

Climate Change Initiatives

Our Approach to Climate Change

Awareness of climate change issues

Climate change is one of the most serious environmental issues that threaten the sustainability of the global economy and society. Around the world, abnormal weather—including wind and flood damage in particular—is becoming ever more extreme, and the impact of this is starting to materialize: promoting inequality and poverty, which have a negative effect on the weak including developing countries, and becoming a financial risk of traditional financial businesses such as loan and insurance services for companies, individuals, real estates and projects.

At the same time, to control global warming—the main cause of climate change—at a level consistent with the Paris Agreement, it is essential to develop new technologies which help reduce, absorb and utilize greenhouse gases and to socially implement them in various countries and regions. Financial institutions have a mission that includes not only responding to massive funding demands—which cannot be covered by financial support from the government alone—but also organically integrating the knowledge and know-how of parties related to climate change such as companies, local governments and researchers and actively facilitating commercialization of them.

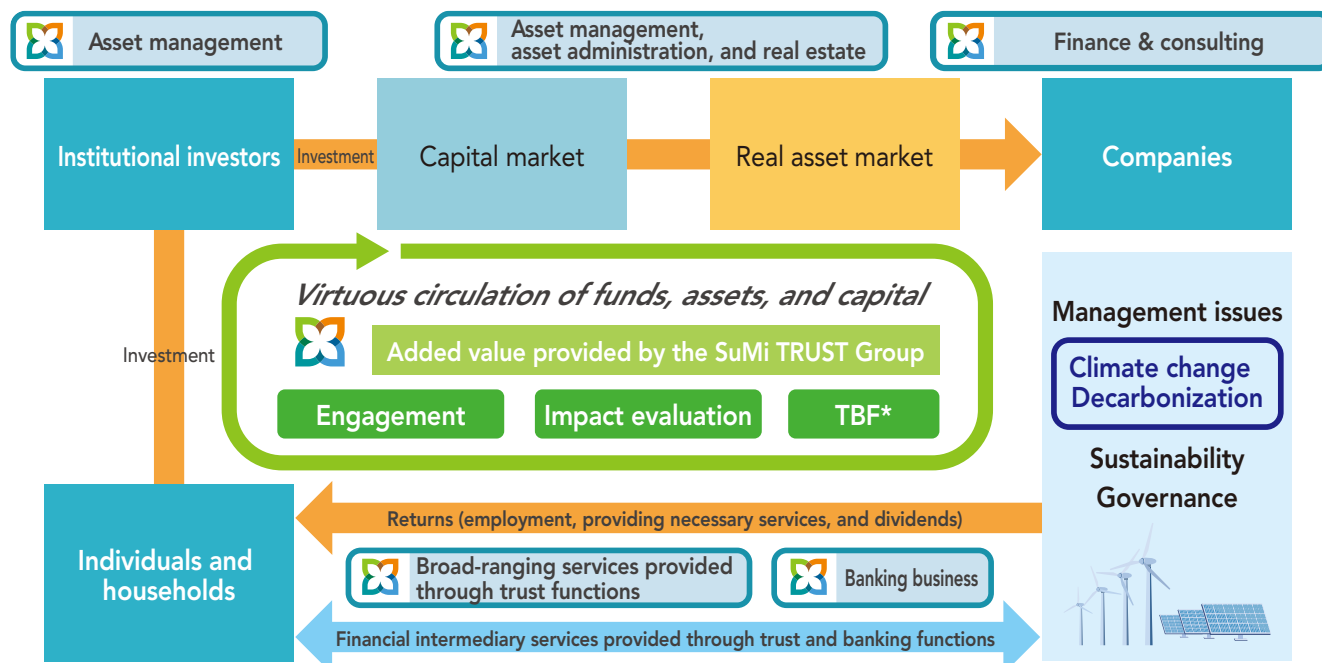
In addition, to resolve climate change issues, it is also necessary to deal with complicated interests which derive from existing legal systems, life styles and corporate activities. It is therefore important to steadily promote the transition to a carbon-neutral society, while collaborating with a diverse range of stakeholders and considering the negative effects on the weak.

The Group's risks and opportunities

Given the above, we consider the most important factors that facilitate or inhibit the Group's value creation process to be issues of "materiality," one of which is "ESG/ Sustainable management," which includes "climate change". Under the Group's shared Action Guidelines for Mitigating Climate Change, we strive to maintain an appropriate awareness of risks and opportunities stemming from climate change, and—through our diverse lines of business as a trust banking group—we endeavor to minimize our negative impact while maximizing our positive effects.

More specifically, we have defined physical damage to social infrastructure and nature due to medium- to long-term climate change and abnormal weather (physical risks) as well as the rapid transition to a low-carbon society through changes of climate change-related policies, changes of market preferences/social norms, and technological innovations (transition risks) as climate change-related risks, and we strive to limit greenhouse gas emissions due to our business activities while also implementing risk management and monitoring targeting our orderly investments and loans, which are governed by policies for specific sectors, etc. At the same time, we hope to contribute to the circulation of funds between individuals (households), companies, and investors, by providing investments and loans that promote the use and utilization of solar power, wind power, and other forms of renewable energy, creating new opportunities for investment—such as in the establishment of locally produced and consumed renewable energy business—and making the Group's own investment a trigger.

Virtuous circulation in sustainable areas



*Technology-based Finance Team

Climate Change Initiatives

Group Initiatives

The Sumitomo Mitsui Trust Group declared its commitment to carbon neutrality in 2021 and launched initiatives to reduce greenhouse gases. The main initiatives to date are as follows:

	FY2020	FY2021	FY2022	...	FY2030	FY2040	FY2050
① Net zero GHG Emissions in inv. & loan portfolio (NZBA)							Net Zero
Electricity (Emission intensity, g-CO ₂ eq/kWh)	249				138 – 173		
Oil/Gas (Emission reduction rate, MtCO ₂ e)	5.7				-13% to -31%		
Other Highly Carbon Intensive Sectors*1			Successively set by Sep. 2024				
② Net zero GHG Emissions in investment portfolio (NZAMI)							Net Zero
SuMi Trust Asset Management				➤	Halve emission intensity for 50% of managed assets*2 from 2019		
Nikko Asset Management				➤	Halve emission intensity for 43% of managed assets*3 from 2019		
③ Total amount of cumulative sustainable financing*4		0.83 trillion yen		➤	Total 10 trillion yen		
④ Loan balance for coal-burning power plants							
Loan for projects		142.7 billion yen		➤	Halve from Mar. 2020	Zero	
Corporate loans (new/expansion)		20.1 billion yen		➤		Zero	
⑤ Net Zero GHG Emissions of SuMi TRUST Group			Completed shift to electricity from renewable sources in domestic branch offices of the trust bank		➤	Net Zero	
⑥ Strengthen risk control set-up							
Scenario analysis							
Transition risk	Elect. utilities sector	Shipping sector	<ul style="list-style-type: none"> Simple analysis per sector Detailed analysis of each energy company 		Successively expand targeted sectors for specific analyses		
Physical risk	Mortgage loans		<ul style="list-style-type: none"> National real estate finance 		Start analysis of national project finances and others successively		
GHG Emissions in loan & investment portfolios		Initial trial calculation	<ul style="list-style-type: none"> Successively set and update measurement 		Continuous review and enhancement		
Manage portfolio (Revision of Sector Policy)		Clarify trades banned/to note	<ul style="list-style-type: none"> Partial ban on loans for coal-fired power generation Clarify transition supports 		Continuous review and enhancement		

*1: Highly carbon-intensive sectors are 9 sectors to which targets should be set with priority according to the NZBA guideline: agriculture, aluminum, cement, coal, commercial/residential real estate, steel, oil/gas, power generation, transportation.

*2: Targeting 43 trillion yen, 50% of 85 trillion yen of total managing assets as of Jun.30, 2021. Excluded managing assets are sovereign bonds, etc., for which a method to calculate has not been established yet but will be successively added as target assets, when a method is established from now on.

*3: Targeting 13 trillion yen, 43% of 31 trillion yen of total managing assets as of Dec.31, 2021.

*4: Sustainable financing is a general term for financial services to businesses and clients which contribute to solving environmental/social issues based on international standards such as the Green Bond Principle and the Social Bond Principle. Initially SuMi TRUST Bank set the target to tackle to a total of 5 trillion yen, but has changed to a total of 10 trillion yen including 2.5 trillion yen by impact equities since FY2022, responding to expanding financial needs for accelerated environmental/climate change.

Refer to the following documents for additional details.

TCFD Report (2022/12/29)

[PDF https://www.smth.jp/english/-/media/th/english/sustainability/report/2022/TCFD-E-all.pdf](https://www.smth.jp/english/-/media/th/english/sustainability/report/2022/TCFD-E-all.pdf)

Progress on Carbon Neutrality Initiatives (2022/10/31)

[PDF https://www.smth.jp/english/-/media/th/english/news/2022/Project_English_NetZero.pdf](https://www.smth.jp/english/-/media/th/english/news/2022/Project_English_NetZero.pdf)

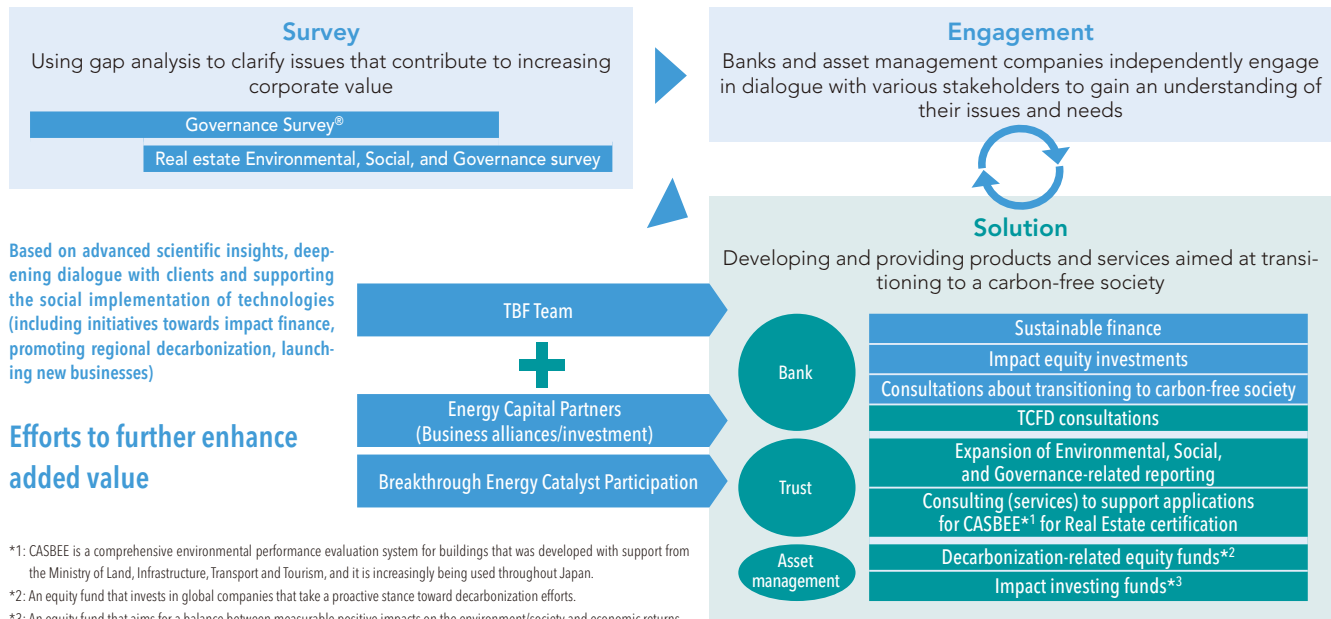
Progress on Carbon Neutrality Initiatives (2023/2/2)

[PDF https://www.smth.jp/english/-/media/th/english/news/2023/Project_English_NetZero.pdf](https://www.smth.jp/english/-/media/th/english/news/2023/Project_English_NetZero.pdf)

Engagement & Solutions

When pursuing these initiatives, the Group will engage in sincere dialogue with various stakeholders regarding climate change issues and emphasize various approaches (engagement) based on a deep understanding and analysis of the relevant issues and needs. In addition, the Group will fully utilize

its internal functions—including banking, trusts, real estate, asset management, and asset administration—to take on the challenge of developing and providing innovative products and services (solutions), thereby contributing to the transition of borrowers and investees as well as society as a whole.



Participation in International Initiatives

In order to more steadily promote its initiatives toward carbon neutrality, the SuMi TRUST Group has become a member of the Net-Zero Banking Alliance (NZBA); NZBA is a financial sub-sector net-zero initiative of the Glasgow Financial Alliance for Net-Zero (GFANZ), a sector-wide coalition of net-zero finance initiatives.

NZBA is an international initiative for banks committed to aligning their lending and investment portfolios with net-zero GHG emissions by 2050; it was convened by the UN in April 2021. NZBA members are required to systematically reduce operational and attributable GHG emissions from their lending and investment portfolios, with the goal of achieving net-zero emissions by 2050 or earlier.

The SuMi TRUST Group became a member of NZBA in October 2021. Going forward, in line with NZBA guidelines, the Group will draw up interim reduction targets and

concrete reduction schedules for GHG emissions, and promote initiatives aimed at achieving net-zero.

The Net-Zero Asset Managers initiative (NZAMI) is an international group of asset managers committed to achieving net-zero GHG emissions in investee companies by 2050; it was launched in December 2020. NZAMI members are required to systematically reduce GHG emissions in assets under their management, with the goal of achieving net-zero emissions by 2050 or earlier.

Sumitomo Mitsui Trust Asset Management became a signatory of NZAMI in July 2021, with Nikko AM following in November 2021. Going forward, in line with NZAMI guidelines, both companies will formulate interim GHG emissions reduction targets for assets under their management, and promote initiatives aimed at achieving net-zero.

TCFD Report Publication

TCFD stands for “Task Force on Climate-related Financial Disclosures.” It was established by the Financial Stability Board (FSB) to develop recommendations for how companies ought to disclose climate-related financial information. SuMi TRUST Holdings declared its support for TCFD and its recommendations in 2018. Since then, Group companies have followed these recommendations in their activities,

with a focus on the core recommendations related to information disclosure. The Group has published a TCFD Report covering its Group-wide initiatives every year since fiscal 2020.

