



Strengthening Efforts against Climate Change

May 15, 2023



SUMITOMO MITSUI
FINANCIAL GROUP

Summary (Major updates)

		Contents	Pages
Governance		<ul style="list-style-type: none"> ● Revision of executive compensation system to incorporate ESG quantitative indicator in the medium-term performance-based compensation ● Appointment of Paul Polman, former CEO of Unilever PLC as Global Advisor 	<p>p.3</p> <p>p.3</p>
Climate-related risk management	Coal	<ul style="list-style-type: none"> ● Enhanced phase-out strategy for coal sector (thermal coal mining) 	p.5
	Scope3 (Portfolio GHG)	<ul style="list-style-type: none"> ● Mid-term reduction targets in the steel, and automobile sector (FY3/24) ● Calculate estimated sectoral GHG emissions (FY3/24 first half) 	<p>p.7</p> <p>p.7</p>
	Risk management	<ul style="list-style-type: none"> ● Development of a Risk Appetite Framework to manage climate-related risks ● Rolling out customers' transition strategies assessment (FY3/24 first half) 	<p>p.8</p> <p>p.8</p>
	Scope1,2	<ul style="list-style-type: none"> ● Setting of mid-term reduction target 	p.9
Supporting transition		<ul style="list-style-type: none"> ● Sustainable finance KPI revised upwards from JPY 30 tn to JPY 50 tn ● Establish Transition Finance Playbook (By the end of May 2023) 	<p>p.10</p> <p>p.11</p>
Natural capital		<ul style="list-style-type: none"> ● Publication of SMBC Group TNFD Report 	p.14

Enhancement of Sustainability Management System

Revision of executive compensation system to incorporate ESG quantitative indicators, such as portfolio GHG emissions, in the medium-term performance-based compensation

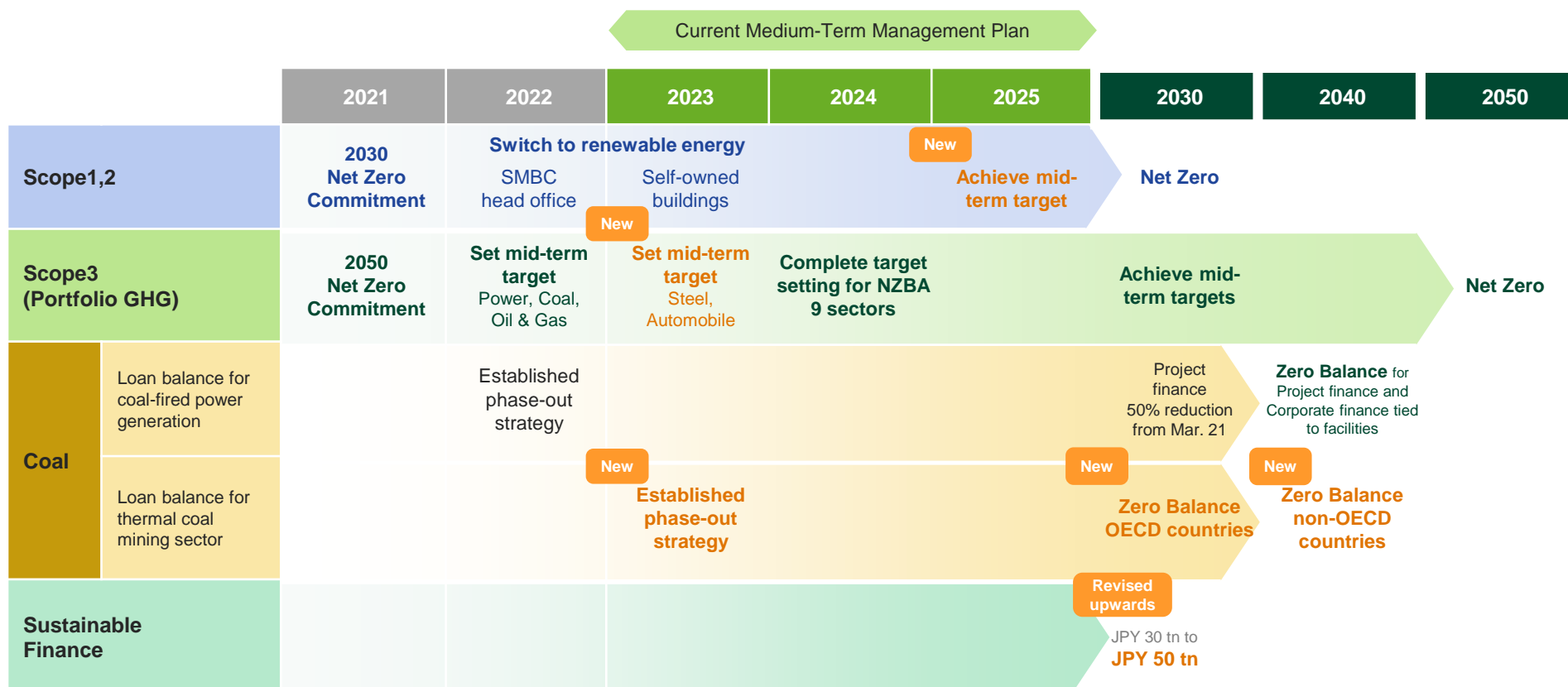
Appointment of Paul Polman, former CEO of Unilever PLC as Global Advisor

Executive compensation system		Revised April 2023
Base salary	Fixed compensation	
Bonus • Cash • Stock Compensation Plan II	Annual performance-linked (0~150%)	
	<div style="display: flex; align-items: center;"> <div style="border: 1px solid black; padding: 5px; margin-right: 10px;">Base amount</div> <div style="font-size: 2em; margin: 0 10px;">×</div> <div style="border: 1px solid black; padding: 5px; display: flex; flex-direction: column; align-items: center;"> <div style="display: flex; justify-content: space-around; width: 100%;"> Annual ESG </div> <div style="width: 100%;">Individuals' performance</div> </div> </div>	<div style="border: 1px solid green; padding: 5px; margin-top: 10px;"> Quantitative KPI Achievement ±10% <small>(Sustainable finance, Scope1,2 GHG emissions, etc.)</small> </div> <div style="border: 1px solid green; padding: 5px; margin-top: 5px;"> Qualitative ESG rating of major agencies </div>
Stock Compensation Plan I	Medium-term performance-linked (0~150%)	
	<div style="display: flex; align-items: center;"> <div style="border: 1px solid black; padding: 5px; margin-right: 10px;">Base amount</div> <div style="font-size: 2em; margin: 0 10px;">×</div> <div style="border: 1px solid black; padding: 5px; display: flex; flex-direction: column; align-items: center;"> <div style="display: flex; justify-content: space-around; width: 100%;"> Financial Stock </div> <div style="width: 100%; text-align: center;"> Non-financial </div> </div> </div>	<div style="border: 1px solid orange; padding: 5px; margin-top: 10px;"> Added sustainability-related indicators </div> <div style="border: 1px solid blue; padding: 5px; margin-top: 5px;"> Quantitative Environment Sustainable finance Portfolio GHG emissions </div> <div style="border: 1px solid blue; padding: 5px; margin-top: 5px;"> Employees Engagement score DE & I </div> <div style="border: 1px solid green; padding: 5px; margin-top: 5px; margin-left: 20px;"> Qualitative Efforts to address materiality </div> <div style="text-align: right; margin-top: 10px;"> 15% </div>
Stock Compensation Plan III	Promotion reward plan	



Transition Plan to Realize Net Zero (Overview)

Transition Plan is series of goals and actions for SMBC Group to realize net zero. We will continue to enhance them.



Governance	Metrics and targets	Implementation strategy	Engagement strategy
<ul style="list-style-type: none"> Strengthen governance system ✓ Revise executive compensation system Establish internal control Strengthen capabilities of directors and employees 	<ul style="list-style-type: none"> Scope1,2 reduction targets Scope3 reduction targets Sustainable finance KPI Transition KPI 	<ul style="list-style-type: none"> Strengthen risk management ✓ Climate-related RAF Promote decarbonization business ✓ Transition Finance Playbook Reduce Scope1,2 emission 	<ul style="list-style-type: none"> Approach to customers ✓ Customers' transition strategies assessment Engage with other stakeholders

Enhancement of phase-out strategy for coal sector

Phase-out strategy is newly established for thermal coal mining sector, in addition to coal-fired power generations

Loans for thermal coal mining

Established
May 2023

(Loan Balance)	Mar. 22	2030	2040
OECD countries	c. JPY 20 bn	Zero balance	
Non-OECD countries	c. JPY 56 bn	Zero balance	
Target sector	Thermal coal mining projects, and companies whose main business are thermal coal mining		
Target assets	Loans (Total of corporate finance and project finance)		

< Policies for specific businesses and sectors >

Revised
August 2022

Support for newly planned and expansion of thermal coal mining projects are not provided

- We will not provide support for companies whose main businesses are thermal coal mining or linked infrastructure development that do not have any existing transactions with SMBC Group.
- Support for newly planned and the expansion of infrastructure developments that are dedicated to above-mentioned projects are not provided.

Loans for coal-fired power generations

Established
May 2022

(Balance: JPY bn)



< Policies for specific businesses and sectors >

Revised
August 2022

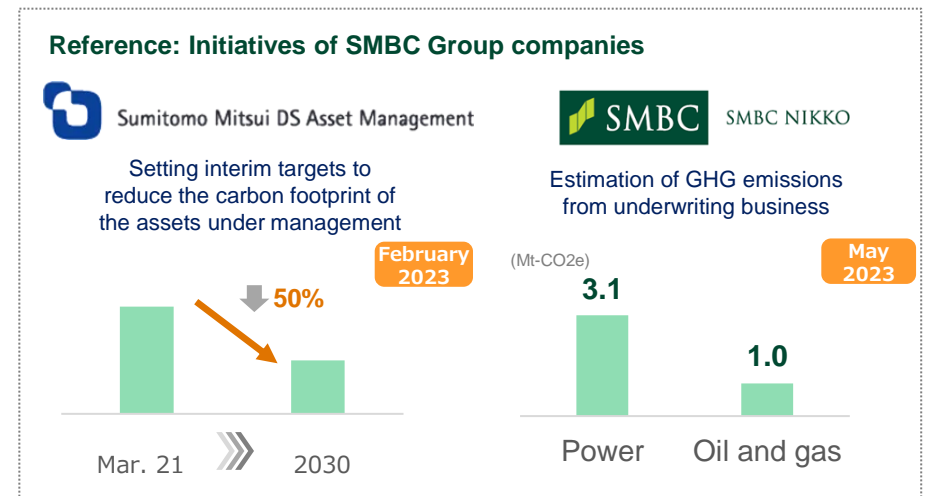
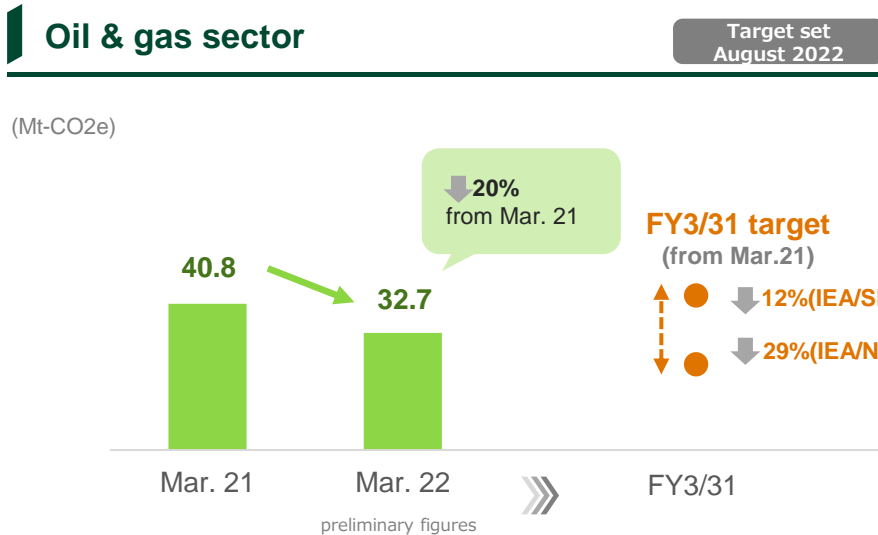
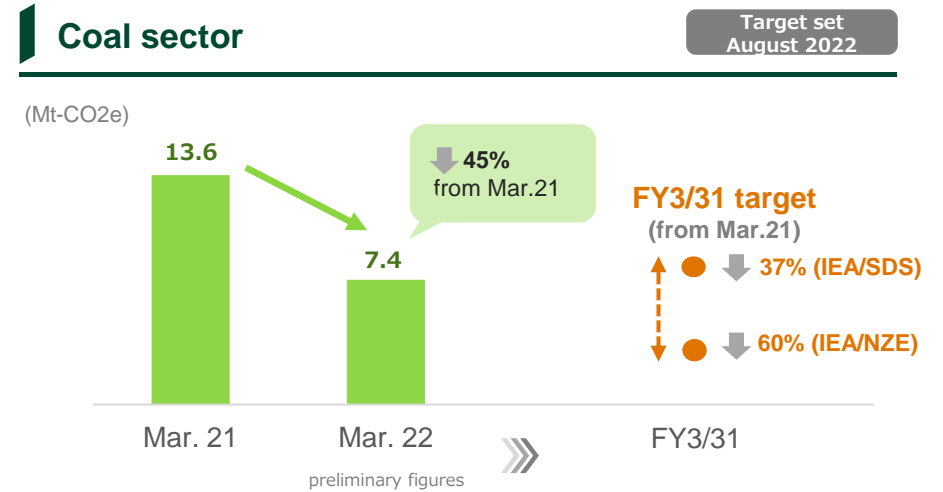
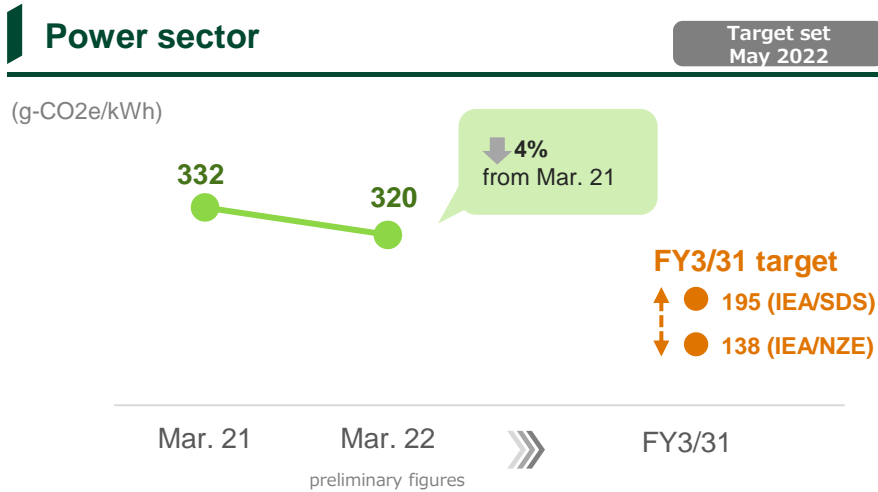
Support for newly planned and expansion of coal-fired power plants are not provided

< Understanding of the Business/Sector >

- 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.
- SMBC Group will support the activities of our clients contributing to the transition toward and realization of a decarbonized society.

Strengthening efforts to reduce portfolio GHG emissions (Scope 3) (1)

Steady progress is being made in the 3 sectors (power, oil & gas, and coal) for which mid-term targets have been set for 2030



Strengthening efforts to reduce portfolio GHG emissions (Scope 3) (2)

Mid-term targets for steel and transport (automobile) sectors to be announced during FY3/24
 Target-setting to be completed for total of 9 sectors covering majority of Scope3 by October 2024

Steel and transport (automobile) sector

		FY3/22 Results (Estimated)	Mid-term target
Steel	Absolute (Mt-CO2e)	8.2	To be set during FY3/24
	Intensity (t-CO2e/t-Steel)	2.0	
Transport (automobile)	Intensity (g-CO2e/vkm)	217	

Our approach to mid-term targets setting

Steel	<ul style="list-style-type: none"> Consider Japan's and global demand and innovation while aiming to achieve 1.5°C targets
Automobile	<ul style="list-style-type: none"> Target-setting aligned with SBTi's guidance WTW (Well-to-Wheel) covering lifecycle emissions



WTW

TTW
Tank-to-Wheel

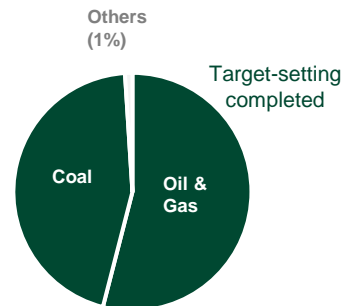
Sectoral target-setting process

2021	<ul style="list-style-type: none"> Announced commitment to net zero by 2050
2022	<ul style="list-style-type: none"> Mid-term reduction target-setting: power, oil & gas, coal
2023	<ul style="list-style-type: none"> Calculation of estimated sectoral GHG emissions (First half of FY3/24) Mid-term target: steel and automobile (During FY3/24)
2024	<ul style="list-style-type: none"> Completion of target-setting in NZBA 9 sectors

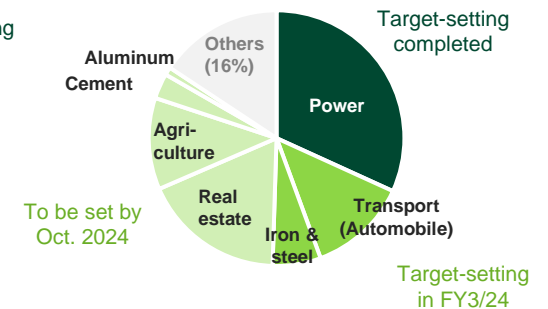
Complete mid-term reduction target-setting in majority of Scope3

(Reference) Breakdown of global CO2/GHG emissions

By energy supply*1
(CO2 emissions)



By sectoral demand*2
(GHG emissions)



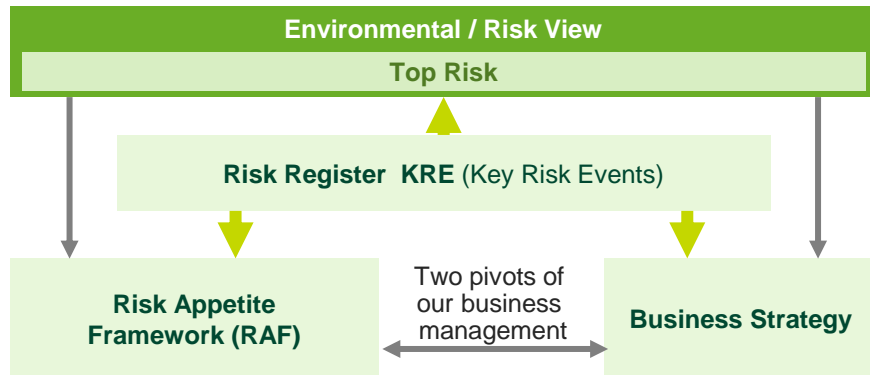
Enhancement of climate-related risk management

Development of new framework to enhance climate-related risk management

Enhancement of RAF

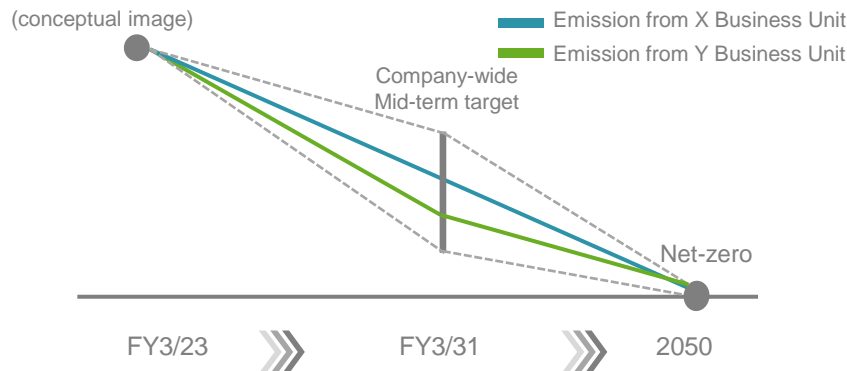
April 2023

- Developed climate-related RAF and **manage portfolio GHG emissions in each sector/ business unit to align with the 1.5°C scenario**



Implementation of "Climate-Related RAF"

- Addition of portfolio GHG emissions as risk management metrics



Transition strategies assessment

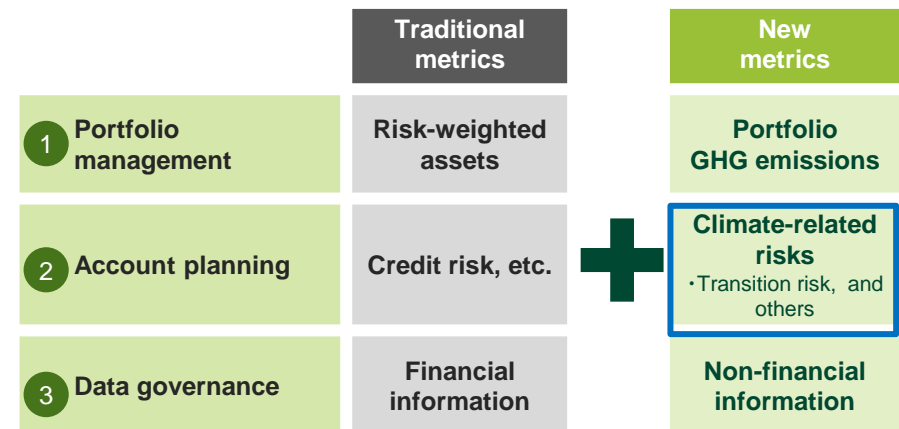
Scheduled in FY3/24 1st half

- Review each customers' transition risk response** and use the results to enhance our strategy for customer engagement and account planning

Risk Management (traffic image)

		Level of response to transition risks					Risk
		1	2	3	4	5	
GHG Emissions	High	Red	Red	Red	Red	Green	High
	Medium	Red	Red	Yellow	Yellow	Green	Medium
	Low	Green	Green	Green	Green	Green	Low

Enhancement of climate-related risk management (conceptual image)

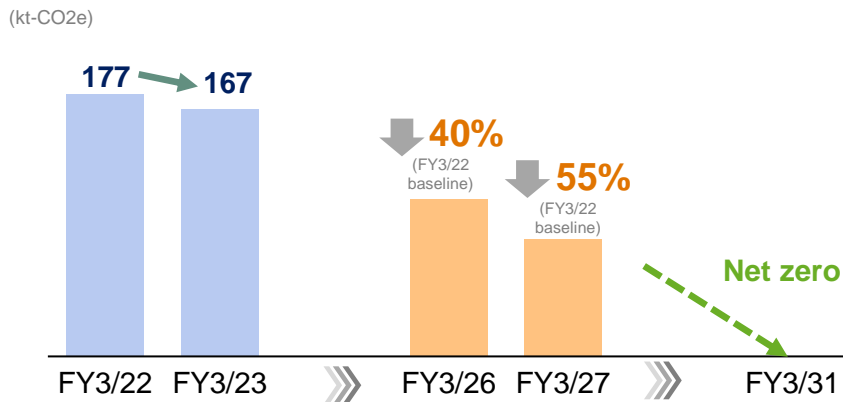


Reducing emissions in SMBC Group operations (Scope1,2)

Enhancing Group-wide initiatives to achieve net-zero by 2030 with new mid-term reduction targets

Scope1, 2 reduction progress and targets

Set interim target
May 2023



Major initiatives which contributed to the reduction

- 1 Switching to renewable electricity in 4 headquarter buildings of SMBC
- 2 Operation of SMBC Kawasaki Mega Solar Place
- 3 Operation of off-site corporate PPA



SMBC Kawasaki
Mega Solar Place

Major initiatives for the next 3 years

Scope2 Switching to renewable electricity

Properties owned
by SMBC Group

HQ buildings of
major subsidiaries
in Japan



In April 2023,
completely switched to renewable electricity

Scope1 Switching company cars to EV/FCV



Electric vehicles

Fuel cell vehicles

Charging facilities

Improving GHG data collection and calculation process

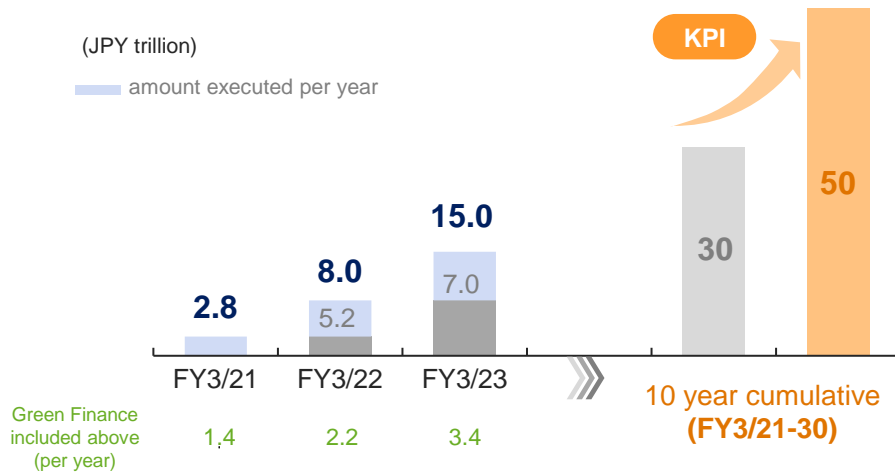
- SMBC Group companies will automatize data collection and improve efficiency in GHG emission calculation



Finance and Equity Investments

The target for sustainable finance execution amount by 2030 has been revised upwards from JPY 30 to 50 trillion

Sustainable finance amount (cumulative)



Sustainability investment fund

Carbon Credit	Carbonplace
Forest Fund	The Reforestation Fund
Climate Tech Fund	Remarkable Ventures Climate Fund

Currently considering additional investment in the social field

Criteria of sustainable finance is clearly stipulated

Category

Loans and underwriting (excluding leases, investments, and asset management)

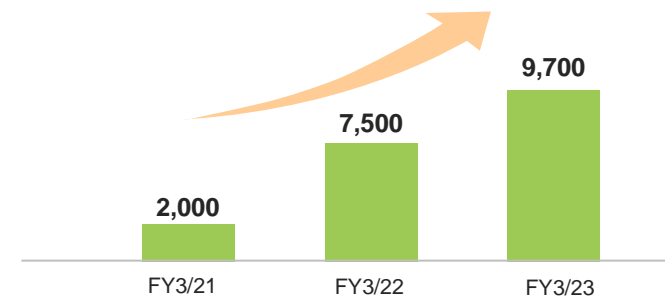
Business in scope

Businesses covered in the principles/handbook below by International Capital Markets Association (ICMA)

- Green Bond Principles “**Green Project Category**”
- Social Bond Principles “**Social Project Category**”
- “**Transition Finance Handbook**”

Ref. Number of customers we engaged in sustainability-related topics

(SMBC, within Japan)



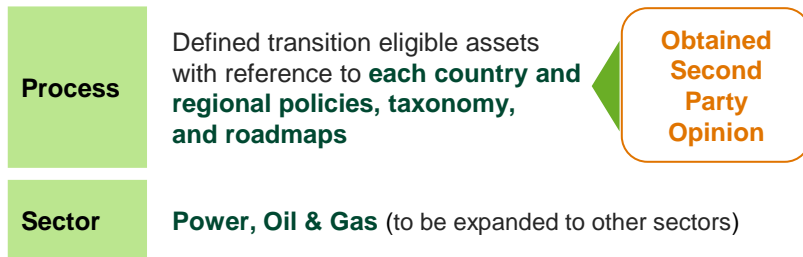
Supporting energy transition

We contribute to the realization of a decarbonized society by supporting customers' transition and innovation

Establishment of Transition Finance Playbook

Scheduled in
May 2023

- Clarified SMBC Group's definition of Transition Finance, and process to qualify 'transition'



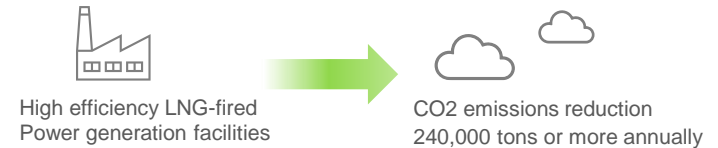
Overview of 'Transition' Eligibility Criteria

	Assessing use of proceeds (Project finance, etc.)	Assessing corporate strategy (Corporate finance, etc.)
Green	Assets with net zero GHG emissions	Borrower with net zero GHG emissions
Transition	Assets aligned with 1.5 °C scenario from a timeline and sectoral perspective + Configured Target for 2050 net-zero of Sponsor / Borrowers	Borrower's strategy Consistent with 1.5 °C scenario

Example of finance activities

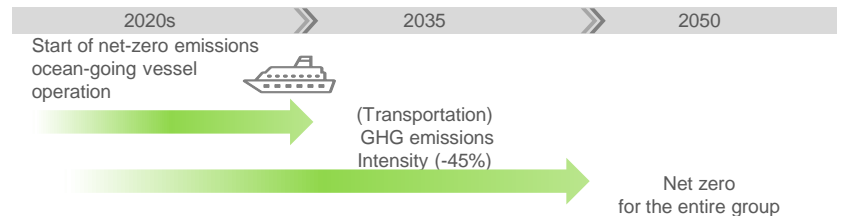
Transition Loan to Sumitomo Chemical Group

- The first transition finance for the Japanese chemical industry. Selected as a model case from the Ministry of Economy, Trade and Industry



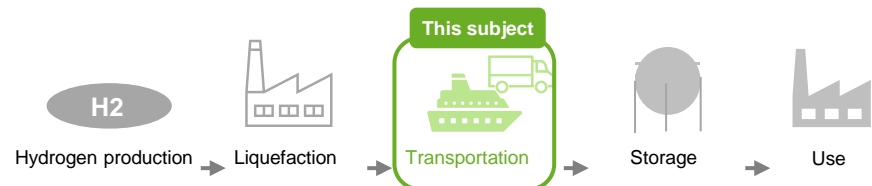
Transition Linked Loan to Mitsui O.S.K. Lines

- Transition Linked Loan with SPTs (sustainability performance target) based on customers' decarbonization plans



Sustainability Linked Loan to Kawasaki Heavy Industries

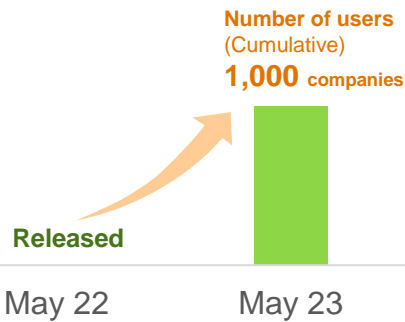
- Sustainability Linked Loan with hydrogen supply chain construction as KPI



Developed decarbonization support tools using digital technology, and will aim for further expansion of use

Sustana

- Cloud tool to help calculate and reduce GHG emissions developed by SMBC Group



Main targets

- **Companies listed in TSE Prime Market** having difficulties responding to TCFD disclosure
- **Top and upstream companies in the supply chain** having difficulties calculating GHG emissions throughout the supply chain
- **SMEs** having difficulties calculating their own GHG emissions

Strengths of Sustana

- Adopted **GHG Protocol** (global accounting standard)
- Expanded **recommendation function** to automatically suggest GHG reduction measures
- **Flexible collaboration with external partners**

SMBC Group's unified support

White label to regional banks

Collaboration with Chamber of Commerce

CO₂ visualization service using corporate card data

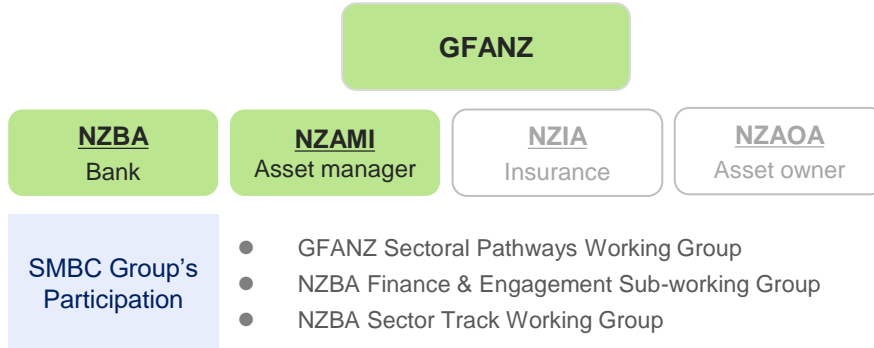


Involvement in Industry standards

We participate in a variety of public and private initiatives and provide inputs and lead discussions

GFANZ, NZBA, NZAMI

- Participating in the working groups and **provide opinions to achieve global net zero**



Asia Transition Finance Study Group (ATFSG)

- Set up by private financial institutions in recognition of the important role that transition finance will play in helping **Asian economies move toward net zero emissions**



Discussion points

- Importance of transition finance
- Challenges
- Recommendations to governments

etc.

Vietnam: Just Energy Transition Partnership (JETP)

- Participating in the framework to mobilise public and private finance to **support Vietnam's just transition**

Private financial institutions



Fund contributions \$7.75 billion



Japan Hydrogen Association (JH2A)

- Participating as an Executive Member company to promote **global collaboration and supply chain formation in the hydrogen field**

Hydrogen Forum 2023

- Thinking about Hydrogen from the government, private and financial sector perspective -



340 participants from various sectors

Investment fund for hydrogen

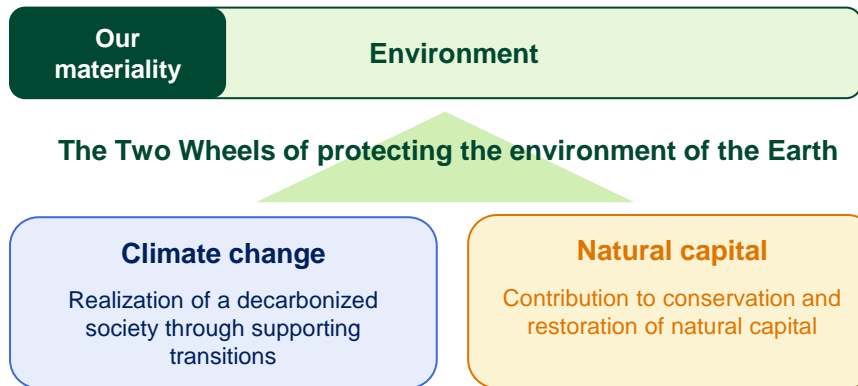


Working to establish the hydrogen fund during FY3/24 with 18 member companies

Efforts on natural capital

Working to conserve and restore natural capital with our customers and contribute to realizing Nature Positive by 2030

Our basic approach



Publication of the TNFD Report

Published April 2023



First report by a Japanese bank that illustrates SMBC Group's stance on natural capital

Group CEO Message

In anticipation of 2050, which is the year the world is set to achieve an environmental milestone, SMBC Group will make collective efforts to address climate change and to conserve and restore natural capital.



Initiatives for Nature Positive

Mirai Farm Akita

- Putting sustainable food and agricultural management model into practice



FANPS

Finance Alliance for Nature Positive Solutions

- Alliance to support company strengthening efforts to nature positive



MS&AD Holdings



Development Bank of Japan



NORINCHUKIN

Furano Shizen Juku

(Furano Nature School)

- Support activities such as tree planting and education programs on the environment



The Reforestation fund

- Invest in the funds which focuses on reforestation in South America





Appendix

SMBC Group's new materiality

Set new materiality and 10 goals to resolve them

More specific action plans will be established and promoted simultaneously

Environment	Support transition to achieve a decarbonized society	Sustainable Finance upward revision JPY 50 tn (FY3/21 - 30)	Establish more specific action plans
	Contribute to the conservation and restoration of natural capital		
DE&I / Human Rights	Realize a workplace where employees enjoy high job satisfaction	Engagement score Maintain at least 70	
	Respect for human rights throughout the supply chain		
Poverty & Inequality	Break the cycle of poverty and inequality for the next generation	# of microfinance borrowers + 0.8 mn	
	Contribute to financial inclusion in developing countries		
Declining Birthrate & Aging Population	Relieve anxiety about the 100-year life era	AM / foreign currency balances JPY 18 tn	
	Build user-friendly infrastructure to support a society with a declining population		
Japan's Regrowth	Support customers' business model transformation	Investments and loans for startups JPY 135 bn	
	Create innovation and foster new industries		

Overview of Transition Plan

Components	Items	Contents
Foundations	Corporate policy on climate change and the approach of efforts	<ul style="list-style-type: none"> Revision of the SMBC Group Statement on Sustainability and the Group Environmental Policy Achieve net zero GHG emissions for Scope 1 and 2 by FY3/31 Achieve net zero GHG emissions for our overall investment and loan portfolio by 2050
Governance	Strengthening governance on climate change	<ul style="list-style-type: none"> Supervision by Board of Directors, Sustainability Committee and execution by Group CSuO Executive compensation system Establish internal control for TCFD related disclosures Strengthen capabilities of directors and employees
Implementation Strategy	Products and services related to climate change	<ul style="list-style-type: none"> GHG emissions visualization services, green deposits, carbon credit business, sustainable finance products
	Climate-related risk management	<ul style="list-style-type: none"> Enhancement of Risk Appetite Framework and data governance
	Policies for specific businesses and sectors	<ul style="list-style-type: none"> Policies for coal mining, coal-fired power generations, oil and gas, palm oil plantation development, and deforestation sectors
Engagement Strategy	Engagement with customers	<ul style="list-style-type: none"> Establish Transition Finance Playbook Rolling out transition strategies assessment
	Engagement with industry	<ul style="list-style-type: none"> Participation in initiatives such as GFANZ, GFANZ Japan, NZBA, NZAMI, PCAF, IIF, GFMA, Japan Hydrogen Association (JH2A) , etc.
	Engagement with the Government of Japan	<ul style="list-style-type: none"> Participated in committees held by Government of Japan related to clean energy policy, transition finance, ect.
Metrics and Targets	Sustainable finance KPI	<ul style="list-style-type: none"> JPY 50 trillion by FY3/30
	Portfolio GHG emission reduction targets by sector (Scope 3)	<ul style="list-style-type: none"> Expansion of target sectors such as steel, and automobile sectors Setting KPIs related to transitions
	Operations emissions reduction targets (Scope 1,2)	<ul style="list-style-type: none"> 40% and 55% decrease in FY3/26 and FY3/27 respectively from FY3/22

Facilitated Emissions Calculation Methodology

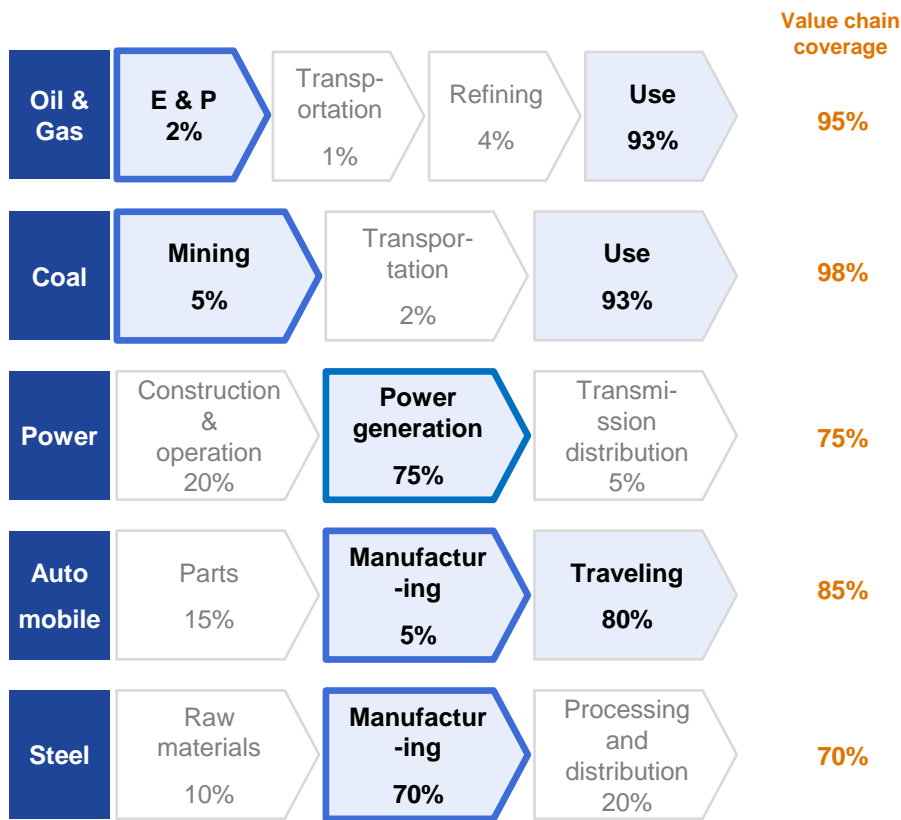
	Power Sector	Oil and gas sector	Remarks
Base year	FY3/22		Calculated based on league table credits for deals with pricing date in FY3/22
Asset Class	League Table Credit		
Metric	Absolute emissions (Mt-CO2e)		
Value chain	Power generation businesses	upstream businesses (including integrated O&G companies)	
Scope of Emissions	Scope1	Scope 1,2, and Scope3 (Cat.11)	
Calculation Method	$\text{Facilitated Emissions} = \sum \frac{\text{Facilitated amount}}{\text{Total debt + equity of each issuer}} \times \text{Issuer's Annual emissions}$ $\text{Facilitated amount} = \text{Total Raised Amount} \times \text{League Table Credit (\%)} \text{ (Allocation factor among financial institutions)}$		Emissions are calculated by multiplying underwriting percentage (league table credits), total raised amount, and weighting factor (100% or 17%). *Weighting factors are not considered in this disclosure because the PCAF methodology is still under discussion
Asset Coverage	95%	88%	
PCAF Score	Scope1 : 1.5	Scope1,2 :1.2 Scope3 :1.0	

*The above methodology is based on PCAF Capital Market Instruments: Proposed Methodology for Facilitated Emissions 2022.

Overview of Portfolio GHG Targets Setting and Scope

- We have calculated and set targets for portfolio GHG emissions covering key sectors and value chains in global emissions.
- By setting targets considering circumstances each sector is facing, we aim to efficiently and promptly contribute to the decarbonization of real economy

GHG emissions by value chain *



SMFG status Value Chain considered in portfolio GHG calculation Scope of emission considered in portfolio GHG calculation

Concept of portfolio GHG emission reduction targets

- Through discussions with our customers on the basis of scientific scenarios, decarbonization technology roadmaps, etc, we aim to determine the emission reduction pathway towards net zero
- As certain period of time is needed to address climate change, we believe it is effective to set medium-term target. 2030 was selected as our interim timeframe.
- The scope of GHG calculation was selected taking into account of the emissions in each sector and value chain, and data affordability and quality constraints.

*Compiled by SMFG with reference to IEA: World Energy Outlook 2022, METI: Industry Roadmap for Transition Finance






Steel / Automobile: Portfolio GHG Calculation Methodology

	Steel sector	Automobile sector	Remarks
Base year	FY3/22		
Asset Class	Balance sheet lending		
Metric	Absolute emissions (Mt-CO2e) or Carbon intensity (t-CO2e/t-Steel)	Carbon intensity (g-CO2e/vkm)	Metrics are under review for steel sector
Value chain	Crude steel production	Manufacturing of automobile (LDV)	Scope 3 Cat.11 (emissions from product use) is also included in the scope because emissions from traveling are material for automobile sector
Scope of Emissions	Scope 1,2	Scope 1,2, and Scope3 (Cat.11)	
Calculation Method	$\text{SMBC Portfolio absolute emissions} = \sum \frac{\text{Credit to each corporate}}{\text{Total debt + equity of each corporate}} \times \text{Each corporate's GHG emissions}$ $\text{SMBC Portfolio carbon intensity} = \sum \frac{\text{Credit to each corporate}}{\text{Total credit to subject sector}} \times \text{Each corporate's carbon intensity}$	$\text{SMBC Portfolio carbon intensity} = \sum \frac{\text{Credit to each corporate}}{\text{Total credit to subject sector}} \times \text{Each corporate's carbon intensity}$ $\text{Each corporate's carbon intensity} = \frac{\text{Scope 1 and 2}}{\text{Lifetime mileage (production)}} + \frac{\text{Scope3(WTT+TTW)}}{\text{Lifetime mileage (sales)}}$ <p>※Well-to-Tank Emissions from extraction, refinement, production and transportation of various fuels (petrol, diesel, CNG, electricity, hydrogen etc.) that are used as primary energy sources for vehicles.</p> <p>※Tank to Wheel Emissions from combustion of fuel while driving the vehicle.</p>	Since the actual emissions from traveling vary greatly from country to country and region to region, decided to include Well-to-Tank emissions

Definition	Green Finance	<p>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 etc.)</p> <p>Green project categories</p> <ul style="list-style-type: none"> • Renewable energy • Energy efficiency • Pollution prevention and control • Environmentally sustainable management of living natural resources and land use • Terrestrial and aquatic biodiversity • Clean transportation • Sustainable water and wastewater management • Climate change adaptation • Eco-efficient production technologies and processes • Green Building that meet environmental standards
	Social Finance	<p>Financing for projects that contribute to the society (i.e., businesses that fall within the "social project categories" set forth in the ICMA Social Bond Principles etc.)</p> <p>Social project categories</p> <ul style="list-style-type: none"> • Basic infrastructure of affordable price (drinking water, sewerage, sanitation facilities, transportation, energy, etc.) • Access to essential services (education, health, etc.) • Housing of affordable price • Employment creation through the potential benefits of funding for SMEs • Employment creation through the potential benefits of microfinance • Food safety • Socioeconomic improvement and empowerment
	Transition Finance	<p>Finance aiming to support efforts to reduce GHG emissions in accordance with a long-term strategy to achieve carbon neutrality in line with the “Transition Finance Handbook” by ICMA or “Transition Finance Playbook” by SMBC Group</p>

Finance in scope	Sumitomo Mitsui Banking Corporation	<ul style="list-style-type: none"> ■ Green finance, social finance, transition finance ■ Other finance for the purpose of supporting / promoting to resolve environmental and social issues • Project Finance (for Renewable energy, public infrastructure, etc.) • SMBC original products (ESG/SDGs Promotion & Analysis Loan, Human Capital Management Promotion & Analysis Loan, etc.) • Green Loan, Social Loan, Sustainability-Linked Loan, Transition Loan, Positive Impact Finance • Non-recourse loans for environmental real estate properties
	SMBC Nikko	<ul style="list-style-type: none"> • Green Bond, Social Bond, Sustainability-Linked Bond, Transition Bond, etc. • Green equity, Social equity, Transition equity, etc.

Links

		Date of issue	URL	QR Code
1	Annual Report	August 2022	https://www.smfg.co.jp/english/gr2022/	
2	TCFD Report	August 2022	https://www.smfg.co.jp/english/sustainability/materiality/environment/climate/	
3	Sustainability Report (PDF version of SMBC Website)	March 2023	https://www.smfg.co.jp/english/sustainability/report/backnumber/	
4	TNFD Report	May 2023	https://www.smfg.co.jp/english/sustainability/materiality/environment/naturalcapital/	
5	ESG Data Book	March 2023	https://www.smfg.co.jp/english/sustainability/report/databook/	
6	The SMBC Group Environmental and Social Framework	April 2022	https://www.smfg.co.jp/english/sustainability/group_sustainability/esframework/	