon neutrality by 2050. The analysis results are shown in Figure 3-2. Refer to Chapter 4 “Risk management” for details on the analysis methods.

We will continue to work on expanding the sectors to be analyzed and improving analysis methods. Furthermore, by applying scenario analysis methods and results to engagements, we will support our customers to realize smooth transition to a decarbonized society.

**Figure 3-2 Overview of scenario analyses**

	Physical risks		Transition risks	
	Previously	Enhanced	Previously	Enhanced
Risk events	Water disasters		Changes in government policy Changes in supply-demand balance	
Scenarios	IPCC <sup>*1</sup> /RCP <sup>*2</sup> 2.6 (2°C scenario)  IPCC/RCP8.5 (4°C scenario)		IEA <sup>*3</sup> / Sustainable Development Scenario (2°C scenario)  IEA/ (Current Policy Scenario)	NGFS <sup>*4</sup> / Net Zero 2050 (1.5°C scenario)  IEA/ Net Zero Emission by 2050 (1.5°C scenario)  NGFS/ Current Policies (3°C scenario)
Target of analysis	Corporate customers		Energy and power sectors: i.e., carbon-related assets as defined by TCFD	
Regional coverage	Japan	Global	Global	
Analysis period	Up to 2050		Up to 2050	
Risk indicators	Credit-related costs that are expected to increase (credit costs)		Credit-related costs that are expected to increase (credit costs)	
Analysis results	JPY 30-40 billion cumulative	JPY 55-65 billion cumulative	JPY 2-10 billion per a fiscal year	JPY 2-24 billion per a fiscal year

\*1 Intergovernmental Panel on Climate Change

\*2 Representative Concentration Pathways

For instance, “RCP2.6” means that radioactive forcing (i. e. impact of radioactive force of the energy emitted by or received by the surface of the Earth on the climate of the Earth) at the end of the century will be 2.6w/m<sup>2</sup>.

\*3 International Energy Agency

\*4 Network for Greening the Financial System

### ③ Awareness of opportunities

In order to realize a decarbonized society, it is indispensable to reform the industrial structure and socio-economy, as well as to pursue innovation and make large-scale equipment investment to enable a drastic reduction of GHG emissions. The "Sustainable Development Scenario (SDS)" by the IEA refers to the possibility that over JPY 100 trillion of additional investment<sup>5</sup> would be executed in the world between 2021 and 2023, mainly on the energy related sector. In Japan as well, towards the achievement of the 2030 goals advocated by the government, it is expected that investment of about JPY 30 trillion would be necessary on renewable energy power generation and more than JPY 1 trillion on ZEVs (Zero Emission Vehicle).<sup>6</sup>

The roles of financial institutions are to provide financial support for technological innovation and equipment investment toward the realization of a decarbonized society. With the transition to a decarbonized society, various opportunities will arise such as follows: expansion of finance needs and business reorganization; needs for new financial products and services; needs for leasing of decarbonation-related facilities, etc. Thus, we recognize there would be increasingly more opportunities to provide finance-related services for financial institutions.

In addition, when transitioning to a decarbonized society, each company will be required to realize both economic values and social values. Thus, we will see more opportunities to provide corporate customers with consultation for their management issues, etc. such as follows: support for the formulation of strategies and visions; business development; response to the sophistication of risk management; handling of disclosure of non-financial information, and more.

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<sup>5</sup> USD converted to JPY based on IEA World Energy Outlook 2020 (<https://www.iea.org/reports/world-energy-outlook-2020?mode=overview>)

<sup>6</sup> Trial calculation by SMBC Group based on various public data

**Figure 3-3 Estimated amount of domestic capital investment for the transition to a decarbonized society**

Industry	Goals set by the Japanese government (@2030)	Examples of expected capital investment	Expected investment amount in the future
Electric power	Amount of power generated by renewables 330 ~ 350 TWh <sup>*1</sup> (+144.7-164.7 TWh compared to 2019)	Development of renewable energy power plants	<b>JPY 25.4 trillion</b> <sup>*2</sup>
		Strengthening of grid power in line with the expansion of renewable energy	<b>JPY 1.5~4.8 trillion</b> <sup>*3</sup>
Transportation	In-vehicle storage battery manufacturing capacity 100GWh <sup>*4</sup>	Construction of (in-vehicle) battery factories	<b>JPY 0.8 trillion</b> <sup>*4</sup>
	Public charging stations 150,000 units <sup>*4</sup> (Including 30,000 quick chargers)	Construction and maintenance of public charging stations (standard charging, and high-speed charging)	<b>JPY 0.2 trillion</b> <sup>*4</sup>
	Hydrogen station 1,000 places <sup>*4</sup>	Construction and maintenance of public hydrogen stations	<b>JPY 0.4 trillion</b> <sup>*4</sup>

\*1 Agency for Natural Resources and Energy "Master Plan for Energy (draft)" (2021.7.21)

\*2 Calculated by SMBC with reference to METI, Power Generation Cost Verification Working Group "Past Discussions on Power Generation Cost Verification" (2021.7.12)

\*3 Quoted from OCCTO "Interim Summary for Considering the Master Plan" (2021.5.20); cost for strengthening the backbone system (e. g. interconnection lines)

\*4 Calculated by SMBC based on various infrastructure unit prices, with reference to METI "Green Growth Strategy towards Carbon Neutrality in 2050" (2021.6.18)

**Figure 3-4 Major business areas of SMBC Group and growth opportunities associated with the transition to a decarbonized society**

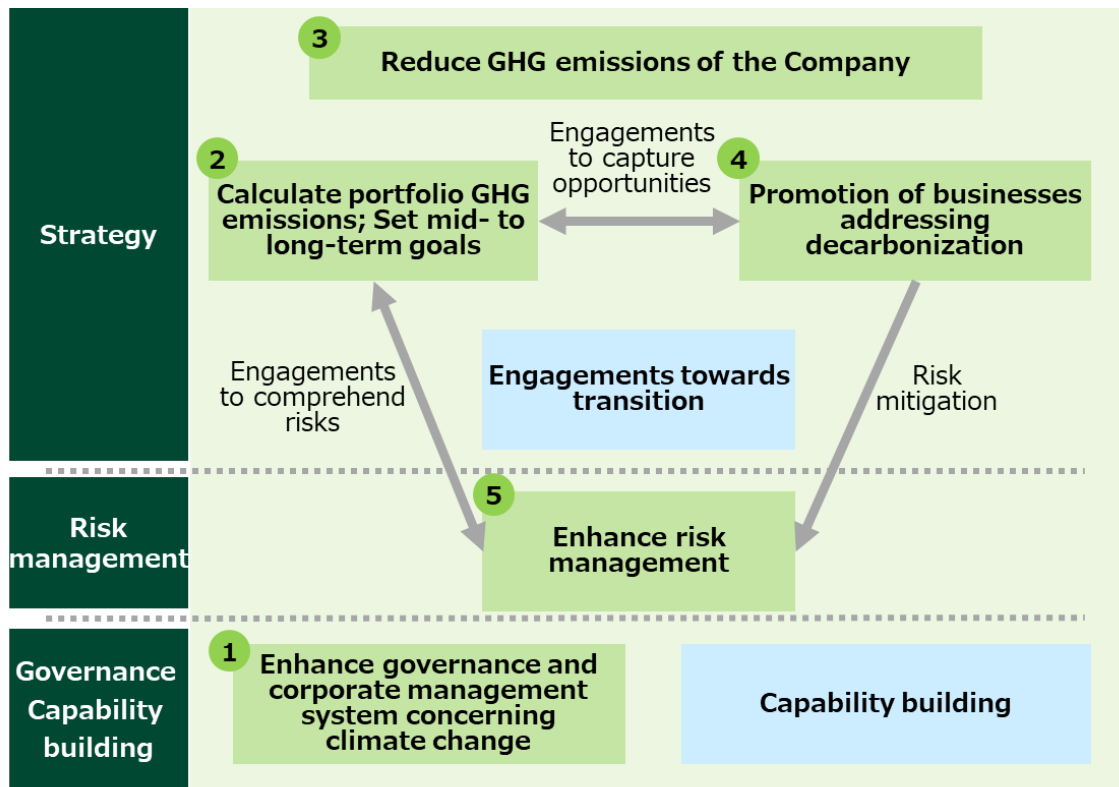
Business areas		Examples of assumed opportunities	Time axis
Banking	Wholesale	Expanded investment and lending opportunities in line with the increase of renewable energy power plants	Short-term
		Expanded lending opportunities in line with the increase in capital investment needs related to decarbonization	Short- to mid-term
		Expanded finance opportunities in line with the increase in M&A needs towards business transformation	Mid- to long-term
		Expanded investment opportunities for green innovation (e.g., investments in venture companies holding technologies towards decarbonization)	Mid- to long-term
	Retail	Expanded finance and fund management opportunities in line with the enhanced awareness of sustainability and environmental care by retail consumers	Short-term
Securities		Expanded underwriting opportunities in line with the increase in equipment investment needs related to decarbonization (green bonds/equity, transition bonds/equity, etc.)	Short- to mid-term
		Expanded business opportunities through strengthened relationships with institutional investors (provision of information on decarbonization, selection by institutional investors by engagements, etc.)	Short- to mid-term
		Expanded advisory and finance opportunities in line with the increase in M&A needs (towards business transformation)	Mid- to long-term
Leasing		Expanded leasing and finance opportunities for decarbonization-related facilities and equipment	Short- to mid-term
		Participation in renewable energy power generation business (PV, biomass, wind, water, etc.)	Short- to long-term
		Expanded business opportunities in 3R (Reduce, Reuse and Recycle) areas (trade of used goods, plant demolition, rental, etc.)	Short- to long-term
Consulting		Expanded opportunities of consultation upon decarbonization strategy and vision formulation, etc.	Short-term
		Expanded opportunities of consultation upon sustainability strategy and ESG management (TCFD measures, etc.)	Short-term
Asset management		Improvement in investment performance through strengthened research capability and analytical capacity about non-financial information (e.g., measures on climate change by the investee companies)	Short- to mid-term
		Expanded business opportunities in line with the increase in investor needs for fund management products addressing mitigation of and adaptation to climate change	Short- to mid-term
		Increase in new investment opportunities to companies that hold innovative technologies to contribute to the transition to a decarbonized society, or companies expected to grow sizably through reform of business model, etc.	Short- to long-term

## (2) Strategy of SMBC Group

Recognizing risks and opportunities related to climate change, SMBC Group established the Roadmap Addressing Climate Change and the Action Plan to contribute to a decarbonized society by 2050 and is accelerating efforts for securing resilience against climate change and acquiring growth opportunities. There are five key measures<sup>7</sup> we address during the period of the current Medium-Term Management Plan (Action Plan STEP1). The figure below shows SMBC Group's strategic initiatives regarding climate change including Actin Plan STEP1.

Given that SMBC Group will regularly review these strategic initiatives considering global trends, we aim to contribute to the transition to a decarbonized society in line with the Paris Agreement and to realize sustainable growth in enterprise value in the environment of a decarbonized society.

**Figure 3-5 Strategic initiatives of SMBC Group addressing climate change**



● Key measures in Action Plan STEP1

\* Refer to Chapter 5, for indicators/targets concerning each strategic measure.

<sup>7</sup> The following five measures are particularly important for us to address in the Action Plan STEP1: measuring GHG emissions of our investment and loan portfolio and setting medium- to long-term targets; accelerated efforts to reduce GHG emissions on SMBC Group's groupwide operations; strengthening of businesses addressing climate change and decarbonization; enhancing governance and corporate management systems related to climate change; and enhancing risk management systems.

## ① Enhance governance and corporate management system concerning climate change

In order to enhance the supervision on measures against climate change issues, etc., SMBC Group established the Sustainability Committee in July 2021 as a committee inside the Board of Directors, in addition to the original supervision by the Board of Directors and the Risk Committee. In April 2021, we newly introduced the Group CSuO (Chief Sustainability Officer) position as part of the Group CxO system to strengthen our climate change-related initiatives. For details, refer to Chapter 2 “Governance.”

## ② Measure portfolio GHG emissions; Set medium- to long-term targets

### ■ Measuring and setting medium- to long-term targets for priority sectors

In order to carry out long-term efforts for climate change issues up to 2050, it is important for SMBC Group to obtain a clear understanding of GHG emissions generated by our investment and loan portfolio and set medium-to long-term targets. Regarding measurement of GHG emissions of investment and loan portfolio, we will start from sectors with large emissions (energy and power) and gradually expand the target scope.

We will proceed with the estimation of GHG emissions in the energy and power sector; then, we will set and announce long-term reduction targets for those sectors by the next Medium-Term Management Plan will be announced in FY2023. As our first step, we are now calculating financed emissions for the power sector. For details of the status and methods of calculation, refer to Chapter 5 “Metrics and targets.”

### ③ Reducing GHG emissions of SMBC Group's operation

#### ■ Promotion of energy saving; Change source of electricity procurement

Regarding GHG emissions of the Group, the commitment to realize "net zero emissions in its groupwide operations by 2030" is declared in the "SMBC Group GREEN x GLOBE 2030." Thus, we are making efforts towards the goal. In Japan, the "Act on Rationalizing Energy Use" (Energy Conservation Act) obliges each company to do the following: improve energy management system; create a medium- to long-term plan; and realize a 1% or more reduction in its annual average energy consumption unit. We are taking necessary measures not only to firmly fulfill such obligations but also to reduce energy consumption at each office throughout the operational management based on the said Act.

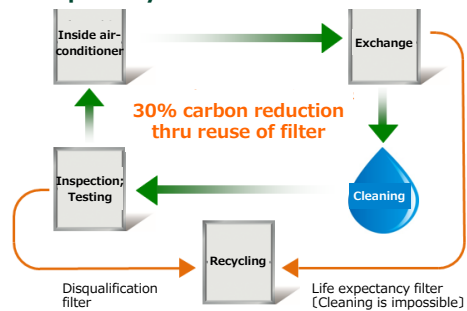
For example, Sumitomo Mitsui Banking Corporation is actively adopting environmentally friendly buildings for its offices. The head office building, completed in 2010, was designed to produce 30% less carbon emissions per year as compared with average buildings in Tokyo at the time, through the following environmental measures adopted: introduction of rainwater storage equipment and solar power generation equipment; implementation of rooftop greening; introduction of human motion sensors; and use of recycled materials. The East Tower, which opened in the summer of 2015, introduced not only environmental measures used in the head office building but also additional measures (e.g., use of LEDs in the entire building; adoption of functionally improved exterior walls). Due to such designs, it enabled a 35% reduction of carbon emissions per year as compared to the average buildings in Tokyo by 2015. As a result of these environmental measures, we obtained "S Rank" in the CASBEE rating which evaluates and provides ratings to buildings in terms of the environmental performance, as well as "Platinum" in the LEED-CI rating which is a global environmental certification. At the time of extensive reformation of the Osaka head office building, which was completed in FY2015, environmental performance of the building significantly improved, through strengthening performance of sash used for exterior walls, adopting LED lighting, installing PV panels, etc., while conserving the charm of a historic landmark.

In addition, since more than 80% of GHG emissions of SMBC Group are due to power consumption, it is important to switch power sources to renewable energy. We have already switched part of the electricity used in the East Tower to a power product that comes from hydroelectric power plants with no carbon emissions (TEPCO energy Partner "Aqua Premium").

Overseas as well, we are promoting efforts to adopt environmentally friendly buildings. The Brussels Branch office in Belgium is in a building that has been certified by the BREEAM (The Building Research Establishment Environmental Assessment Method), an examination method that evaluates the environmental performance of a building.

### Figure 3-6 Consideration of the environment in buildings of SMBC Group

Cleaning, reuse and recycling system of air-conditioner filters (made by UNIPAC Co. Ltd.) adopted by the head office of SMBC



SMBC Head Office East Tower: Rising Square (CASBEE score: S Rank; LEED-CI score: Platinum)





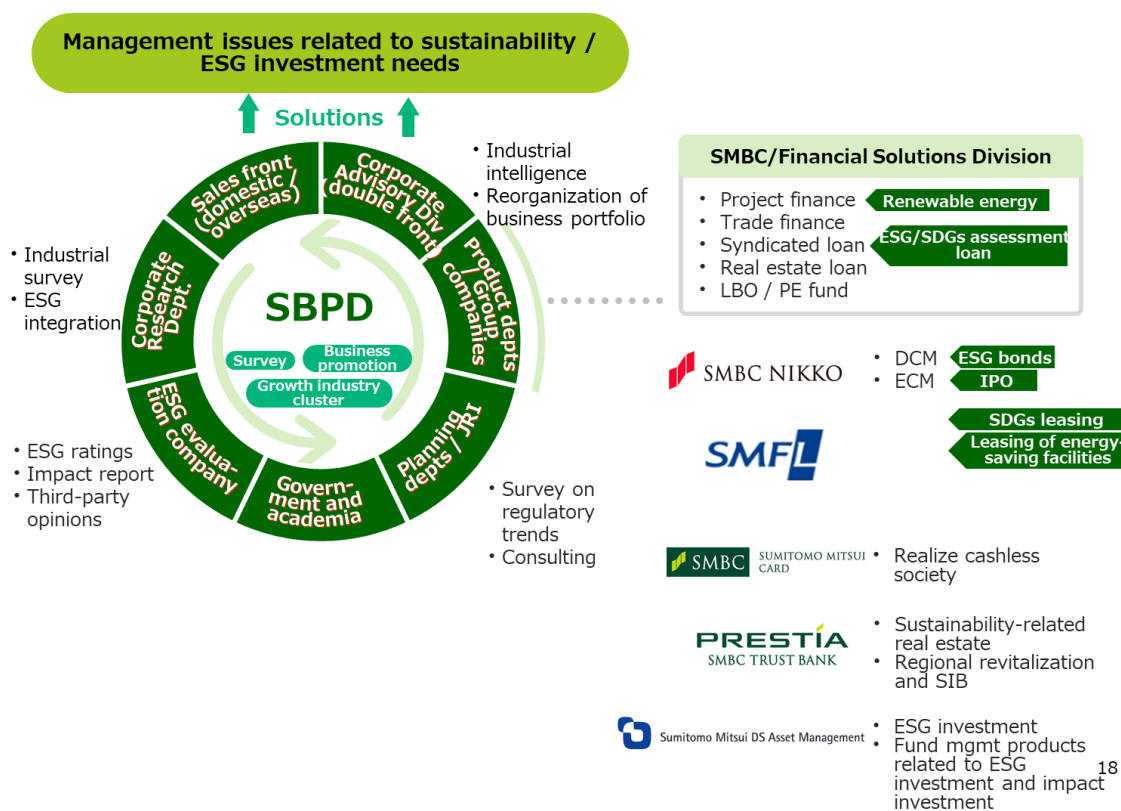
#### ④ Promotion of businesses for decarbonization

As a financial institution creating credit, SMBC Group considers it an important and impactful mission to help our customers contribute to the realization of a decarbonized society. To do so, innovation and large-scale equipment investment are indispensable for a drastic reduction of GHG emissions. This process would expand the demand for funds and trigger business reorganization as well as generate the demand for new financial products/services and consulting services. Thus, there will be growth opportunities for SMBC Group

#### ■ Strengthening of business structure as a unified Group

The Sustainable Business Promotion Dept. (SBPD) is functioned as a hub of sustainable businesses to materialize our efforts on a “Global x Groupwide basis.” We will take steps forward together with our customers, through building sustainability-related intelligence and network on a global basis and presenting proposals on their management issues related to the transition to a decarbonized society on the Global x Groupwide basis.

Figure 3-7 Sustainable business promotion in SMBC Group

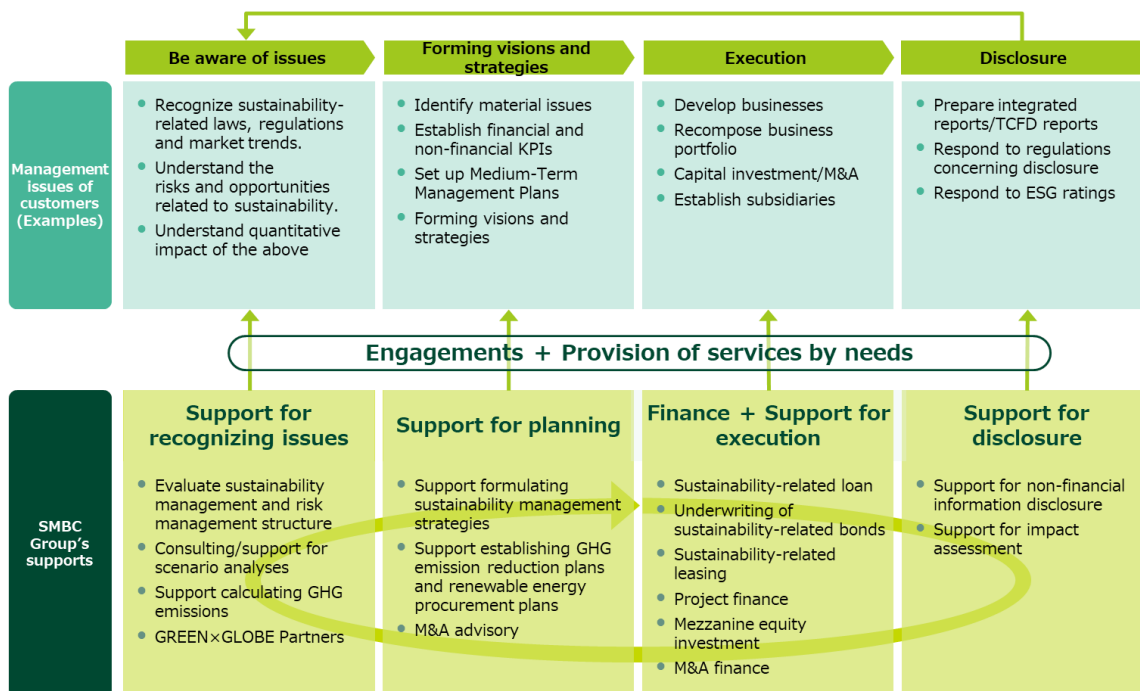


■ **Provision of total solution towards transition**

We are striving to become the first-call bank on sustainability for customers by engaging in dialogues (i.e., engagements) and acting together, supporting them not only in the funding stage but also in upper stream stages for strategy formulation and business restructuring by leveraging extensive strength of SMBC Group (which enables a wide range of services including consulting and digital technologies, etc.) as well as knowledge and knowhow acquired from its global network.

Specifically, we will help our customers resolve their management issues related to sustainability through funding as well as provision of multi-layered solutions (including consulting) such as follows: green finance; identification of management issues related to sustainability; support for the visualization of GHG emissions and scenario analysis; and support for the formulation of medium- to long-term strategies and plans towards the transition to a decarbonized society.

**Figure 3-8 SMBC Group’s sustainability-related business map**



■ **Expansion of sustainable finance**

SMBC Group is actively engaged in financing related to environmentally friendly businesses, social projects, and the transition to a decarbonized society. We have a goal set in a 10-year period (FY2020-FY2029): “Execute green finance and finance that contribute to realizing sustainability<sup>8</sup> equivalent to JPY 30 trillion.” We will strive to solve various social issues such as climate change with our customers.

**Figure 3-9 Definitions and target scope of green finance and sustainable finance**

<b>Definitions</b>	<b>Green</b>	<p><b>Financing for projects that contribute to the environment (i.e., projects falling within the Green Project categories set forth in International Capital Market Association’s (ICMA) Green Bond Principles)</b></p> <p><u><b>Green Project categories</b></u></p> <ul style="list-style-type: none"> <li>● Renewable energy</li> <li>● Energy efficiency</li> <li>● Pollution prevention and control</li> <li>● Environmentally sustainable management of living natural resources and land use</li> <li>● Terrestrial and aquatic biodiversity conservation</li> <li>● Clean transportation</li> <li>● Sustainable water and wastewater management</li> <li>● Climate change adaptation</li> <li>● Eco-efficient production technologies and processes</li> <li>● Green buildings that meet environmental standards</li> </ul>
	<b>Social</b>	<p><b>Financing for projects that contribute to the society (businesses that fall under the "social project categories" in the Social Bond Principles of ICMA)</b></p> <p><u><b>Social project categories</b></u></p> <ul style="list-style-type: none"> <li>● Basic infrastructure of affordable price (drinking water, sewerage, sanitation facilities, transportation, energy, etc.)</li> <li>● Access to essential services (education, health, etc.)</li> <li>● Housing of affordable price</li> <li>● Employment creation through the potential effects of funding for SMEs</li> <li>● Employment creation through the potential effects of microfinance</li> <li>● Food safety</li> <li>● Socio-economic improvement and empowerment</li> </ul>
	<b>Transition</b>	<p><b>Finance for businesses in line with the "Transition Finance Handbook" of ICMA</b></p>

<sup>8</sup> Including deals where funds will be used for transition and/or social projects, etc.

## Covered financing

- Financing in which the proceeds are used for the aforementioned businesses
- Financing based on the concept of supporting and/or promoting the afore-mentioned businesses

### Examples of covered financing

#### **[Sumitomo Mitsui Banking Corporation]**

- Project finance (for renewable energy, public infrastructure, etc.)
- Various types of directed credit (ESG/SDGs assessment-based loans and private placement bonds; SMBC workstyle reform loans and private placement bonds; SMBC Nadeshiko loans, etc.)
- Green loans; Sustainability-linked loans; Transition loans
- Non-recourse loans for environmental real estate properties

#### **[SMBC Nikko Securities]**

- Green bonds; Sustainability-linked bonds; Transition bonds
- Green equity; Social equity; Transition equity

#### **[Sumitomo Mitsui Finance and Leasing]**

- Renewable energy and energy efficiency-related leases

In addition, Sumitomo Mitsui Banking Corporation (SMBC) was certified as an AE (Accredited Entity) by the "Green Climate Fund (GCF)" in July 2021.<sup>9 10</sup>

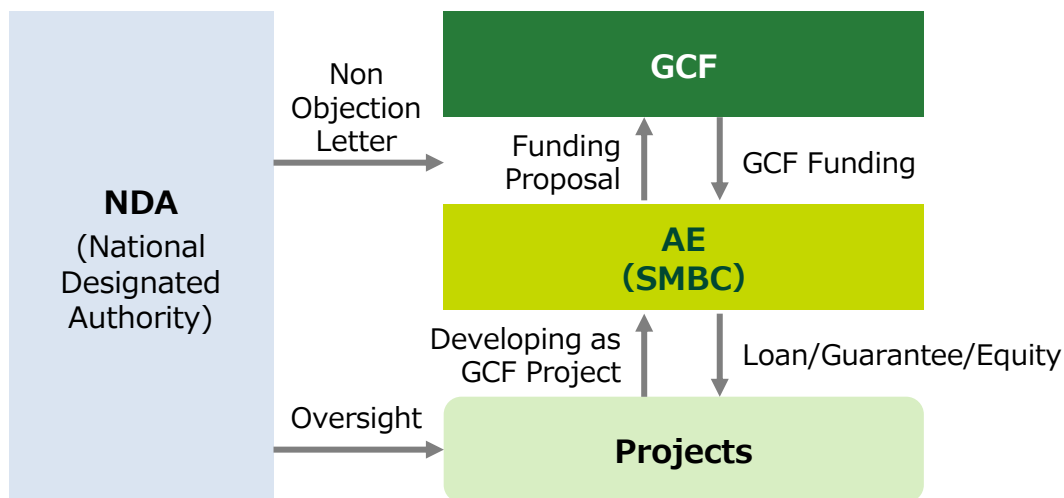
The GCF is a multilateral climate fund that widely supports projects that are expected to contribute to actions against climate change in developing countries through using diverse finance methods such as the following: donation; loan; guarantee; equity, etc. As an AE, SMBC is able to access the funds of the GCF to structure projects in developing countries. Using the extensive project finance knowhow accumulated so far, SMBC will be able to provide a wider range of support for the following projects (which have been difficult for private financial institutions alone to support) in collaboration with the GCF: climate change response projects in developing countries; projects bringing about the innovation necessary for realizing a decarbonized society and sustainability (e.g., hydrogen technology). Through these efforts, we will strive to expand sustainable finance.

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<sup>9</sup> The GCF is a multilateral fund entrusted with the operation of a financing system based on the "United Nations Framework Convention on Climate Change." As such, it helps reduce (mitigate) GHG emissions as well as helps respond (adapt) to the effects from the climate change in the developing countries through financing.

<sup>10</sup> AE is an organization that is authorized to request funds from the GCF and is responsible for business proposals to the GCF and supervision and management of the businesses adopted by the GCF.

**Figure 3-10 Green Climate Fund: Overall concept**



**⑤ Enhancing risk management**

**■ Credit policy and portfolio management**

Regarding loans to coal-fired power generation, SMBC Group is aiming to halve its balance by FY2030 and realize a zero balance by FY2040. Thus, we are making necessary efforts towards its reduction. In May 2021, we announced a policy not to provide support for new construction or expansion of coal-fired power plants.

Regarding other sectors and businesses that are likely to affect the climate change issue, we set forth specific policies. As such, our system is to support the customers' efforts to contribute to the transition to and realization of a decarbonized society. Going forward, we will further strengthen our risk management system by measuring GHG emissions of our investment and loan portfolio by sector as well as by improving the monitoring system of brownfield vs. greenfield assets.

**■ Sophistication of scenario analyses**

SMBC Group is trying to understand the financial impact on the Bank by using scenario analyses. We will keep expanding the coverage of target sectors and improving analysis methods. In addition, we will help our customers realize a smooth transition to a decarbonized society by applying the methods and results of scenario analysis to engagement activities.

## ⑥ Capability building

### ■ Sustainability University

SMBC Group established the "Sustainability University," which is a systematic framework for training on sustainability, with the aim of enabling all employees to have sufficient knowledge on sustainability and ESG/SDGs and to communicate sufficiently with customers. We believe this framework will help deepen the awareness of sustainability for all employees, including the executive members of the Group Management Committee, and improve their understanding on climate change, so that it could contribute to adequate and effective assessment and management of climate change risks as well as to cultivation of sense of participation in social contribution.

Contents of training seminars of the Sustainability University and the related materials are posted on "SMBC Group eCampus" which is a comprehensive on-demand learning platform of SMBC Group. This way, we enable any person to learn online anywhere and anytime. Sustainability University courses were held over 20 times during the period from October 2020 to March 2021. Through the courses, employees can learn basic sustainability-related knowledge (e.g., SDGs), solutions provided by SMBC Group, trends in the market by industry, etc. The programs of the Sustainability University have two layers: the basic layer, such as "groupwide standard learning tools", new employee trainings and hierarchical trainings; the advanced layer requiring high proficiency, including divisional trainings.

For example, as divisional trainings for the wholesale business unit, internal study sessions are regularly held on a global and groupwide basis for the purpose of enabling all staff members of the front office to acquire sufficient knowledge about sustainability and ESG/SDGs to have deeper engagements with customers. Leveraging the sessions, dialogues on sustainability between each staff member of the front office and customers should be more effective. Also, regarding deeper subjects (e.g., management issues) of customers, we present proposals based on the all-out efforts of SMBC Group, with Sustainability Business Promotion Dept. serving as the hub.

Also, to improve awareness on sustainability, we conduct surveys targeting all employees of SMBC Group. Leveraging the results, we will further promote necessary measures.

**Figure 3-11 Overview of Sustainability University**

Trainings		Subject examples covered in sustainability-related trainings
Sustainability University	SMBC Group's standardized trainings	<ul style="list-style-type: none"> <li>• ESG/SDGs and measures of SMBC Group</li> <li>• Let's think about climate change</li> <li>• Let's think about supply chain</li> <li>• Let's think about using plastics</li> </ul>
	Personnel trainings	<ul style="list-style-type: none"> <li>• New employees training: "Resolve Social issues program"</li> <li>• Newly appointed managers training</li> <li>• Hierarchical trainings</li> </ul>
	Divisional trainings	<ul style="list-style-type: none"> <li>• Study sessions on sustainable business &lt;Basic Course&gt;</li> <li>• Study sessions on ESG/SDGs &lt;Advanced Course&gt; : To better support customers' efforts on sustainability</li> <li>• Sustainability-related solutions of SMBC Group</li> <li>• Study sessions on sustainability (About environmental regulations)</li> </ul>

FTF trainings·WEB trainings



On-demand learning



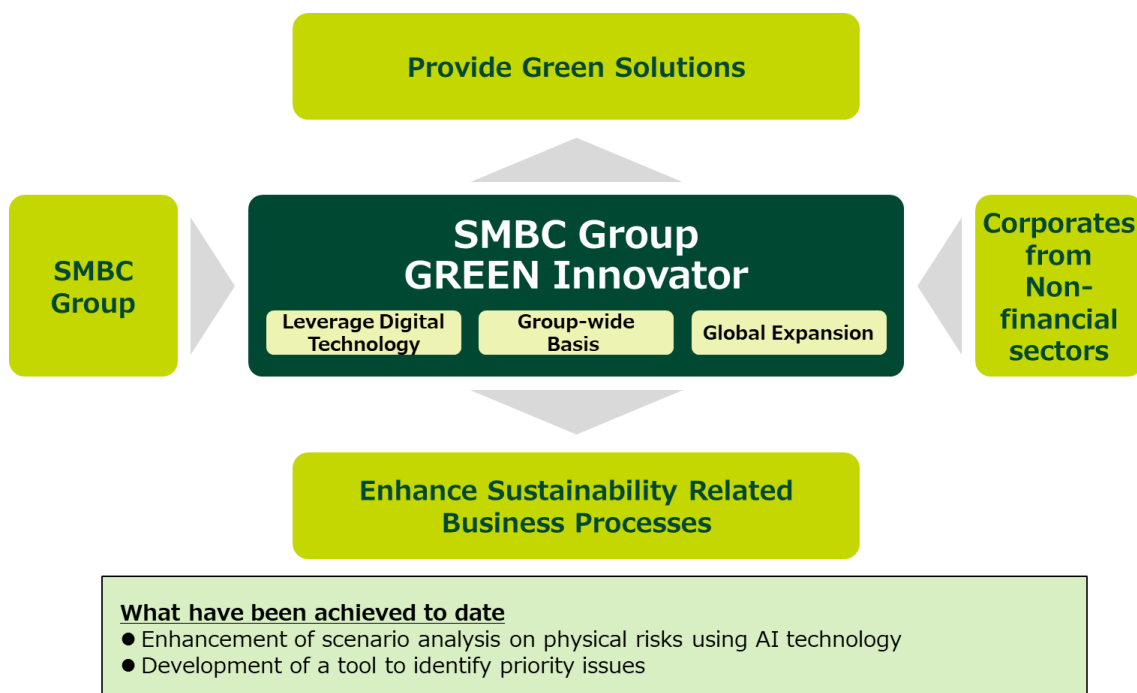
■ **SMBC Group GREEN Innovator**

We expect to see more diversified and sophisticated needs from our customers regarding decarbonization and other sustainability-related matters. Therefore, SMBC Group recognizes the necessity to enhance its ability to meet our customers’ needs on a group-wide basis and accumulate such know-how to contribute to realizing a sustainable society as a global financial group. Also, collaboration with corporates in other sectors is crucial since those know-how extend to non-financial areas such as energy and other areas related to decarbonization.

Given this backdrop, SMBC Group is developing and providing sustainability-related services and accumulating such know-how under the “SMBC Group GREEN Innovator.”<sup>11</sup> Here, we are working on the sophistication of our climate change scenario analyses using AI technology and the development of "SMBC Sustainability Priority Issue Identification Tool," for example.

We will keep making smooth collaboration with other corporates by converging our sustainability-related know-how/information under the label and provide advanced solutions to customers by enhancing our ability to develop such services.

**Figure 3-12 Overview of SMBC Group GREEN Innovator**



<sup>11</sup> Press Release: [Sumitomo Mitsui Financial Group] About the launch of "SMBC Group GREEN Innovator" ([https://www.smfg.co.jp/news/pdf/j20210727\\_01.pdf](https://www.smfg.co.jp/news/pdf/j20210727_01.pdf))



## ⑦ Engagements towards transition

### ■ Strengthening of customer engagement

Dialogues (engagements) with customers are indispensable for the realization of a decarbonized society. To that end, it is important to share common understanding between SMBC Group, customers, and the society concerning the paths to decarbonization in each industry and sector. SMBC Group will promote calculation of GHG emissions of our investment and loan portfolio and carry out careful engagements with customers based on the latest scientific knowledge and policy trends regarding climate change. This way, we aim to build a common understanding on climate change. On top of that, we will set medium- to long-term goals for GHG emissions of our investment and loan portfolio by sector, in line with our customers' strategies towards transition.

In addition, for financial assets exposed to transition risks, there is a risk that credit-related costs will increase due to the transition to a decarbonized society. Therefore, it is necessary to take appropriate measures based on the calculation results of financed emissions so that the exposure is not excessively concentrated on those assets. Under such circumstances, SMBC Group will reduce transition risks, through helping customers expand business and strengthen responses to climate change risk together.

**Figure 3-13 Examples of engagements with customers**

Engagements with	Details
<p><b>Company A (Domestic; Chemical)</b>  <b>Company B (Domestic; Paper and pulp)</b></p> <p>There were similar engagements with a diverse range of other industries and companies (e.g., glass/ceramics products; oil/coal products; transportation vehicles; chemical).</p>	<p>Both are Tokyo Stock Exchange First Section-listed companies, with a wide business range whether both domestically and overseas. Based on various overseas regulatory trends related to sustainability, we have been presenting proposals to them and discussing about the path towards realizing a decarbonized society.</p> <p>Particularly, we have been providing certain solutions in response to their management issues related to sustainability, leveraging the global network of SMBC Group: for example, formulation of short- to medium-term strategy on GHG emissions reduction based on extensive rearrangement of power source</p>

	composition; partner collaboration towards achievement of the medium- to long-term goals.
<b>Company C (Domestic; Electric power)</b>	This company have been proactively processing the transition to a decarbonized society. In order to support their efforts, we have been presenting proposals to them and discussing in a more specific and realistic manner, including the following activities: explanation of various overseas regulatory trends related to sustainability; support for the efforts toward decarbonization of individual power plants; and consideration of finance methods using transition finance that is indispensable to formulate a long-term roadmap for realizing net zero emissions.
<b>Company D (Asia; Conglomerate)</b>	<p>The company is a conglomerate with a wide range of businesses operated in multiple countries, ranging from energy to manufacturing and service industries. We have been discussing about sustainability, as they are highly interested in subjects as the trends of global environmental regulations and the financial industry.</p> <p>Since they are continuously strengthening their governance system, etc. in terms of improving accountability, SMBC Group have been discussing the following with them: the evaluation of ESG disclosure; the importance of switching to low carbon energy sources.</p>

## ■ Strengthening engagements with various stakeholders

SMBC Group regularly carries out engagements concerning response to climate change not only with customers but also with other stakeholders such as investors and environmental NGOs. In its process, we earnestly try to obtain an in-depth understanding of each stakeholder's thoughts on climate change, through repeated discussions on the following: scenario analysis methods; risk management measures to be taken; and when needed, how to support customers who aim to contribute to the goals of the Paris Agreement. Through such granular communication with stakeholders, we mutually share ideas and problems on SMBC Group's resilience to climate change.

Also, SMBC Group discusses climate change-related measures and disclosure, through regularly held Stakeholder Dialogues<sup>12</sup> and Small Meetings for investors, where we review our efforts addressing ESG issues (including climate change) and listen to opinions from relevant experts, on top of individual engagements. Proposals obtained through such dialogues and discussions are being reflected in our corporate strategy. Furthermore, SMBC Group established the "GREEN×GLOBE Partners (GGP)"<sup>13</sup>. GGP is a community aiming to resolve environmental and social issues, where we are generating such activities together with partner companies.

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<sup>12</sup> Such dialogue was not held in FY2020, considering the status of spread of coronavirus infections.

<sup>13</sup> GREEN×GLOBE Partners Website <https://ggpartners.jp/>

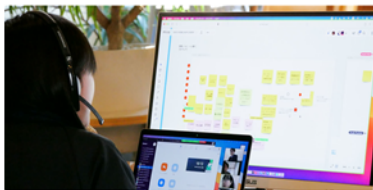
**Figure 3-14 Examples of engagements with stakeholders**

Examples of dialogues with investors concerning ESG matters
Regarding efforts to enhance governance structure (e.g., outside director ratio; diversification of profession; reflection on executives' compensation)
Regarding internal structure concerning sustainability (e.g., status of Sustainability Promotion Committee; internal structure and number of staffs; risk management system)
Regarding awareness of opportunities related to climate change and promotion of finance that contributes to sustainability (e.g., details of opportunities; status of finance needs; status of league table)
Regarding policies on businesses and sectors upon the situation of climate change (e.g., revision on policies; status of carbon-related assets)
Regarding future efforts concerning portfolio GHG emissions (e.g., status of calculation; mid- to long-term goals; target sectors; consistency with the goals of the Paris Agreement)

**Examples of events**

Co-creation workshop thru collaboration b/w GGP and Kobe City: "Let's think about Kobe, a globally contributing city, nurtured by sea and mountains"

IR event: "Small Meeting: Approach to ESG" (Approx. 80 participants)



**GREENxGLOBE Partners**

Number of partner companies

**47**  
Sep 2020



**197**  
Aug 2021  
(as of Aug 20)

## 4. Risk management

### (1) Process of risk management

SMBC Group recognizes that an insufficient response to climate change issues is a risk that has a significant impact on corporate management. We identify risks related to climate change as top risks, and our Risk Appetite Statement describes about how to pursue risk taking that leads to the realization of a sustainable society.

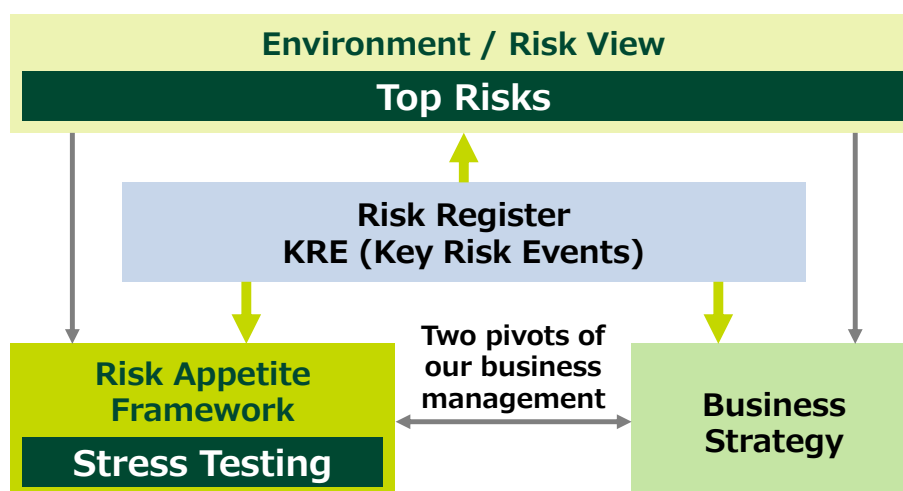
Practically, we quantitatively measure the impact of climate change on SMBC Group by estimating credit costs of physical risks and transition risks by scenario analyses; also, we verify sufficiency of our response to climate change by analyses and its evaluation as per the Risk Register and KREs (Key Risk Events).

#### ① Risk Appetite Framework

SMBC Group has introduced a Risk Appetite Framework for controlling group-wide risks that clarifies the types and levels of risk that we are willing to take on or are prepared to tolerate in order to grow profits (risk appetite).

Risk Appetite Framework is one of two pivots of our business management alongside business strategies. It functions as a management framework for sharing information on the operating environment and risks facing SMBC Group among management and for facilitating appropriate risk taking based thereon. Risk appetites are decided during the process of formulating business strategies and management policies. These risk appetites are set based on Top Risks that threaten to significantly impact management and on risk analyses (stress testing) that illustrate the impact if a risk should materialize.

**Figure 4-1 Risk Appetite Framework**



## ② Top risks

The selection of Top Risks involves comprehensive screening of risk factors, evaluation of each risk scenario's possibility of occurrence and potential impact on the business, and discussion by the Management Committee. Under our recognition that awareness of solving environmental issues are rising internationally and relevant policy formulation is progressing, SMBC Group positions climate change risk as Top Risks, recognizing that an insufficient response to climate change issues is a risk that might significantly affect corporate management.

**Figure 4-2 Top Risks**

Top Risks	
Volatile financial and economic environment	Increase in asset price fluctuation risk due to concerns about tapering in the United States
Intensified political, ideological and religious conflicts	Economic and financial market disruption due to intensifying struggle for supremacy between the United States and China
Decline in Japan's social vitality	Downward pressure on interest income as negative interest rates become even lower due to the stagnation of Japanese economy
Disasters such as large-scale earthquakes, and storms and floods	Widespread damage to people or property and dislocation of Japanese economy
Pandemics	Severe economic stagnation due to the impact of the COVID-19 pandemic
Increasing external threats (cyber attacks, financial crimes, etc.)	Impacts on business continuity due to major system failures
Increased awareness regarding environmental issues (climate change, etc.)	Deterioration of SMBC Group's reputation due to inadequate responses to increasing societal, regulatory and political focuses
More emphasis on solving social issues	Deterioration of SMBC Group's reputation due to inadequate responses to human rights issue
Growing needs for more sophisticated governance system	Administrative actions and deterioration of SMBC Group's reputation due to misconduct
Materialization of risks impeding implementation of strategies (lack of human resources, etc.)	Decline in competitiveness of SMBC Group due to having difficulty in securing professional human resources

Note: The above is only a part of the risks recognized by SMBC Group. It is possible that the materialization of risks other than those listed above could have a significant impact on our management.

### ③ Stress tests (scenario analysis)

In order to formulate and execute forward-looking business strategies, we strive to analyze and measure the impact of economic and market fluctuations on the Group in advance through stress tests.

Regarding climate change risk, we conduct scenario analyses on physical risks and transition risks using stress test methods and estimate credit costs to measure potential financial impact on Sumitomo Mitsui Banking Corporation in advance. For details, refer to "(2) Scenario analysis."

### ④ Risk Register

A risk register is formulated by each business unit for the purpose of realizing more sophisticated risk governance and enhancing business units' risk ownership. In formulating these registers, business units communicate with risk management departments to identify the risks present in their business, and these risks are reflected in business strategies after they have been evaluated and the adequacy of measures for controlling them has been verified.

Through this framework, when formulating business strategies, we identify and assess climate change risks inherent in business strategies, consider control measures, and reflect necessary measures in business strategies.

### ⑤ KRE (Key Risk Events)

Key Risk Events (KRE), external events that indicate the increased threat of risks, have been identified to ascertain the symptoms of the potential risks. KRE are utilized to analyze and assess how likely similar cases will occur in SMBC Group and what effects such similar cases will have on SMBC Group, and to enhance our risk management system.

Through this framework, we gather, analyze and assess external events related to climate change and evaluate sufficiency of our response to climate change.

**(Reference) Major risk events by category related to climate change issues**

Climate change risk is expected to have a wide range of spillover routes and could become apparent on various time axis. Cases described in the following figure is expected to occur in SMBC Group. We will analyze risk events by risk category and assess such risks along with the time axis in terms of materialization.

Risk category	Definition	Examples of events related to physical risks	Examples of events related to transition risks
Credit risk	Risk for the Bank incurring losses due to reduction or loss of asset values (including off-balance assets) resulting from credit events (credit causes) such as deterioration of financial conditions of obligors	Risk of increasing credit costs for SMBC Group, in line with the deterioration of customers' performance and impairment of collateral items due to natural disasters	Risk of increasing credit costs for SMBC Group, in line with the deterioration of customers' performance resulting from decline in revenue and impairment of existing assets
Market risk	Risk of incurring losses due to fluctuations in the market value of financial instruments resulting from changes in interest rates, currency rates, stock prices, etc.	Risk of falling prices of our strategically held stocks and funds in line with the deterioration of customer performance due to natural disasters	Risk of deterioration of customer performance due to decline in revenue and impairment of existing assets, leading to decline in prices of strategic shareholdings and funds held by SMBC Group
Liquidity risk	Risk of facing difficulties in procuring funds necessary for settlement due to mismatch in period between fund management and procurement and unexpected outflow of funds; Risk of being forced to procure funds at a significantly higher interest rate than usual	Risk of losing deposits, in line with the deterioration of customer performance due to natural disasters	Risk of deterioration of funding environment and risk of fund drain from deposits due to deterioration of the Group's reputation
Operational risk	Risk of incurring losses resulting from improper or non-functional internal processes, people and/or systems, or from occurrence of external events	Risk of business discontinuity due to the damages on the head office and branch offices; Risk of increasing costs due to the needs for countermeasures and recovery	Risk of incurring losses due to fines and court proceedings related to sales of products and services that do not meet criteria of climate change efforts/green finance
Reputational risk	Risk of incurring losses due to deterioration of our reputation resulting from the spread of rumors and quoted news that are different from the facts, or from the media reports on various risk events that actually occurred	Risk of deterioration in reputation of the Group, due to lack of response to climate change and delayed response to requests of disclosure from stakeholders	



## (2) Scenario analysis

As described in Chapter 3 “Strategy,” SMBC Group conducts scenario analyses on physical risks and transition risks at Sumitomo Mitsui Banking Corporation, which is the core company of the Group.

For FY2021, regarding physical risks, we expanded the target geography of analysis from domestic to global; also, regarding transition risks, we adjusted our analysis to the scenario assuming less than 1.5°C temperature increase in 2100 since the Industrial Revolution, given the realization of carbon neutrality by 2050.

It is extremely difficult to anticipate potential impacts in climate-related risks due to high uncertainty in timing of occurrence and its scale. Given these circumstances, the current analysis is based on certain assumptions regarding natural disasters and targets of analysis. It does not consider factors such as sudden technological breakthroughs that resolve climate change, the widespread adoption of business strategies that address sustainability and ESG among companies, nor the potential financial support for companies as they adapt to the transition. Accordingly, SMBC Group will strive to continuously revise and refine the assumptions and parameters of these analyses.

## ① Physical risks

Due to the increase in extreme weather events caused by climate change, there is a risk that the business of the customers of SMBC Group will be affected. Sumitomo Mitsui Banking Corporation is conducting scenario analyses targeting physical risks and assessing its impact up to 2050.

As the majority of natural disasters caused by climate change are floods and storms, the analysis identified risk events as water disasters. The scenarios used were the RCP 14 2.6 scenario (2°C scenario) and the RCP 8.5 scenario (4°C scenario) based on the Intergovernmental Panel on Climate Change (IPCC) research.

We are conducting scenario analyses through the collaboration with MS&AD InterRisk Research & Consulting, while applying AI technology developed by a US start-up, Jupiter Intelligence<sup>15</sup>. We quantitatively measured risk in the event of a water disaster, by analyzing various climate related data and satellite images of landforms, etc., while the AI technology conduct machine learning.

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<sup>14</sup> Representative concentration pathways: For example, "RCP 2.6" means that the radiative forcing (the magnitude of radiation that the energy entering and exiting the earth's surface has on the Earth's climate) at the end of the century will be 2.6 w/m<sup>2</sup>.

<sup>15</sup> A US startup specialized in climate change risk analysis, which enables prediction on occurrence of natural disasters, through gathering diverse data (including satellite data) as well as through using AI analysis. Its employees include a researcher of IPC, a Nobel Prize winning entity, and the concept creator of the "Princeton Ocean Model" which is a world-famous oceanic circulation model used in 70 countries, etc.

The analysis was conducted according to the following three steps.

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**Step 1**

Regarding the impact of water disasters, credit costs are expected to rise out of namely two pathways. One is the impairment of collateral of Sumitomo Mitsui Banking Corporation's corporate customers and the other is an unfavorable change in their debtor classification due to deterioration in financial position. Concerning domestic collateral and customers, we estimated the depth of immersion by using the hazard map (showing assumed flood areas based on assumed maximum rainfall) released by Japan's Ministry of Land, Infrastructure, Transport and Tourism. For overseas customers, we used the AI analysis of Jupiter Intelligence. Based on these data, we analyzed the impact of collateral damage and deterioration in financial conditions of customers.

**Step 2**

The probability of flooding up to 2050 is set for both the 2°C scenario and 4°C scenario by utilizing data<sup>16</sup> provided by a project assessing the risk of flooding due to climate change conducted by MS&AD InterRisk Research & Consulting in collaboration with the University of Tokyo and Shibaura Institute of Technology

**Step 3**

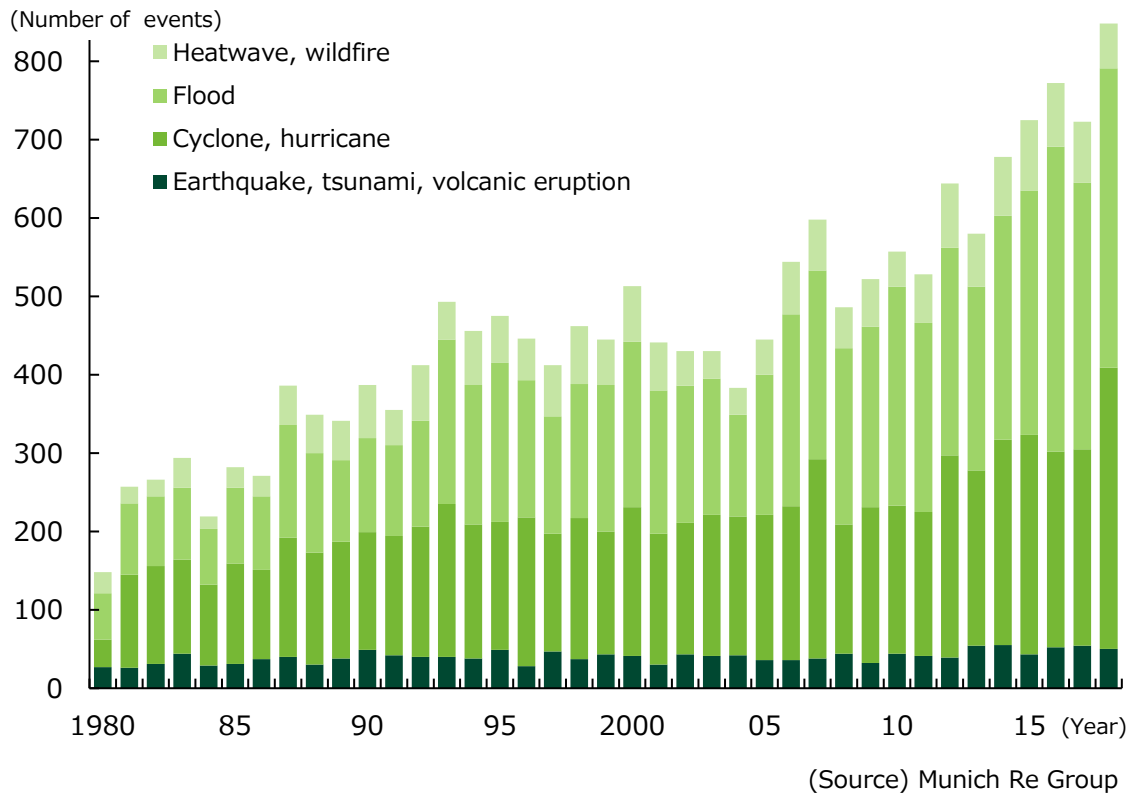
The estimated credit costs are calculated by considering the result in Step 1 and the probability of flooding for each climate change scenario, which is set up in Step 2.

As a result, anticipated credit costs for the period from 2019 to 2050 were approximately JPY 55 to 65 billion (JPY 30 to 40 billion in Japan) in total. This represents additional credit costs of approximately JPY 2 billion in per-year average value terms, and thus the impact of water disasters caused by climate change on Sumitomo Mitsui Banking Corporation's current single-year finances is considered to be limited.

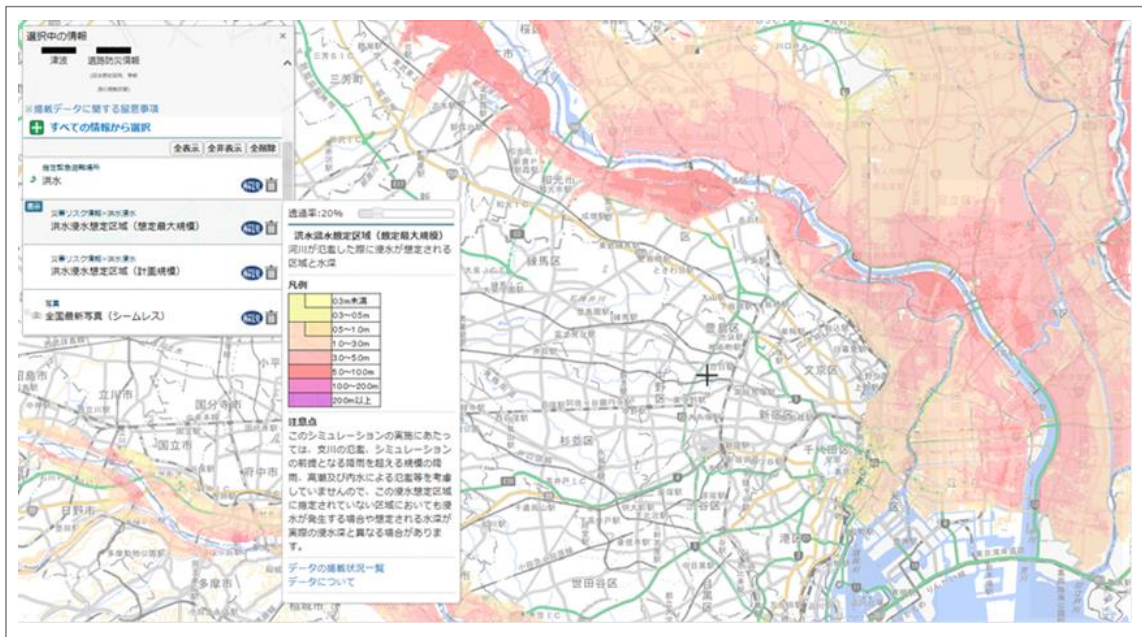
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<sup>16</sup> Hirabayashi Y, Mahendran R, Koirala S, Konoshima L, Yamazaki D, Watanabe S, Kim H and Kanae S (2013) Global flood risk under climate change. *Nat Clim Chang.*, 3(9), 816-821. doi:10.1038/nclimate1911.

**Figure 4-3 Incidence of natural disasters**



**Figure 4-4 Water disaster hazard map (Tokyo metropolitan area)**



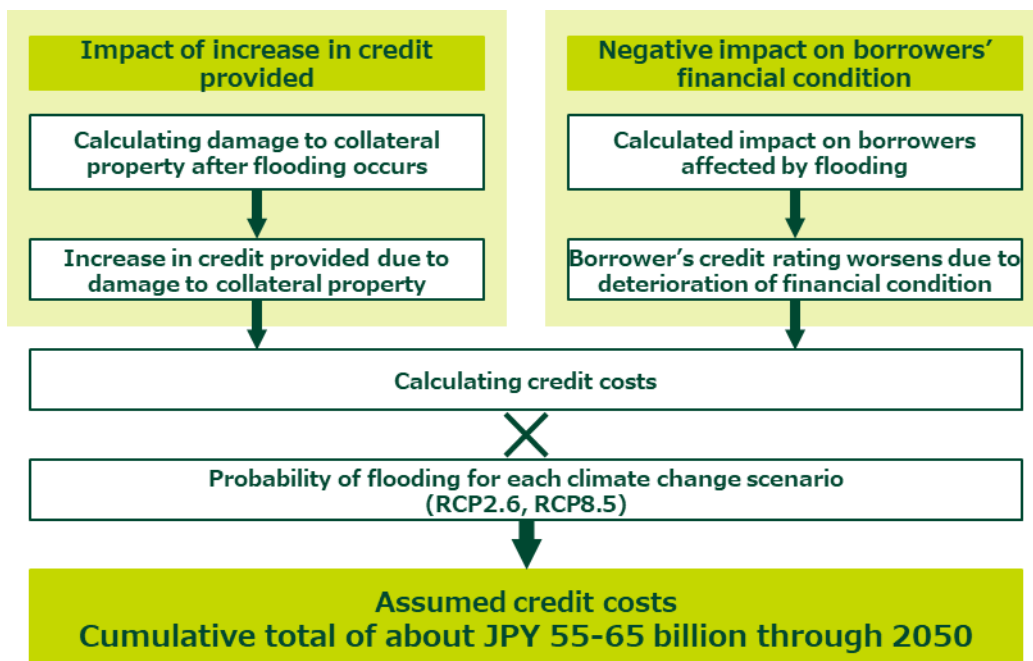
(Source) Ministry of Land, Infrastructure, Transport and Tourism

**Figure 4-5 Jupiter Intelligence: Analysis of satellite images**



(Source) Jupiter Intelligence

**Figure 4-6 Analysis process for physical risks**



## ② Transition risks

There are expected risks that the transition to a decarbonized society will affect the business of the Group's customers. SMBC conducted a climate change scenario analysis on physical risks and assessed related impact up to 2050. We suppose that sectors with large GHG emissions, such as energy and power sectors<sup>17</sup>, are expected to be particularly affected in the transition to a decarbonized society, so we covered these sectors in the analyses.

Scenarios used in the analysis are the following: NGFS's Current Policies scenario (3°C scenario)<sup>18</sup> and Net Zero 2050 scenario (1.5°C scenario)<sup>19</sup> on the premise that carbon neutrality will be realized by 2050; and IEA's Net-Zero Emissions scenario (1.5°C scenario)<sup>19</sup>. The analysis was conducted according to the following two steps.

### Step 1

Impact on our performance from the risk factors assumed for each of the energy and power sectors (see Figure 4-9; e.g., changes in carbon price, resource prices, and supply-demand environment depending on the degree of suppression of GHG emissions) was analyzed for each scenario.

### Step 2

We then reflected the results of the analysis in a stress test model which estimates anticipated credit costs for the period up to 2050.

As a result, under the 1.5°C scenario, we expected an increase in credit costs by approximately JPY 2 to 24 billion per fiscal year until 2050, vs. the Current Policies scenario. When comparing carbon price in 2050 in the 1.5°C scenarios used this time, there was a large gap: i.e., 673 USD/t CO<sub>2</sub> in the Net Zero 2050 scenario of NGFS vs. 250 USD/t CO<sub>2</sub> in the Net-Zero Emissions scenario of IEA. This is one of the factors that broaden the range of estimated increase in credit costs. Going forward, we will strive to enhance our scenario analysis methods as well as to reduce relevant risks by supporting our customers in their efforts toward the transition to a decarbonized society.

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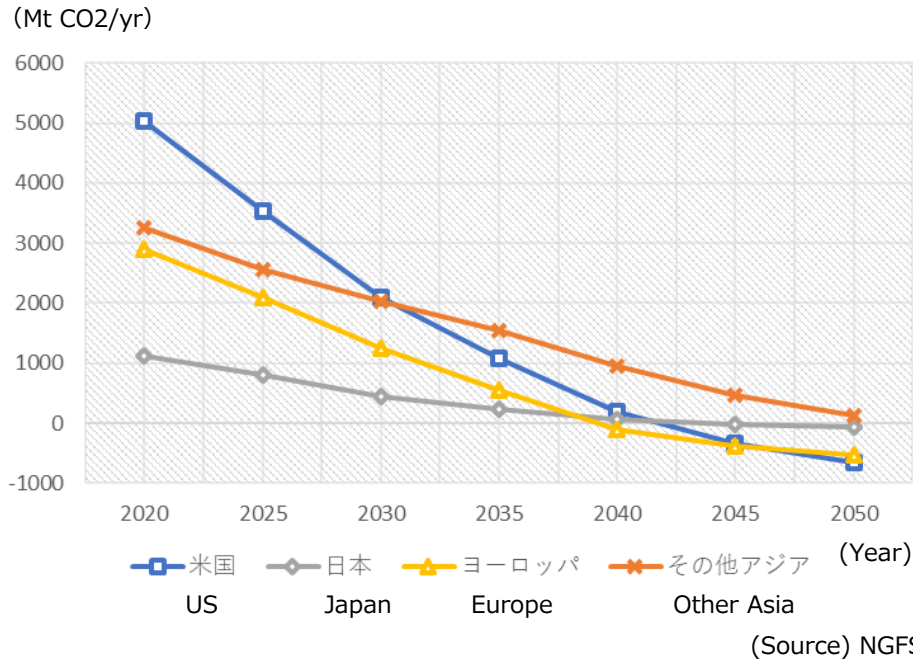
<sup>17</sup> Credits defined as the "carbon-related assets" in the TCFD Recommendations.

<sup>18</sup> A scenario where the current climate change measures implemented by each government will be maintained but the measures will not be strengthened further

<sup>19</sup> A scenario compatible with the Paris Agreement which expects less than 1.5°C temperature increase in 2100 relative to pre-industrial level through strict policies for climate change and tech innovation.

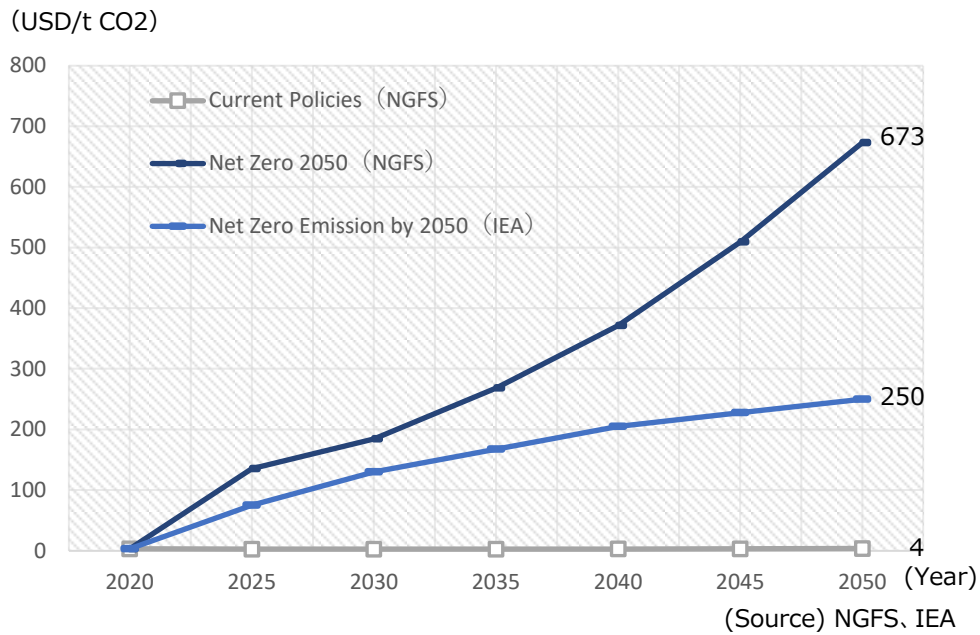
**Figure 4-7 Transition of carbon emissions**

Transition of carbon emissions in the Net Zero 2050 scenario, which was announced by NGFS in June 2021

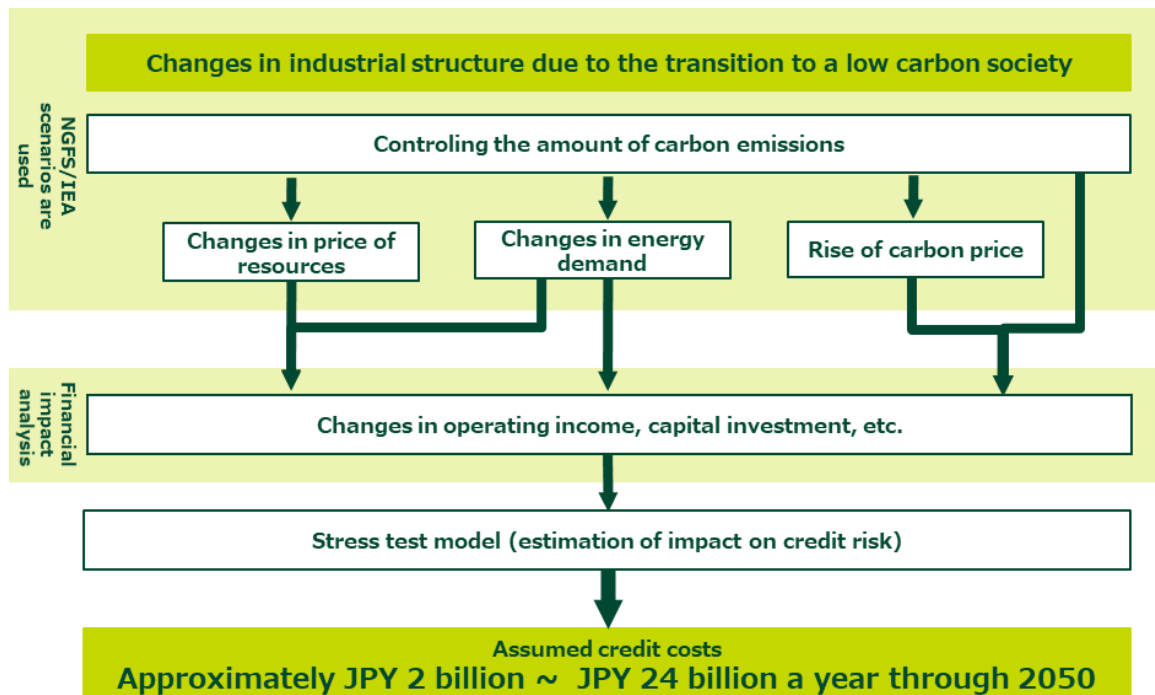


**Figure 4-8 Transition of carbon price**

Transition of carbon price in the scenario announced by NGFS in June 2021 and in the Net-Zero Emissions by 2050 scenario announced by IEA in May 2021



**Figure 4-9 Analysis process for transition risks**





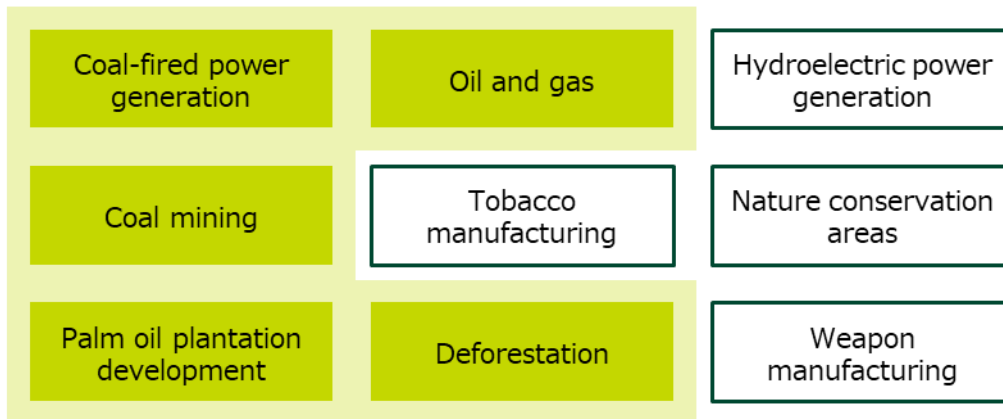
### (3) Efforts on risk management

#### ① Policy for businesses and sectors that affect climate change

SMBC Group has introduced policies at its group companies (SMBC, SMBC Trust Bank, Sumitomo Mitsui Finance and Leasing Company, SMBC Nikko Securities) on businesses and sectors that are likely to have a significant impact on the environment and society in line with the business of each group company<sup>20</sup>.

**Figure 4-10 Businesses and Sectors likely to have a significant impact on the environment and society**

(Businesses and sectors in the yellow-green frame are those likely to have more effect on climate change.)



<sup>20</sup> SMBC Group HP <https://www.smfg.co.jp/sustainability/materiality/environment/risk/>

Below we outline the Group's policy on each of the businesses and sectors likely to have an impact on climate change (i.e., coal-fired power generation, oil and gas, coal mining, palm oil plantation development, and deforestation). Revised points from our TCFD Report last fiscal year are the following.

- "Background" and "Policy" are rearranged to "Policy" and "Understanding of the business/Sector".
- The underlined portions below represent the changed points.

<p><b>Coal-fired power generation</b></p>	<p><b>Policy (Revised from the policy of last fiscal year)</b>  <u>Support for newly planned coal-fired power plants and the expansion of existing plants are not provided.</u></p> <p><b>Understanding of the Business/Sector</b>  <u>SMBC Group expects our customers to establish and publicly announce long-term strategies aimed at realizing a carbon neutral business model and other initiatives to address climate change. Moreover, SMBC Group will support the activities of our clients contributing to the transition toward and realization of a decarbonized society.</u></p>
<p><b>Oil and gas</b></p>	<p><b>Policy</b>  The scope of environmental and social risk assessments that take into account the Equator Principles is to be expanded for the following business areas and sectors when considering lending. After identifying and evaluating environmental and social risks, appropriate measures are considered.</p> <p><b>Understanding of the Business/Sector</b>  Oil and gas will continue to be important energy sources, and we are actively considering the measures for the businesses that contribute to the transition to a carbon-free society. On the other hand, given the progressing transition to a carbon-free society, it will be important to pay attention to the following: risk of the assets held becoming stranded due to possible price decline in the future; reduction of environmental burden associated with development; and interests of the people living in the development areas.</p> <p>■ <b>Oil sand</b>  Oil sand (tar sand) has relatively high carbon intensity and large environmental impacts are associated with its development. As such, environmental and social risk assessments are conducted, and close attention is paid to soil and water pollution caused by wastewater, deforestation, and efforts to protect biodiversity and indigenous communities, when considering lending.</p> <p>■ <b>Shale oil and shale gas</b>  During shale oil and shale gas development, the use of hydraulic fracturing methods is assumed to cause groundwater contamination and induce earthquakes. Whether appropriate mitigation measures have been implemented for these issues is carefully monitored, and environmental and social risk assessments are conducted when considering lending.</p> <p>■ <b>Oil and gas mining projects in the Arctic</b>  The Arctic Circle (an area north of the 66°33' latitude) is home to rare ecosystems and indigenous people with a unique culture. For mining projects in this region, environmental and social risk assessments are conducted, and close attention is paid not only to environmental considerations but also to measures to protect biodiversity and indigenous communities, when considering lending.</p> <p>■ <b>Oil and gas pipelines</b>  Pipelines are expected to have a wide range of environmental impacts due to oil spills and deforestation, as well as social impacts on indigenous communities, not only at the time of construction but also when completed. Whether appropriate mitigation measures have been implemented for these issues is carefully monitored, and then environmental and social risk assessments are conducted when considering lending.</p>

<p><b>Coal mining</b></p>	<p><b>Policy</b></p> <p>The scope of environmental and social risk assessment that take into account the Equator Principals is expanded for coal mining businesses when considering lending. Through this, environmental and social risks are identified and evaluated. In addition, support for coal mining projects that are conducted using the Mountain Top Removal (MTR) method is not provided due to a large environmental impact.</p> <p><b>Understanding of the Business/Sector</b></p> <p>Given the shift to a carbon-free society, it will be important to pay attention to the following: risk of assets held becoming stranded; adequate treatment of human rights issues among mining workers (e. g. abolition of illegal labor and child labor); biodiversity risk associated with the mining.</p>
<p><b>Palm oil plantation development</b></p>	<p><b>Policy (Partial addition to the policy of last fiscal year)</b></p> <p>For palm oil plantation development projects, whether they have been certified by the Roundtable on Sustainable Palm Oil (RSPO), which is given for palm oil produced with environmental and social consideration, or by an equivalent certifying body is confirmed. Support is only provided after confirming that forest resources and biodiversity are protected when new plantations are developed and that there are no human rights violations, such as child labor. For those customers that have not yet been certified, obtaining certification is encouraged and supported. <u>We will require our business partners to publicly declare their compliance with NDPE (No Deforestation, No Peat, No Exploitation).</u></p>
<p><b>Deforestation</b></p>	<p><b>Policy (Partial addition to the policy of last fiscal year)</b></p> <p>For any business involving deforestation, we provide them with support only after having confirmed as per the laws and regulations of respective country that there is no illegal deforestation, burning, nor <u>illegal labor</u>. Among them, <u>especially regarding large-scale farm (*) development projects, we will require them to publicly declare their compliance with NDPE</u>. In addition, when considering financing for any large-scale project, not limited to farm development projects, we will surely conduct environmental and social risk assessments as per the Equator Principles, while closely monitoring the applicant's stance on the following points: impact on virgin forests and ecosystems and mitigation measures for the foregoing; inclusion of peatland development; considerations for workers and local residents, etc.</p> <p><small>* Farm of 10,000 ha or more (e. g. business aimed at cultivating soybeans, natural rubber, coffee, etc., or using it as a grazing land for livestock)</small></p>

In Sumitomo Mitsui Banking Corporation's Credit Policy, which contains our overall financing policy, guidelines and rules, we declare that we will cease to provide financial support to borrowers engaged in businesses contrary to public responsibility, or which may have a significant negative impact on the global environment.

## ② Portfolio management

SMBC Group is working on measuring GHG emissions of our investment and loan portfolio, the balance of greenfield assets vs. brownfield assets, etc. to formulate business strategies that are consistent with the various declarations made by SMBC Group and for regular monitoring. First, we began the calculation of GHG emissions of our investment and loan portfolio for the energy and power sector. In addition, we will strive to secure our resilience to climate change through establishing a monitoring system considering greenfield assets vs. brownfield assets, etc.

## ③ Individual project management

### ■ Environmental and social risk management based on the Equator Principles

In January 2006, Sumitomo Mitsui Banking Corporation adopted the Equator Principles, a set of guidelines developed by private financial institutions for managing environmental and social risks. Sumitomo Mitsui Banking Corporation's Environmental and Social Risk Analysis Department (ESAD) performs environmental and social risk assessment (due diligence) in providing financing for large-scale projects that may have significant impacts on society and the environment. In doing so, SMBC requires entities to comply with the TCFD recommendations, while also striving to identify and manage risks.

### ■ Obtaining non-financial information

In addition to customers' financial information, SMBC also obtains non-financial information, such as ESG related information. We use this to understand the potential impact of customers' business activities on the environment and society and qualitatively assess the appropriateness of providing support when making lending decisions. Through dialogue with customers when gathering non-financial information, SMBC Group strives to thoroughly understand customers' approaches to climate change while also sharing mutual awareness about the issue.

More specifically, we will proactively support our clients in their initiatives to make environmental and social considerations and cooperate with clients to address potential risks.

## 5. Metrics and Targets

As listed in “Chapter 3: Strategy” and “Chapter 4: Risk Management”, SMBC Group is applying a variety of metrics regarding GHG emissions, exposure, etc. for the purposes of measuring/controlling climate change risk/opportunities, to comply with the Paris Agreement, and to establish a path to achieve the net zero target. These metrics are regularly reported to the Management Committee, the Corporate Sustainability Committee and the Board of Directors, and are reflected in SMBC Group’s oversight and business strategies.

**Figure 5-1 Key climate change-related metrics and targets at SMBC Group**

Strategy	Metrics (KPI)	FY2019 result	FY2020 result	Targets
Reduce Operational GHG Emissions	GHG emission volume of SMBC Group*1	140k tons	140k tons	Net zero in 2030
Enhance Risk Management	Carbon-related asset ratio*2	6.9%	6.5%	-
	Loan balance for coal-fired power generation (project finance) *3	-	JPY 300 billion	2030: ▲50% 2040: Zero balance
Reduce Financed Emissions	GHG emissions per sector*4	-	382 g-CO2/kWh (Power sector)	Net zero by 2050 (currently setting mid-term target)
Promote Business addressing Decarbonization	Green finance and financing which contributes to sustainability (executed amount)*5	-	2.7兆円	Total of JPY 30 trillion by 2030 (of which JPY 20 trillion is green finance)

\*1 Metrics and targets have been revised on May 12, 2021.  
Previously: Sumitomo Mitsui Banking Corporation would reduce its CO2 emissions by 30% from FY2018 to FY2029.  
Revised: SMBC Group will become net zero in its groupwide operations by 2030.

\*2 Excludes loans to renewable energy projects in order to more accurately reflect exposure on transition risks.

\*3 Mid-term target (halve our loan balance by FY2030) were added in 2021.

Excludes projects that contribute to the realization of a carbon neutral society.

\*4 FY2020 result is the trial calculation based on the current loan balance of Sumitomo Mitsui Banking Corporation (including consolidated subsidiaries).

(369g/kWh if calculated based on the credit amount)

We will continue to measure financed emissions on other sectors.

(Metrics will be absolute emission or carbon intensity.)

\*5 Metrics and targets have been revised on May 12, 2021.

Previous: Execute green finance equivalent to JPY 10 trillion between FY2020 to FY2029

New: Execute green finance and finance that contribute to realizing sustainability equivalent to JPY 30 trillion between FY2020 to FY2029(of which JPY 20 trillion is green finance).

FY2020 result only account for execution amount of green (due to the revision on metrics and targets).

## (1) GHG emissions at SMBC Group

We must reduce GHG emissions in order to realize the Paris Agreement's target of limiting global warming to below 2°C, preferably to 1.5°C, compared to pre-industrial levels. In addition, the implementation of climate change-related initiatives is becoming one of the key criteria for our ESG evaluation. Thus, delays in reducing GHG emissions resulting from one's own business activities could lead to reputational risk. Furthermore, maintaining power procurement in a traditional way that relies on GHG emissions-heavy thermal power generation entails volatility risk of costs arising from changes in public policy and fluctuations in costs of natural resource. As such, from the perspective of stabilizing energy procurement cost too, it is also desirable to switch to emission free, renewable energy-based power sources.

In SMBC Group GREEN×GLOBE 2030 announced in FY2020, we set a goal to reduce Sumitomo Mitsui Banking Corporation's carbon footprint by 30% in FY2030 in comparison to FY2018. However, we upwardly revised this goal when we released our Roadmap Addressing Climate Change in May 2021. SMBC Group's goal is to now realize net zero GHG emission in its groupwide operation by 2030.

In order to realize further reductions going forward, we at SMBC Group are planning to switch to utility contracts in which electricity is derived from renewable energy via the use of non-fossil certificates, etc. SMBC Group will continue to engage in efforts to reduce our own GHG emissions, not only to reduce environmental impact of our business activities, but also from the standpoint of reducing volatility and reputational risks.

**Figure 5-2 GHG emissions at SMBC Group**

Category	FY2018	FY2019	FY2020*	Target
Scope1 (direct emissions)	14,863 tons	13,526 tons	11,233 Tons	<b>Net zero in 2030</b>
Scope2 (indirect emissions)	140,821 tons	126,086 tons	128,313 tons	
<b>Scope1・2 Total</b>	<b>155,684 tons</b>	<b>139,612 tons</b>	<b>139,546 tons</b>	

\*Additional explanations on the boundary

- Each item is simply the sum of the values of the following group companies. Sumitomo Mitsui Financial group, Sumitomo Mitsui Banking Corporation, SMBC Trust Bank, Sumitomo Mitsui Finance and Leasing, SMBC Nikko Securities, Sumitomo Mitsui Card Company, SMBC Financial Service, SMBC Consumer Finance, The Japan Research Institute, Sumitomo Mitsui DS Asset Management Company.
- We revised boundary in FY2020 because of reorganization.  
(FY2018 and FY2019 are based on pre-reorganization.)

## (2) Carbon-related asset ratio and balance of loans extended to coal-fired power projects

There is a risk that assets with high GHG emissions will lead to higher credit costs in line with the transition to a decarbonized society. Furthermore, reputational risk may result from having a high level of exposure to such assets which are not consistent with the goals and values set out under the Paris Agreement. SMBC Group has conducted scenario analyses on transition risks that the energy and power sectors could face given their high GHG emissions and high vulnerability to such risks as we transition to a decarbonized society. As the exposure to carbon-related assets is identified by the TCFD Recommendations as an item requiring disclosure, we will consider monitoring various metrics associated with these sectors.

Regarding coal-fired power plants (assets viewed as being high risk due to their exceptionally high GHG emissions, even among carbon-related assets), SMBC Group is aiming to halve our loan balance by FY2030 and realize a zero balance by FY2040<sup>21</sup>. Furthermore, SMBC Group has publicly announced that we will not support the construction of new coal-fired power plants or the expansion of existing ones.

**Figure 5-3 Carbon-related asset ratio<sup>22</sup>**

Category	FY2019 <sup>*1</sup>	FY2020 <sup>*1</sup>
Energy (oil, gas, etc.)	4.4%	JPY 3.5 trillion (4.1%)
Utilities (electricity)	2.5%	JPY 2.1 trillion (2.4%)
<b>Total</b>	<b>6.9%</b>	<b>JPY 5.6 trillion (6.5%)<sup>*2</sup></b>

\*1 Ratio = loan balance tied to carbon-related assets ÷ total loan balance  
(Excludes loans to renewable energy projects in order to better reflect transition risk exposure)

\*2 The FY2020 loan balance tied to carbon-related assets represents 4.4% of Sumitomo Mitsui Banking Corporation's (including consolidated subsidiaries) total assets (total on-balance sheet assets + off-balance sheet assets, etc.)

**Figure 5-4 Loan balance for coal-fired power generation**

Category	FY2019	FY2020	Target
Loan balance* (project finance)	-	JPY 300 billion	<b>2030: ▲50%</b> <b>2040: Zero balance</b>

\*Excludes projects that contribute to the realization of a decarbonized society

<sup>21</sup> Project finance is subject, does not include projects that contribute to the transition of a decarbonized society. (FY2020 balance: approximately JPY300 billion)

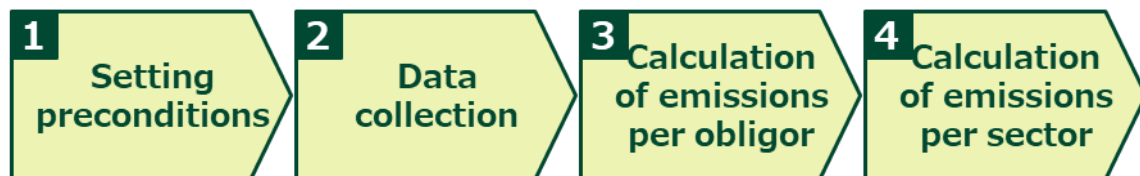
<sup>22</sup> Sumitomo Mitsui Banking Corporation's (including consolidated subsidiaries) assets

### (3) Analysis of metrics/targets concerning financed emissions

GHG emissions resulting from investments and loans makes up a substantial portion of a financial institutions carbon footprint. Measuring, goal setting and reducing such emissions is a key action to complying with the Paris Agreement and realizing net zero GHG emissions. In addition, as mentioned earlier, financial institutions' portfolios are facing transition risks in their carbon-related assets, resulting in the risk of increased credit costs in line with the transition to a decarbonized society.

On the other hand, this offers opportunities in transition finance as we engage with customers concerning the transition to a decarbonized society. Given such circumstances, SMBC Group decided to first commence calculations of financed emissions associated with energy and power sector companies (given the size of the said sector's GHG emissions) that make-up Sumitomo Mitsui Banking Corporation's loans and investments portfolio, as Sumitomo Mitsui Banking Corporation has the largest loans and investments portfolio of SMBC Group. We are currently in the process of finalizing applicable calculation method while referring to the PCAF Standard<sup>23</sup> released in 2020 and the 2021 TCFD Measuring Portfolio Alignment: Technical Supplement. This report is the first step in this process and contains our current calculation results regarding GHG emissions generated by Sumitomo Mitsui Banking Corporation's loans and investments portfolio in the power sector.

**Figure 5-5 Key steps for calculating GHG emissions generated by loans and investments portfolio**



<sup>23</sup> PCAF Standard (The Global GHG Accounting and Reporting Standard for the Financial Industry): A standard established by the PCAF, a global initiative to promote the measurement/disclosure of GHG emissions resulting from financial institutions' loans and investments portfolios.



## ① Setting preconditions

### ■ Sector-based approach

There are issues on each business sector which they must overcome to achieve carbon neutrality, and thus we expect to see differences in the applied methods and in the speed in which those methods progress. The approach in which sector-based emission paths are set considering a climate science perspective is known as the Sectoral Decarbonization Approach (SDA) and is used by many organizations, including Science Based Targets initiative (SBTi<sup>24</sup>) participant companies. Given the necessity of financial institutions to constantly engage with customers from various sectors based on their respective situations, SMBC Group will use SDA in the calculation of financed emissions and in the setting of applicable targets.

### ■ Calculation boundaries

The current calculation covers portfolio companies that are engaged in power generation and applies emissions intensity (g-CO<sub>2</sub>/kWh)<sup>25</sup> as the metric. In terms of specific boundaries, Scope1 emissions (emissions that directly occur from clients' power generating businesses) are subject to calculation.

When we think of the GHG emissions that occur over the life cycle of the power sector, we can see that many of those emissions result from generation companies, not distribution companies or retailers. Furthermore, given that power plants are assets having the risk of becoming stranded assets, we have decided to focus on power generation companies.<sup>26</sup>

Regarding the subject loans and investments assets, the calculation will be conducted centering on major domestic and overseas transactions in corporate finance and project finance given that these two financing categories make up the majority of Sumitomo Mitsui Banking Corporation's loan balance.

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<sup>24</sup> SBTi (Science Based Targets initiative): An international initiative that recognizes corporates that have set ambitious GHG emission targets that are in line with the 2°C target set under the Paris Agreement (Science Based Targets).

<sup>25</sup> Calculated by dividing Scope1 emissions (absolute amount) from power generation companies with electricity generation volume. This metric is often used for power sector's SDA.

<sup>26</sup> The current calculation covers power plants in operation. (Excludes power plants in construction)


## ② Data collection

To calculate financed emissions, GHG emissions data of each company receiving loans and/or investments are required. However, not all corporates report their GHG emissions, and the level of disclosure can differ based on factors such as company size, industry sector, and geographical location. As such, this is a major challenge facing financial institutions to calculate financed emissions. Currently, we are calculating GHG emissions based on data that we can obtain from a select group of corporates.

Considering such circumstance, the PCAF Standard has introduced a data quality score and advises that calculations are conducted in line with those scores. For this calculation, we referred to the data quality score and prioritized emission data that is based on disclosed information. When such data was not available, we conducted GHG emissions calculation using estimated emission volume. In terms of data collection, in addition to examining information disclosed by our clients (annual report, etc.) and public information (Power of Electricity Survey Statistic, etc.,) we conducted interviews to obtain data concerning GHG emissions and activity volume data (electricity generation volume).

**Figure 5-6 PCAF’s data quality score table**

Category	Example	Score
Reported emissions	Emissions data authenticated by an independent third-party	1
	Unauthenticated emissions data	2
Physical activity-based emissions	Estimated emissions volume based on energy consumption volume, etc.	3
	Estimated emissions volume based on production volume data, etc.	4
Economic activity-based emissions	Estimated emissions volume based on each company’s sales data	5
	Estimated emissions volume based on each company’s asset data	5



(Source: Compiled by the company using sources from the PCAF Standard)

#### ④ Calculation of emissions per obligor

Based on information we obtained through our examinations, we calculate emissions intensity and GHG emissions resulting from each client's power generation business. For example, in a case we have both GHG emissions and electricity generation volume data, we obtain emissions intensity by dividing GHG emissions with electricity generation volume. If we are only able to obtain energy consumption volume and/or electricity source data, we estimate emissions intensity per electricity generation by applying emission factors available on public databases<sup>27</sup>.

#### ⑤ Calculation of emissions per sector

Using emissions intensity of each client's power generating business as the basis, we calculate SMBC Group's GHG emissions (emissions intensity) per sector. There are two main ways to calculate GHG emissions on a portfolio level. The first is to use figures based on enterprise value including cash (EVIC) of the respective company as recommended by PCAF. The second approach, and the approach we have used for our calculations, is to apply the weighted average of a financial institution's portfolio as recommended by PACTA<sup>28</sup>. Loan amounts have been calculated based on Sumitomo Mitsui Banking Corporation's loan data as of the end of March 2021<sup>29</sup>.

The result of the calculation based on the above process was 382g-CO<sub>2</sub>/kWh<sup>30</sup> and is lower than other national averages. Although we limited our calculation to major deals, we will expand our coverage and calculation targets as we progress further in our data gathering efforts via client engagement and other methods.

We will further enhance the calculation process by not only keep reflecting the most recent trends (PCAF, TCFD Recommendations, etc.), but by also engaging with our various stakeholders (keep considering whether to take part in initiatives, etc.).

In line with the targets set under the Paris Agreement, SMBC Group is committed to realizing a net zero emissions across our overall investment and loan portfolio by 2050 and will set applicable medium-to long-term targets while expanding subject sectors (oil & gas, etc.) as part of our efforts to achieve this vision.

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<sup>27</sup> For example, used the 2019 emission figures disclosed by the U.S. Energy Information Administration (EIA) for coal generated power

<sup>28</sup> 2DII "PACTA for Banks Methodology Document" (18 September 2020)

<sup>29</sup> Loan total of Sumitomo Mitsui Banking Corporation (including consolidated subsidiaries)

<sup>30</sup> FY2020 result is a trial calculation based on the current loan balance of Sumitomo Mitsui Banking Corporation (including consolidated subsidiaries). This figure may change due to updates on calculation process and/or target boundary

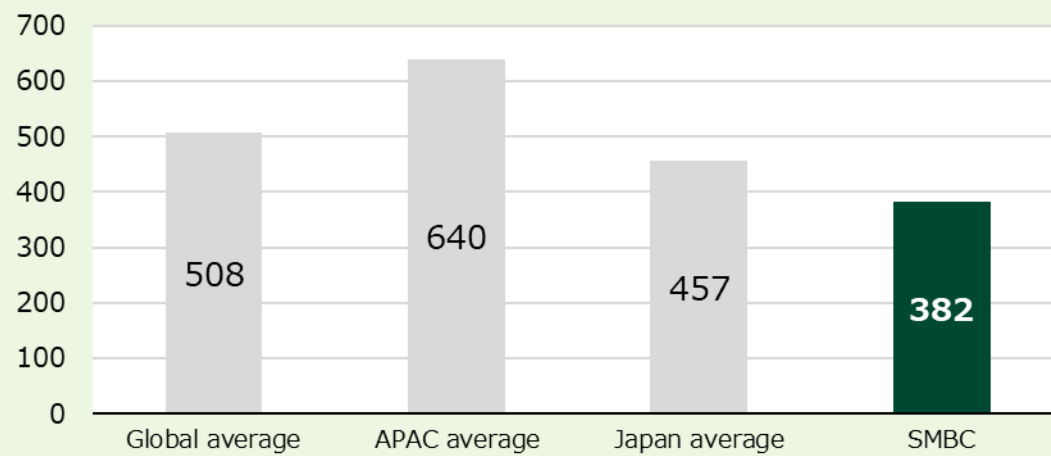
**Figure 5-7 Sectorial GHG emissions calculation method and the result**

**Formula to calculate emissions per sector(carbon intensity)**

$$\boxed{\text{Sectorial emissions of SMBC Group}} = \sum \left( \frac{\text{Loans to each obligor}}{\text{Total loans of subject sector}} \times \text{Each obligor's carbon intensity} \right)$$

**Results of sectorial emissions calculation (carbon intensity)**

(Unit : g-CO2/kWh)



※ The figure in the graph is based on Sumitomo Mitsui Banking Corporation's (including consolidated subsidiaries) loans (corporate and project finance). 369g-CO2/kWh by credit balance.  
 ※ 200~203g-CO2/kWh if only project finance (credit balance~loans)  
 ※ Regional averages are based on 2019 figures listed in the IEA World Energy Outlook 2020

#### (4) Execution of green finance and finance that contributes to realizing sustainability

To realize a decarbonized society, more investments especially on the energy related sector are expected, given the necessity of innovation and large-scale capital investments to reduce GHG emissions by a significant amount. The need for new financial products/services and increasing demand for financing due to the transition to a decarbonized society presents a long-term growth opportunity for financial institutions. Given this backdrop, SMBC Group established the green finance execution amount as a KPI and pledged to execute JPY 10 trillion of green finance between FY2020 and FY2029.

However, given the global acceleration of efforts to address climate change and social issues, and the increase in financing needs, SMBC Group revised its target upward to JPY 30 trillion of finance that contributes to sustainability between FY2020 to FY2029 (of which JPY 20 trillion is green finance) after redefining subject transactions.

**Figure 5-8 Financing results vs targets**

Category	FY 2020	Target (FY 2029)
Green Finance	JPY 2.7 trillion	Total of JPY 20 trillion
Finance that Contributes to Realizing Sustainability	- (newly established)	Total of JPY 10 trillion
<b>Total</b>	<b>JPY 2.7 trillion</b>	<b>Total of JPY 30 trillion</b>

Furthermore, SMBC Group has been establishing a robust presence in the green finance market.

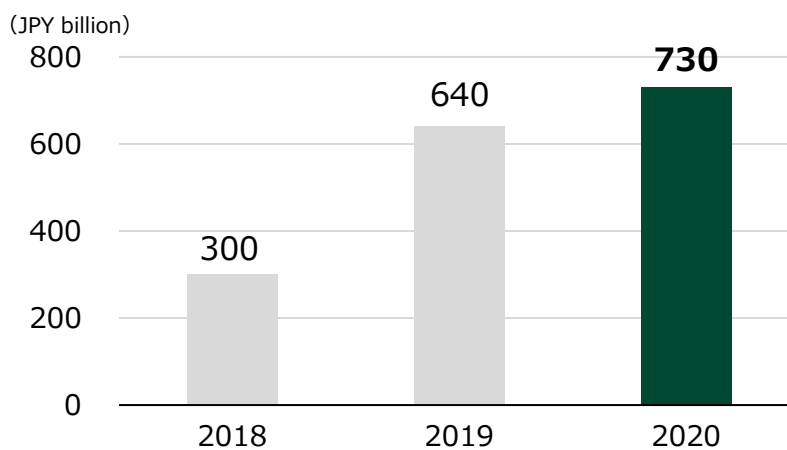
In terms of project finance for renewable energy projects, SMBC Group originated loans valued at approximately JPY 740 billion in FY2020, and we have consistently maintained our top tier position in IJGlobal Magazine's league table. SMBC Nikko is proactively pursuing underwriting opportunities for SDG bonds, including green bonds. In FY2020, SMBC Nikko served as the lead managing underwriter for many SDG bond issues, underwriting bonds valued at JPY 670 billion in overseas and domestic markets.

Also, SMBC Group issues green bonds in line with the International Capital Market Association (ICMA) and the Green Bond Guidelines set by the Ministry of the Environment, hereby contributing to the promotion of environmental businesses and reduction of environmental impacts both in and outside of Japan. We will continue to work with our customers to resolve issues arising from climate change as we strive to achieve our green finance targets.

**Figure 5-9 Top five banks in project finance for renewable energy**

	2018	2019	2020
1	<b>SMBC</b>	Santander	Santander
2	MUFG	<b>SMBC</b>	Societe Generale
3	Santander	Credit Agricole	MUFG
4	Societe Generale	Natixis	<b>SMBC</b>
5	Groupe BPCE	MUFG	Rabobank

**Figure 5-10 Total amount of project finance for renewable energy**



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## 6.Future activities

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In responding to the TCFD recommendations, SMBC Group has strengthened the management of climate-related risks by including the matter to our Top Risks, quantitatively assessing anticipated future risks by scenario analyses and discussing countermeasures at the management level.

Going forward, we will formulate and execute business strategies in a forward looking way by constantly refining scenario analyses and grasping potential risks. We will lead the resolution of climate change issues in a global level by deepening our engagements with customers based on our calculation of financed emissions and actively promoting green finance both domestically and internationally.

Additionally, we will encourage in constructive engagements with stakeholders including customers and strive to create mutual understanding on the approaches we are taking on climate change, how customers contribute to achieving the goals of the Paris Agreement and their efforts to reduce their own GHG emissions.

Based on these engagements, we will demonstrate leadership in addressing climate change issues by supporting our customers' efforts to transition to a decarbonized society. Going forward, we will continue to provide consistent and transparent disclosures to our stakeholders in line with the TCFD Recommendations.