

# TCFD REPORT 2021/2022

SuMi TRUST  
SUMITOMO MITSUI TRUST HOLDINGS



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## Message from Management

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In November 2021, COP26 was held in Glasgow, UK, stepping the Paris Agreement up a level with the commitment to pursue efforts to limit the global average temperature increase to 1.5 degrees Celsius.

The significance of this agreement between the world's major players to reform their social and economic systems to achieve carbon neutrality by 2050 is enormous. The SuMi TRUST Group wishes to aim for carbon neutrality too, and collaborate with various stakeholders to bequeath a better and more abundant society to future generations.

The Group identified climate change as one of the materiality in 2019 and announced its Carbon Neutral Commitment in October 2021.

In addition to committing to achieve net-zero greenhouse gas (GHG) emissions from the Group by 2030, 20 years ahead of the previous target, we have also joined the Net-Zero Banking Alliance (NZBA) to strengthen our commitment to achieve net-zero GHG emissions from our investment and loan portfolios by 2050.

We aim to achieve sustainable and stable growth by harnessing the diverse and flexible functions of the trust bank group, including banking, asset management and custody to build a carbon neutral society.

The role of a trust is to take care of assets for a long term and deliver them to future generations to create a prosperous future. As a fiduciary, our core business is to pass on assets and the feelings attached to them from one generation to another. We believe that our mission as a trust bank group is to reduce the risks that climate change poses to that future.

If we take the example of the asset management domain, Sumitomo Mitsui Trust Asset Management Co., Ltd. and Nikko Asset Management Co., Ltd. are members of the Net-Zero Asset Managers initiative (NZAMI) and plan to leverage its initiatives to promote engagement by aiming to accelerate their investee companies' smooth transition to a low-carbon and carbon neutral society.

In the real estate domain as well, we are engaged in various businesses, such as promoting environmentally friendly properties, and hope to use our knowledge to explore solutions that contribute to net-zero properties.

We will also confront the climate change issue head-on by offering a mechanism that actively circulates funds from individuals, households and investors who are struggling to manage their funds, to meet the huge demand for funds by corporations working toward achieving a carbon neutral society.

By focusing on various impact businesses such as positive impact finance, which is already showing results, and technology-based finance, which aims to implement technology in society, we will support pioneering decarbonization efforts and serve as a starting point for building a virtuous cycle of funds, assets, and capital to solve social issues.

We need to confront the risks of climate change for decades to come. We will continue to fulfill our mission as a fiduciary and contribute toward achieving a carbon neutral society to bequeath a better future to our future generations.

I sincerely appreciate your continued support.

Director & President  
Sumitomo Mitsui Trust Holdings

*Tom Takakura*



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## Introduction

Prior to becoming a signatory to the Principles for Responsible Investment (PRI) in 2006, the SuMi TRUST Group had addressed climate change and other ESG (Environmental, Social, and Governance) issues in the form of ESG investment, mainly through Nikko Asset Management's Eco Fund (1999) and SuMi TRUST Bank's first SRI fund for pensions (2003).

We are also addressing climate change issues from the perspectives of loans supplier. For example, SuMi TRUST Bank was the first Japanese bank in March 2018 to clearly define its policy on coal-fired power generation, in addition to its initiatives on financing renewable energy projects. In 2020, we became a signatory to the Poseidon Principles, and set up the Technology-based Finance (TBF) Team in 2021, mainly comprising science and engineering doctors who possess technological know-how, with the aim to provide financial support for innovations directed at achieving a carbon neutral society. In October 2021, we announced our Carbon Neutral Commitment and joined Net-Zero Banking Alliance (NZBA) to steadily work on our commitment. In addition, with Sumitomo Mitsui Trust Asset Management Co., Ltd. and Nikko Asset Management Co., Ltd. becoming members of the Net-Zero Asset Managers initiative (NZAMI), an international initiative of asset management companies, and other activities, we are accelerating our Group-wide efforts to achieve a carbon neutral society by 2050.

### ■ Initiatives Related to Climate Change

Details	
1999	Launch of Nikko Eco Fund
2003	Full-scale entry into ESG investment (development of SRI funds)
2004	Start of initiatives on environmental finance
2006	Signatory to the Principles for Responsible Investment (PRI)
2016	Signatory to the Equator Principles
2018	Announcement of support of TCFD recommendations and policy on coal-fired power generation
2019	Signatory to the Principles for Responsible Banking (PRB)
2020	Review of policy concerning environmental and social considerations for loans, and signatory to the Poseidon Principles
2021	Established Technology-based Finance (TBF) Team Carbon Neutral Commitment Joined the Net-Zero Banking Alliance (NZBA)

Since our endorsement of the TCFD recommendations in August 2018, our banking and asset management divisions have identified the risks and opportunities related to climate change and continued to analyze their portfolios. In our 2020 Annual Report, we disclosed the results of scenario analysis of transition risks and physical risks on the lines of the TCFD recommendations. We also decided to disclose our Climate Change Report, which we have been releasing in the form of a booklet version of the ESG Report, as the TCFD report. This second TCFD Report contains initial estimates of GHG emissions from our investment and loan portfolios, transition risk scenarios for the marine transportation sector and other topics.

■ Main Updates in 2021

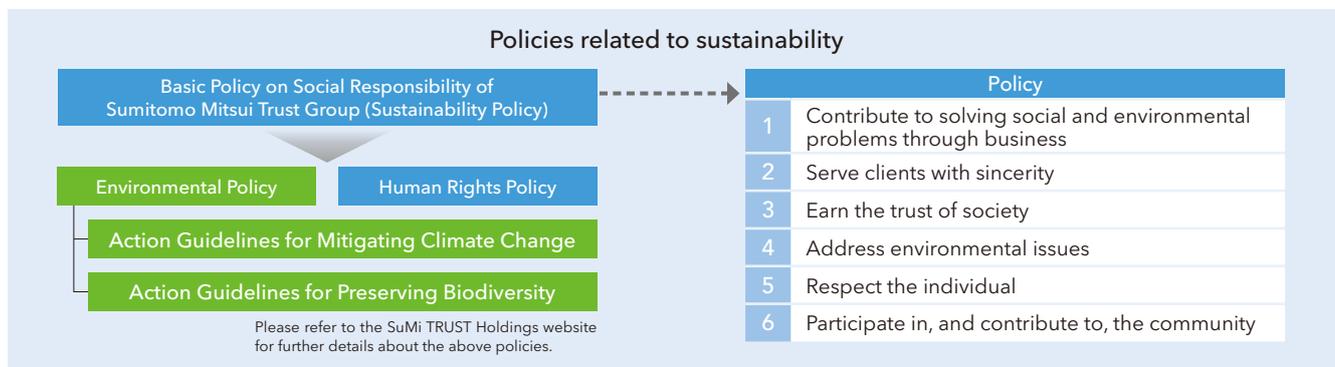
Main Updates in 2021		Pages
Chapter 1: Governance	<ul style="list-style-type: none"> <li>• Established the Climate Change Adaptation and Mitigation Project Team to formulate strategies and take action on issues related to climate change across the whole Group.</li> </ul>	5P
Chapter 2: Strategy	• SuMi TRUST Group Carbon Neutral Commitment	7P
	• Revised the Group's GHG emissions reduction initiatives	8P
	• Joined the Net-Zero Banking Alliance (NZBA)	9P
	• Joined the Net-Zero Asset Managers initiative (NZAMI)	9P
	• Set up an investment fund for renewable energy businesses	12P
	• Established the Technology-based Finance (TBF) Team to provide financial support for the social implementation of technology to realize a carbon neutrality/decarbonized society	13P
	• Scenario analysis of the marine transportation sector	15P–17P
Chapter 3: Risk Management	• Changed climate change-related risks monitored and managed within the Risk Appetite Framework (RAF) from emerging risks to top risks	21P
	• Reviewed sector-specific policies	21P–22P
Chapter 4: Metrics and Targets	• SuMi TRUST Group Medium-term CO <sub>2</sub> Reduction Target	32P
	• Initial estimates of GHG emissions in investment and loan portfolios	35P
	• Formulation of targets and emissions disclosure roadmap by NZBA	36P



## Our Approach to Climate Change

The Group’s Medium-Term Management Plan focuses on balanced creation of both social value and economic value, with the basic strategy of generating positive impacts geared towards solving social issues. Each business and group company selects social issues it needs to address on priority, and incorporates that into its core

business strategy. Since climate change and other sustainability issues are one of the most important social issues that the Group must resolve on priority, we are working to develop Group-wide strategies and initiatives in collaboration with international organizations.



We have developed the following Environmental Policy as part of our policies related to sustainability.

### Sumitomo Mitsui Trust Holdings Environmental Policy

**1. Provision of Products and Services**

We will strive to reduce environmental risks and enhance environmental value for the society as a whole by providing financial products and services that contribute to the preservation of the global environment and the realization of a sustainable society.

**2. Environmental Load Reduction**

We will strive to preserve the environment and realize a sustainable society through efforts toward energy conservation, resource conservation, and resource recycling based on the recognition of the burden imposed on the environment by the consumption of resources and the discharge of wastes involved in our business activities.

**3. Pollution Prevention**

We will strive to ensure continuous verification and improvement of our environmental activities and make efforts to prevent pollution.

**4. Regulatory Compliance**

We will comply with the laws, regulations, rules, and agreements concerning the preservation of the environment.

**5. Monitoring**

We will strive to ensure the continuous improvement of our environmental activities by setting and periodically reviewing and revising environmental objectives and targets.

**6. Education & Training**

We strive to ensure group-wide awareness of compliance with the Environmental Policy and to provide appropriate environmental education.

**7. Information Disclosure**

We will strive to promote activities to preserve the environment through communications with external organizations by publicly disclosing the Environmental Policy.

We have also drawn up the Action Guidelines for Mitigating Climate Change and Action Guidelines for Preserving Biodiversity under our Environmental Policy and are raising awareness about them among executives and employees.

### Action Guidelines for Mitigating Climate Change

**1. Implementation of Measures and Support to Help Mitigate Climate Change**

In addition to actively taking measures to reduce greenhouse gas emissions in our own business operations, we are making efforts, as a corporate citizen, to support activities that mitigate and adapt to climate change.

**2. Provision of Products and Services**

We are working on developing and providing products and services that help mitigate climate change. Our financial functions are being leveraged to promote energy conservation and encourage the use of renewable energy.

**3. Collaboration with Stakeholders**

We engage in dialogue and cooperation with our stakeholders as we work to mitigate climate change.

**4. Education and Training**

We will ensure that these guidelines are fully implemented at Group companies, and will actively conduct education and training to mitigate climate change.

**5. Information Disclosure**

We will actively disclose information related to our efforts to mitigate climate change.

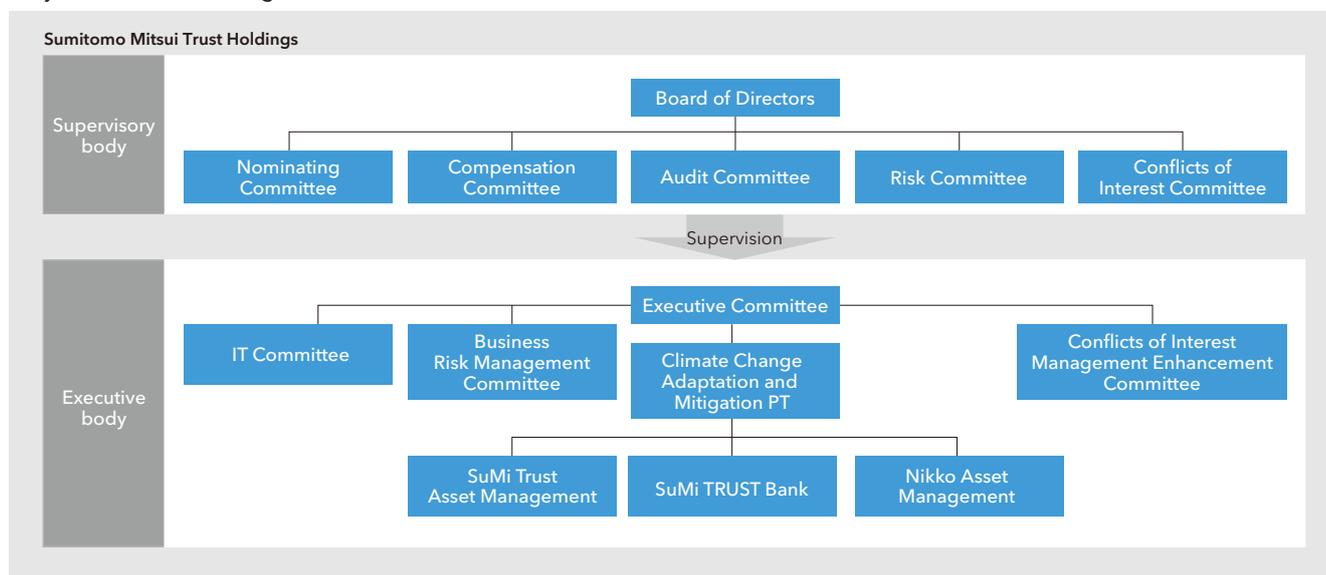
## Governance in the Context of Climate Change

We recognize climate change as a risk and opportunity that can have a significant impact on financial markets, and have established a governance system of supervision and execution centered on the Board of Directors.

The Board of Directors, which is the supervisory body, has established the Risk Committee as its advisory body. This committee checks the execution status of the Company's climate change countermeasures and conducts flexible and in-depth discussions on climate change for appropriate supervision.

The Executive Committee, which is an executive body, has established the Business Risk Management Committee as an advisory body to the Board of Directors. It has also set up the Climate Change Adaptation and Mitigation Project Team to formulate strategies and take action on climate change across the Group. With these efforts, we have a system in place to promptly address issues related to climate change through collaborations between each business and other Group companies.

### System of Climate Change Governance



### (1) Supervision

#### 1. Board of Directors

In view of the importance of environmental and social issues related to sustainability, the Board of Directors has established a basic policy on social responsibilities that each Group company must fulfill (Sustainability Policy) and an Environmental Policy, among others, to indicate the Group's direction regarding climate change and sustainability to internal and external parties. Based on these policies, the Board of Directors receives status reports from the executives on their efforts to address climate change issues, and supervises the activities using the Risk Committee and other advisory bodies.

#### 2. Risk Committee

As an advisory body to the Board of Directors, the Risk Committee checks the status of the Group's adaptation status to climate change, conducts flexible and in-depth discussions on climate change, which include outside directors who possess expertise on the subject, and reports to the Board of Directors on the Group's policies and strategies for addressing climate change.

The committee set climate change related issues as one of the key topics for focused deliberations in fiscal year 2021, receives regular reports on the executive's response plans and their status, and holds discussions in light of international trends in responses to climate change.

### (2) Execution

#### 1. Executive Committee

The Executive Committee formulates medium-term policies and annual plans for addressing issues related to sustainability and climate change, establishes a system for business operations, and promotes measures to address issues related to sustainability and climate change. During this period, it uses the PDCA cycle to check the status of the measures and instructs their review to ensure flexible and appropriate response.

In FY2021, we reviewed the climate change adaptation system and established a project team. We also passed resolutions on the external announcement of our 2050 Carbon Neutral Commitment and joining the NZBA. The committee receives regular reports from the Climate

Change Adaptation and Mitigation PT, and discusses and makes resolutions on the Group's response to the climate change issues from the perspective of both risks and opportunities.

## 2. Business Risk Management Committee

As an advisory body to the Executive Committee, the Business Risk Management Committee discusses matters related to the business management of the Group, ensuring financial soundness and appropriateness of operations as well as managing risk and compliance. It also discusses and monitors these matters from the perspective of risk management because climate change risks directly affect our finances.

## 3. Climate Change Adaptation and Mitigation Project Team

In 2019, we established the TCFD Project Team (TCFD PT) to strengthen risk management and information disclosure related to climate change. This team has been managing risks, analyzing scenario and carrying out various climate change-related initiatives.

Meanwhile, this fiscal year has brought a further in-

crease in the international recognition of the importance of addressing climate change as well as the recognition of the importance of leveraging the trust bank group's cross-sectional functions to achieve carbon neutrality. Therefore, we expanded the TCFD Project Team to establish the Climate Change Adaptation and Mitigation Project Team in October 2021 with the aim to take rapid measures across all Group companies and businesses. The project team consists of SuMi TRUST Holdings' Corporate Management Departments, as well as various businesses of SuMi Trust Bank, SuMi Trust Asset Management, Nikko Asset Management, and the Europe, Middle East and Africa Division as well as the Americas Division.

The project team examines and promotes measures to uphold the Carbon Neutral Commitment made by the Group in October 2021, and conducts activities across the Group, such as examining strategies and promoting specific projects, to actively promote the transition to a carbon neutral society by maximizing the Group's functions.

It reports the status of the project team's activities to the Executive Committee on a regular basis.

### ■ Key Initiatives in fiscal year 2020-2021

Meeting systems, etc.	Activities	
Board of Directors	• Held focused deliberations on climate change (including Carbon Neutral Commitment) as a management theme	Supervisory body
Risk Committee	• Set climate change as a key issue for focused deliberations in fiscal year 2021, periodically checked the status of the Group's efforts and conducted deliberations on climate change issues by including external members with expert knowledge	Advisory to the Board of Directors
Executive Committee	• Reviewed the climate change adaptation system • Discussed and resolved to join the NZBA and externally announcing the 2050 Carbon Neutral Commitment to external • Provided monthly reports on the progress of the Climate Change Adaptation and Mitigation PT	Executive body
Business Risk Management Committee	• Reviewed the climate change adaptation system and provided advice and listened to opinions about joining the NZBA and externally announcing the 2050 Carbon Neutral Commitment to external	Advisory to the Executive Committee
Climate Change Adaptation and Mitigation PT Steering Committee	• Held monthly discussions on the progress of the Climate Change Adaptation and Mitigation PT	Executive body

### ■ Executive compensation

In principle, compensation is paid with a combination of monthly compensation (comprising fixed compensation and individual role performance compensation), bonuses for directors and executive officers (performance-linked bonuses), and stock compensation (share delivery trust). The status of ESG-related activities and

scores by evaluating institutions have been set as one of the KPI for deciding the bonuses for directors and executive officers as well as their stock compensation, with the view to introducing a system to promote sustainability in management.

## Initiatives for a Carbon-neutral Society

### SuMi TRUST Group Carbon Neutral Commitment

The Group announced the following Carbon Neutral Commitment with the aim of reducing greenhouse gas emissions worldwide and solving other climate change related issues in society.

Social and industrial structures are starting to be largely transformed by the vision of achieving carbon neutrality, and consequently, the technological developments and capital investments needed to facilitate that vision will require an enormous sum of capital. Along with such capital requirements, structuring to more appropriate risk profiles and adding asset administration functions enables us to provide attractive financial products to investors in a low interest rate environment and offer investment opportunities to the asset formation needs of

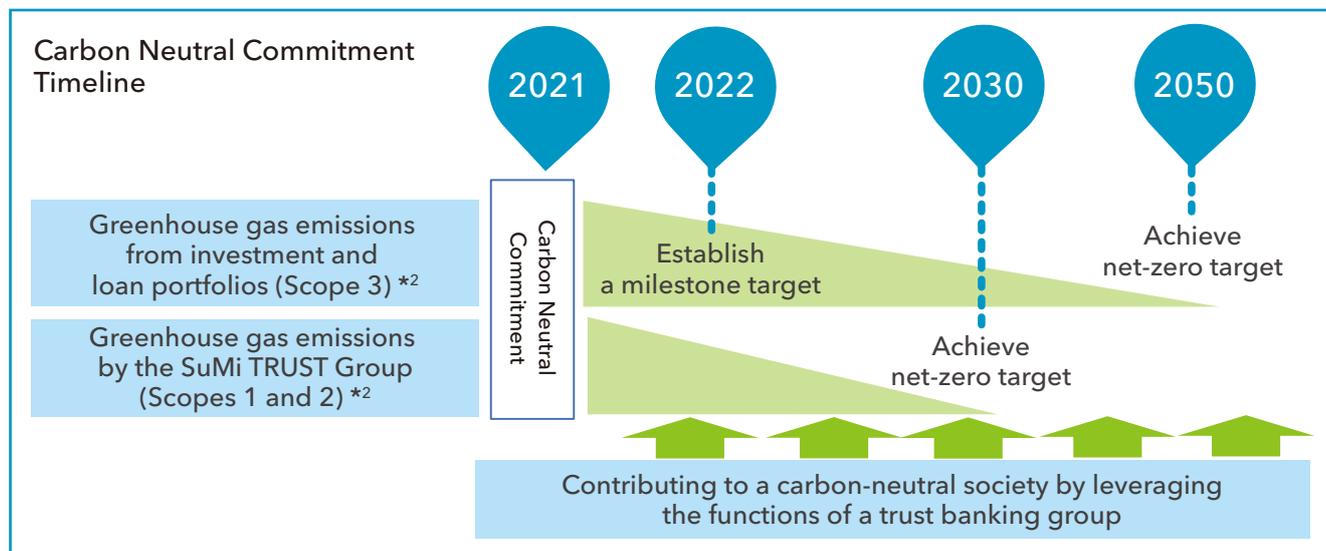
households in an age of 100-year life.

The Group defines its purpose (reason for existence) as follows: *creating new value with the power of trusts and let prosperous future for our clients and society bloom.* As we work towards the decarbonization of society, the Group will aim to create both social and economic value in a balanced manner and achieve a sustainable society by pushing ahead with the Group's original financial intermediary business model for developing new markets and new investment opportunities with the use of not only our investment and loan functions, but also the asset management and asset administration businesses unique to a trust banking group.

### SuMi TRUST Group Carbon Neutral Commitment

1. Contribute to achieving carbon neutrality in society by leveraging the trust banking group's wide-ranging and flexible functions.
2. Target net-zero greenhouse gas emissions in investment and loan portfolios by 2050.  
To achieve net-zero emissions by 2050, a milestone target for 2030 will be formulated in FY2022 in line with the framework of the NZBA\*1.
3. Achieve net-zero greenhouse gas emissions in the SuMi TRUST Group by 2030.

\*1 Net Zero Banking Alliance - a banking industry alliance established by UNEP FI with the aim to achieve net-zero GHG emissions from investment and loan portfolios by 2050.



\*2 Definition of the GHG Protocol, a GHG emissions measurement and reporting standard developed by the global GHG Protocol Initiative  
 Scope 1: Direct GHG emissions by SuMi TRUST Holdings  
 Scope 2: Indirect emissions from the use of electricity or heat and steam supplied from other companies  
 Scope 3: Emissions of other companies related to the activities of SuMi TRUST Holdings Includes GHG emissions by the companies to whom we extend investments and loans

### 1. Contributing to a carbon-neutral society by leveraging the functions of a trust banking group

As Japan's only trust banking group, we aim for a balanced creation of both social and economic value by harnessing the power of trusts. We will continue to contribute to achieving a carbon-neutral society through our transactions with clients by leveraging the broad range of functions across the Group, including investments and loans from our own accounts, asset management, asset administration, and various advisory services.

Specifically, as Asia's largest asset management group (with ¥122 trillion of assets under management\*<sup>1</sup>), our initiatives aim at net-zero GHG emissions in investment management operations, consultation for accreditation as environment-friendly property in the real estate business, impact finance portfolios using the functions of a trust, "impact evaluation" to evaluate the actual impact of impact investment funds, and technology-based finance to implement decarbonization technologies in society.

These initiatives are explained in detail on the following pages.

\*1 As of March 31, 2021

### 2. Contributing through net-zero GHG emissions in investment and loan portfolios

The Group aims to achieve net-zero GHG emissions in our investment and loan portfolios by the year 2050. To strengthen that commitment, we have joined the UNEP FI-convened NZBA (Net-Zero Banking Alliance).

In FY2022, we will formulate a milestone target for 2030 in accordance with the framework of the NZBA. Moreover, in October 2021, we signed the "Call to Action for Shipping Decarbonization" that was announced by the Getting to Zero Coalition (GZC) in an effort to promote decarbonization in the maritime transportation industry, in addition to the Poseidon Principles\*<sup>1</sup>. All the signatories are committed to achieving net-zero GHG emissions from international shipping by 2050 and urge governments to take action on formulating policies with the aim of deploying commercially viable zero-emission ships by 2030.

Please refer to Chapter 4 Metrics and Goals "GHG Emissions in Investment and Loan Portfolios" for information on the current status of reduction in GHG emissions in investment and loan portfolios and action plans.

\*1 A set of principles established in June 2019 by 11 major financial institutions in Europe and the US with the objective of tackling climate change risks in the marine transportation industry and to facilitate financial contributions for that same purpose.

### 3. Contributing through the Group's own initiatives to reduce GHG emissions

Even though we previously announced a target of zero CO<sub>2</sub> emissions by 2050 for SuMi TRUST Bank, our core subsidiary, the rapid developments in the carbon neutrality movement in recent times have prompted us to set a target of achieving net-zero GHG emissions in the Group by 2030.

SuMi TRUST Bank is making progress on adopting "green" power at its office buildings mainly in the Greater Tokyo area and has its sights set on reducing CO<sub>2</sub> emissions by 40% compared to FY2019.

SuMi TRUST Bank will aim to achieve net-zero GHG emissions as soon as possible mainly by expanding the scope of its reduction activities and continuing to embrace the use of "green" power.

Please refer to Chapter 4 Metrics and Goals "SuMi TRUST Group Medium-term CO<sub>2</sub> Reduction Target" for information on initiatives to achieve these targets.

#### << Corporate PPA Initiatives >>

In order to reduce our CO<sub>2</sub> emissions stemming from electric power use in our Group's office buildings and branches, we plan to make progress with the switch to renewable energy power and procure electric power produced at solar power plants as well as power which uses non-fossil fuel energy certificate\*<sup>1</sup>.

SuMi TRUST Bank has decided to use the Offsite Corporate PPA\*<sup>2</sup> structure to procure electric power through UPDATER, Inc. from a solar power plant for use at two of our branches in the Kansai region, the Kyoto and Himeji Branches. The electric power acquired from this solar power plant will account for approximately 40% of the yearly power consumption of both branches, leading to a roughly 75-ton reduction in anticipated yearly CO<sub>2</sub> emissions.

\*1 Non-fossil fuel energy certificate: A document which certifies the environmental value of electricity created without the production of CO<sub>2</sub> and tracks the attribute information of the power generating facility from which it came. By combining electric power produced via renewable sources and non-fossil fuel energy certificates in the procurement process, effectively 100% renewable energy can be achieved.

\*2 Corporate PPA (Power Purchase Agreement): A contract in which a consumer agrees to purchase renewable electric power from a power company over a long period of time. This particular case is an Offsite Corporate PPA model in which electric power generated at a remote facility is relayed through the power grid and delivered to the consumer, i.e. the buildings in which SuMi TRUST Bank branches are located.

### Membership of NZBA and NZAMI

The Group has joined an alliance by industry type under the Glasgow Financial Alliance for Net-Zero (GFANZ), a coalition of initiatives by financial institutions committed to carbon neutrality, with the objective to ensure steady efforts to become carbon neutral.

The Net-Zero Banking Alliance (NZBA) is an international initiative between banks to achieve net-zero greenhouse gas (GHG) emissions from their investment and loan portfolios by 2050. This initiative was launched in April 2021 under the leadership of the United Nations. NZBA members are required to systematically reduce operational and business-induced GHG emissions from their investment and loan portfolios to achieve net-zero by 2050 or earlier.

The Group joined NZBA in October 2021, and is formulating milestone GHG emission reduction tar-

gets and specific reduction plans according to the NZBA's framework to promote initiatives to achieve net zero emissions.

Net-Zero Asset Managers initiative (NZAMI) is an international initiative, launched in December 2020, for asset managers aiming to achieve net-zero greenhouse gas emissions from their investee companies by 2050. NZAMI members are expected to systematically reduce GHG emissions from the assets under their management to net-zero by 2050 or earlier.

Sumitomo Mitsui Trust Asset Management and Nikko Asset Management joined NZAMI in July 2021 and November 2021, respectively. They will set a milestone target for reducing GHG emissions from assets under our management and promote efforts to achieve net-zero according to the NZAMI framework.



NZBA participants must announce within 12 months of setting their targets a high-level transition plan specifying category-wise action outlines and schedules for achieving the targets set.



Within 18 months of joining

Within 36 months of joining

At least every five years after setting the targets

- As the first round, reduction targets need to be set for 2030 (or earlier) and 2050 in priority sectors
- Priority sectors must be set according to the following standards
  - GHG emissions
  - GHG emission intensity
  - Sector-wise exposure
- Sub-sectors may be prioritized in Agriculture/Transport
- Obligors with more than 5% of sales in coal mining for fuel and electric power must be included in the target scope

- Reductions targets must be set for the remaining carbon-intensive sectors
- Reference: List of carbon-intensive sectors
  - Agriculture
  - Aluminum
  - Cement
  - Coal
  - Commercial and residential real estate
  - Iron and steel
  - Oil and gas
  - Power generation
  - Transport

- Periodically review reduction targets (at least once every five years) and revise them as necessary for consistency with the latest climate science
- Reduction targets should be recalculated and revised as required to reflect important changes in the business (changes in the investments and loans portfolio, etc.)
- The targets must be approved by top management and reviewed by the top governance body (Board of Directors, etc.)

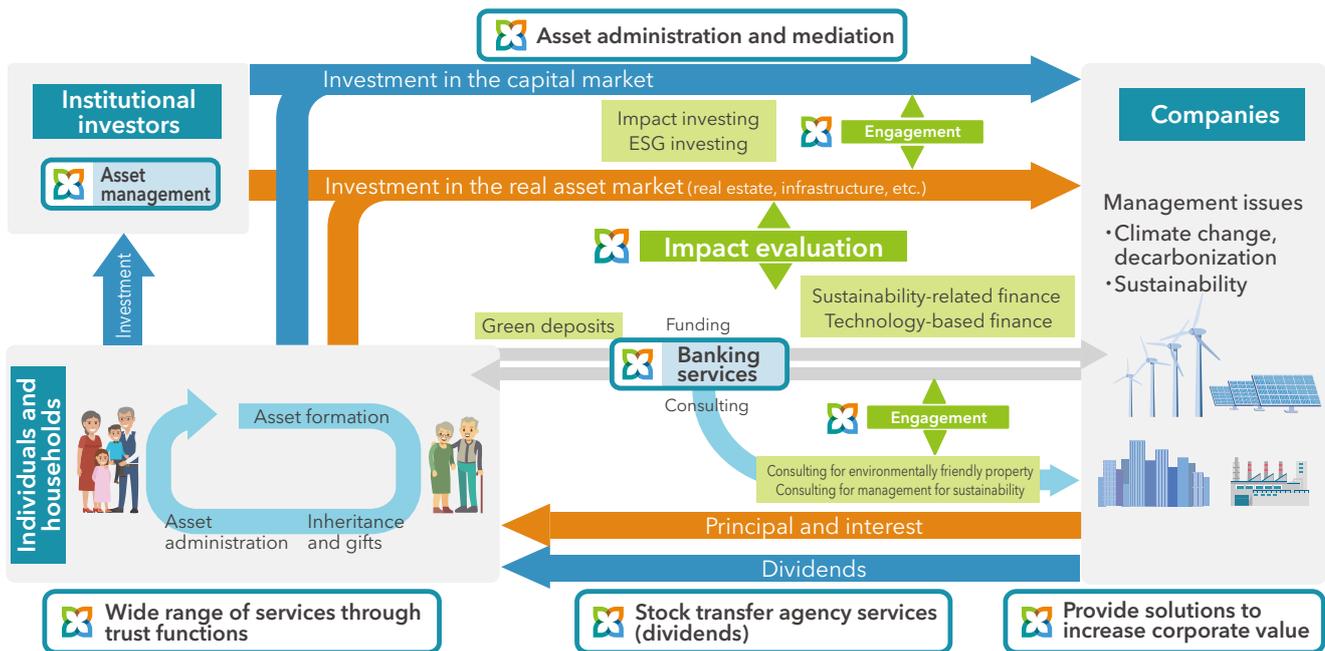
## Business Opportunities Arising from Climate Change (initiatives for impact businesses)

As the structure of society and the industry begin to change significantly to achieve a carbon-neutral society, enormous funding would be needed for developing technologies and investing in facilities.

This demand for funds will also lead to providing attractive products for institutional investors in a low interest rate environment and offering investment opportunities for the asset formation needs of households and

individuals in the age of 100-year life.

We aim to contribute toward building a carbon-neutral society by meeting the funding needs of companies to support improvement of corporate value and thereby creating a virtuous cycle of funds, assets, and capital, that extends the results to individuals, households, and institutional investors. Then, we believe that impact finance is key to developing this virtuous cycle.



### The SuMi TRUST Group's Impact Business

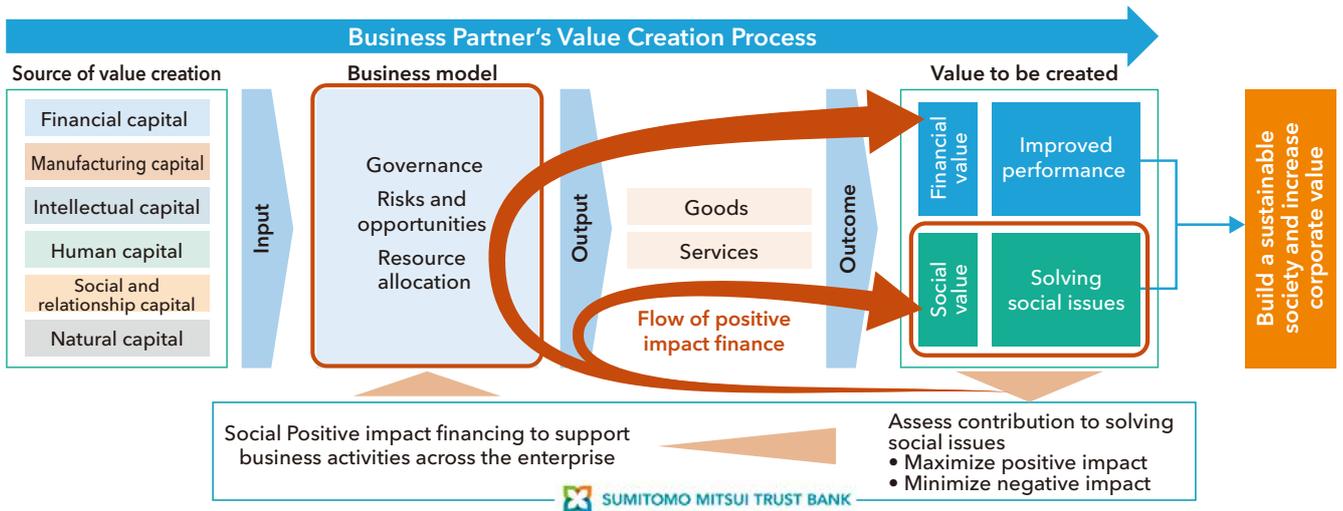
The Group defines its purpose (reason for existence) as follows: *creating new value with the power of trusts and let prosperous future for our clients and society bloom.*

As we work towards the decarbonization of society, the Group will aim to create both social and economic value in a balanced manner by developing new markets and new investment opportunities with the use of not only our investment and loan functions, but also the asset management and asset administration businesses unique to a trust banking group. We are involved in various impact businesses to create social value.

#### (1) Positive impact finance

In September 2019, we became a signatory to the Principles for Responsible Banking (PRB), which call on banks to assess during the loan screening process whether an investee company or project is maximizing the positive impacts and minimizing the negative ones in working towards the objectives of the SDGs and the Paris Agreement. In positive impact finance (PIF), we comprehensively

analyze and assess from the viewpoint of industry sector, business area, and the supply chain, the impacts (both positive and negative) of a client's corporate activities on the environment, society, and economy and then work together with the client to set goals for mitigating the negative impacts and expanding the positive ones. The client then commits to achieving those goals as a condition for financing. In March 2019, SuMi TRUST Bank concluded the world's first PIF loan agreement with a business in which the use of loaned funds is unspecified. In recognition of its initiatives for developing this product concept, SuMi TRUST Bank was awarded the first-place prize (Minister of the Environment Award) in the financing category of the Ministry of the Environment's inaugural ESG Finance Awards Japan in February 2020. As of the end of September 2021, we have concluded 20 PIF transactions since the first one went through in March 2019. By throwing our support behind corporate climate change initiatives, we aim to help enhance both social value and our clients' corporate value.



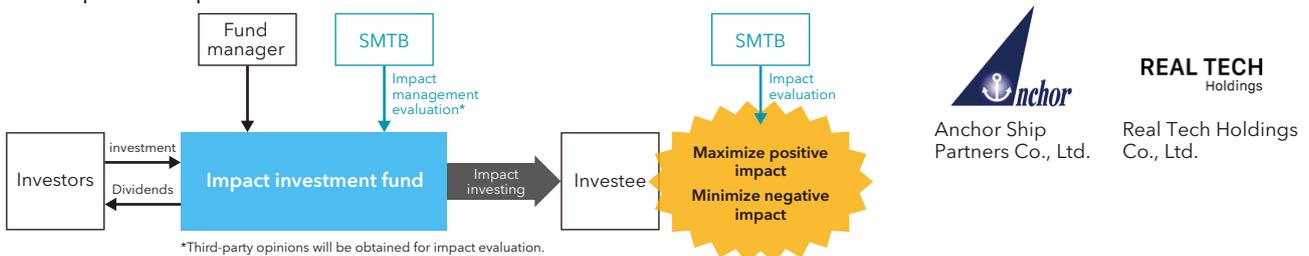
## (2) Impact evaluation of investments funds for solving social issues

SuMi TRUST Bank has decided to support impact evaluations of the respective impact investment funds formed by Anchor Ship Partners Co., Ltd. (“ASP”) and Real Tech Holdings Co., Ltd. (“Real Tech”). Impact investing is an investment strategy that aims to balance social and economic value by adding a third axis, “social value (impact),” to the two traditional axes of investment decision-making, “risk” and “return,” in order to understand the impact of the investee on the environment, society, and the economy. ASP will make investments based on the global trends toward decarbonization. The company will also measure the impact of the investments on the economy, society, and the environment and take appropriate management actions. By implementing im-

pact evaluation and monitoring, SuMi TRUST Bank will continue to support the fund’s efforts to decarbonize the maritime transportation industry, generating positive impacts geared towards solving social issues.

Meanwhile, Real Tech is investing in and nurturing startups with state-of-the-art science and technology and R&D-based technologies (“Deep Tech”) to solve the problems of the planet and humanity. SuMi TRUST Bank has entered into an advisory agreement with Real Tech on impact evaluation, marking the first time a Japanese investment fund for Deep Tech startups has decided to adopt impact evaluation. SuMi TRUST Bank will continue to support its clients’ business activities in achieving their SDGs targets and contribute to improving their medium- to long-term corporate value through impact evaluation and other sustainability-related solutions.

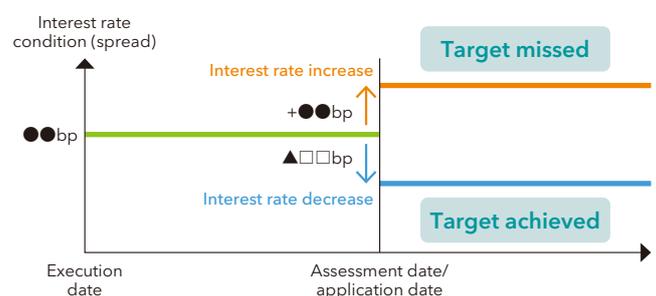
### Example of an impact investment fund scheme



## (3) Sustainability-linked loans

SuMi TRUST Bank is also working on sustainability-linked loans, which are not based on comprehensive KPIs like Positive Impact Finance (PIF), but rather on a mechanism that enables SuMi TRUST Bank to set ambitious Sustainability Performance Targets (SPTs) on specific themes with the borrower company, and to vary the interest rate depending on the achievement of the targets. The SPTs are selected after thorough consultation with clients from the following categories: energy efficiency (energy conservation and renewable energy), water consumption, sustainable procurement, circular economy (recycling

rate), biodiversity, and global ESG evaluation. Then, a third-party organization such as a rating agency evaluates the appropriateness of the established SPTs in light of the overall CSR strategies of the borrower company.



## Renewable Energy Finance Projects (portfolio)

Through project finance, SuMi TRUST Bank facilitates the roll-out of large-scale projects, such as wind and solar power generation, and has set up and manages renewable energy funds for the purpose of investing exclusively in renewable energy projects. In project finance, both offshore and onshore wind power generation projects overseas are increasingly large-scale endeavors. In

Japan, the number of mega-solar projects has further increased. The total potential power generation capacity of projects SuMi TRUST Bank has been involved in came to 16,245MW, with annual power output of 43,674GWh, reducing annual CO<sub>2</sub> emissions by 18.976 million t-CO<sub>2</sub> (contribution by the company stood at 2.961 million t-CO<sub>2</sub>).

### Reducing CO<sub>2</sub> Emissions through Project Finance

	Number of projects	Potential capacity (MW)	Annual output (GWh/year)	CO <sub>2</sub> reduction (PJ-based) (1,000t)	CO <sub>2</sub> reduction (contribution by the company) (1,000t)
Solar	118	5,896	8,804	4,625	1,313
Wind	26	3,577	9,598	3,450	574
Offshore wind	12	5,874	19,464	8,114	507
Biomass	13	779	5,764	2,767	565
Power generation from waste	1	120	44	21	2
Total	170	16,245	43,674	18,976	2,961

#### [Method for calculating CO<sub>2</sub> reduction impacts]

Annual CO<sub>2</sub> reduction (t-CO<sub>2</sub> per year) =  
annual power output (kWh/year) x emission coefficient (t-CO<sub>2</sub>/kWh)

- As a general rule, we use planned values for annual power output.
- As a general rule for domestic projects, we use the most recently calculated emission coefficient of each electricity supplier in the electricity supply system of the region where each project is located (actual emission coefficient).
- As a general rule for overseas projects, we use the International Energy Agency (IEA) calculation tools provided on the GHG Protocol website to calculate reduction equivalents.

### (1) Set up an investment fund for renewable energy businesses

In December 2021, NTT Anode Energy Corporation, Tokyo Century Corporation, and Sumitomo Mitsui Trust Investment Co., Ltd. jointly established NTT/TC/SuMi Green Energy No. 1 Investment Business LP (the "Fund") for investing in renewable energy projects in Japan.

As the global demand for renewable energy increases with an eye to decarbonization, Japan has also set a target to increase the ratio of renewable energy sources to achieve carbon neutrality by 2050. In response to the need for further expansion of renewable energy in Japan, we jointly established this fund to expand our renewable energy business, beginning with solar power generation.

We aim to acquire renewable energy projects worth a total of 100 billion yen through this fund by combining each company's financial strength and knowledge of developing and managing renewable energy. We will continue contributing to creating a sustainable society by working together with the other companies to resolve environmental and other social issues.

### (2) Solar power generation project loans for infrastructure investment corporations

In November 2020, SuMi TRUST Bank arranged a loan of approximately ¥27.9 billion to an infrastructure fund that mainly invests in renewable energy power generation facilities, and the funds will be used to finance the acquisition of a large-scale solar power generation plant. Through this acquisition, the infrastructure fund is expected to become one of the largest listed infrastructure funds in Japan with total assets of approximately ¥58.8 billion. This loan is a syndicated loan involving a total of 13 financial institutions, including regional ones, and is the largest loan that a listed infrastructure fund has ever received in Japan. The land (superficies) and power generation equipment included in the large-scale solar power plant acquisition funded by this loan is under a trust beneficiary right scheme with SuMi TRUST Bank as the trustee. This is the first time for SuMi TRUST Bank to be the trustee of a property with superficies. SuMi TRUST Bank will actively support the listed infrastructure fund market, mainly through financing, for the development and expansion of renewable energy.

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## Various Types of Transition Finance

### (1) Syndicated transition loan for funding two LNG-fueled ferries

SuMi TRUST Bank arranged a syndicated transition loan\*<sup>1</sup> for Mitsui O.S.K. Lines, Ltd. (MOL).

The loan was provided to MOL and one of its group companies, Ferry Sunflower Limited to finance the introduction of Japan's first two LNG-fueled ferries scheduled to operate between Osaka and Beppu.

This is the first transition loan in Japan to be selected by the Ministry of Economy, Trade and Industry (METI) as a Climate Transition Finance Model Project.

\*<sup>1</sup> Transition loans are a financing framework intended to support companies working to reduce greenhouse gas emissions in accordance with a long-term transition strategy aimed at realizing a low-carbon society, which is the goal of the Paris Agreement.

### (2) Signing of sustainability-linked derivative agreement

We entered into a forward foreign exchange agreement (ESG foreign exchange contract) with ASICS Corporation in August 2021. This agreement complies with the Sustainability-linked Loan Principles\*<sup>2</sup> set forth by the

Loan Market Association\*<sup>1</sup> and other organizations. As an agreement with a listed company, it is the first of its kind for any Japanese financial institutions (based on our research).

This transaction aims to promote and support environmentally and socially sustainable economic activities and economic growth by setting sustainability performance targets related to the sustainability goals set by ASICS, linking the terms of the forward foreign exchange contracts with ASICS's performance against the SPT, and providing incentives to achieve the SPT.

\*<sup>1</sup> An association aimed at improving the liquidity, efficiency, and transparency of the European, Middle Eastern, and African syndicated loan markets. LMA is composed of more than 700 institutions from more than 60 countries.

\*<sup>2</sup> The Sustainability-linked Loan Principles are autonomous guidelines for sustainability-linked loans, the contents of which are specified by LMA and other organizations. They were developed in 2019 by a working group of leading financial institutions in the syndicated loan market with the goal of promoting the development of relevant financial products and other instruments and maintaining their integrity by providing guidelines on sustainability-linked loans.

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## Technology-based Finance

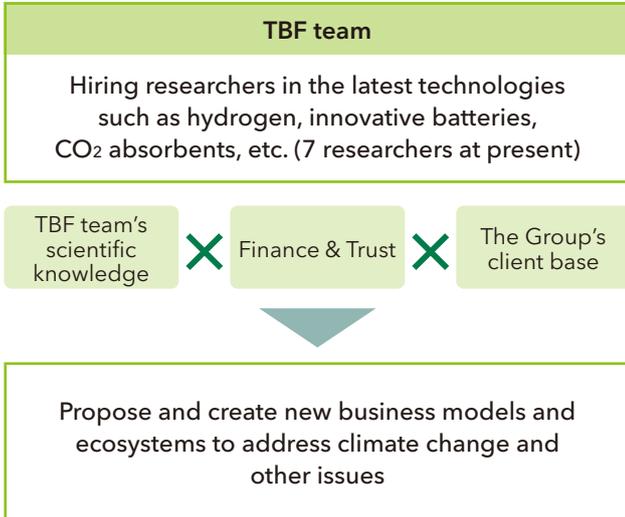
Huge funds are required to resolve the challenges of the SDGs and the Paris Agreement, and innovative technologies will be key. The Group thought that it would be necessary to understand the latest technologies, deepen dialogue with customers, and actively engage in finance based on scientific perspectives in the future "carbon-neutral world." Therefore, it established the Technology-based Finance (TBF) Team to provide financial support for the social implementation of technology. With the aim of creating a carbon-neutral society and building a society in harmony with nature, we first formed a team of researchers and experts with doctoral degrees in science and engineering in the fields of hydrogen, storage batteries, and organic and inorganic

chemistry. We seek to accelerate efforts to promote positive impact and curb negative impact, and contribute to solving social issues by incorporating the knowledge of the team members into the impact assessment process and implementing innovative technologies in society. Providing advisory services for impact evaluation of funds set up by Real Tech is one of the tasks for these members. The Technology-Based Finance team's activities will be a new challenge for our company and, perhaps also for the financial world. However, we will build social systems that solve environmental and social problems by applying existing technologies, developing new technologies, or combining both.

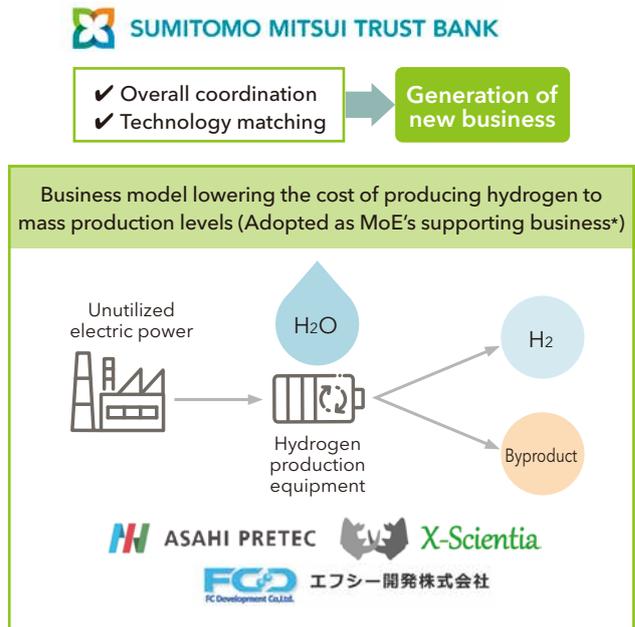


■ Newly established TBF team

Deep understanding of innovative technologies and social systems  
Contribution to generating businesses based on scientific knowledge



■ Specific case: Green Hydrogen Supply Chain Project



\*Low Carbon Technology research, Development and Demonstration Program of Ministry of the Environment

**Support for real estate ESG-related initiatives**

We support our clients in resolving issues related to real estate ESG by using our varied real estate functions.

<p>Improvement and visualization of environmental performance of real estate</p> <ul style="list-style-type: none"> <li>Visualization of environmental (consulting services to support "CASBEE for Real Estate" certification applications, etc.)</li> <li>Construction-phase support for environmental considerations</li> </ul> <p>Achieving energy and carbon neutrality</p> <ul style="list-style-type: none"> <li>Energy-saving in existing buildings</li> <li>Energy-saving using leasing</li> <li>Introduction of renewable energy</li> </ul>	<p>Review of work styles and workplaces</p> <ul style="list-style-type: none"> <li>Creating workplaces that match the new age work styles</li> </ul> <p>Managing real estate and strengthening security</p> <ul style="list-style-type: none"> <li>Strengthening governance through improvement in real estate management system</li> <li>Maintenance and protection support for buildings/longevity support</li> <li>Contributing to waste from buildings and a circular economy</li> </ul>
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**Consulting to support applications for "CASBEE for Real Estate" certification**

- SuMi TRUST Bank engages in consulting services to support applications for the CASBEE for Real Estate certification.
- CASBEE accredited professionals with the proper qualification support the selection of real estate applying for certification while also evaluating the environmental performance of real estate and supporting the submission of applications for certification to certifying bodies.
- SuMi TRUST Bank also makes proposals on initiatives that work in concert with CASBEE for Real Estate evaluations to identify problems and suggest improvements aimed at bolstering environmental performance.

To help with corporate initiatives aimed at solving sustainability issues, SuMi TRUST Bank offers consulting to support applications for CASBEE for Real Estate certification.

- Number of CASBEE for Real Estate certified properties (as of end-September 2021): 572  
Of these, the number of properties that SuMi TRUST Bank provided consulting services to: 288  
(Of these, 254 are listed real estate investment corporations (J-REITs), 16 are private J-REITs, 7 are corporations, 7 are special purpose companies, etc., and 4 are life insurance companies.)

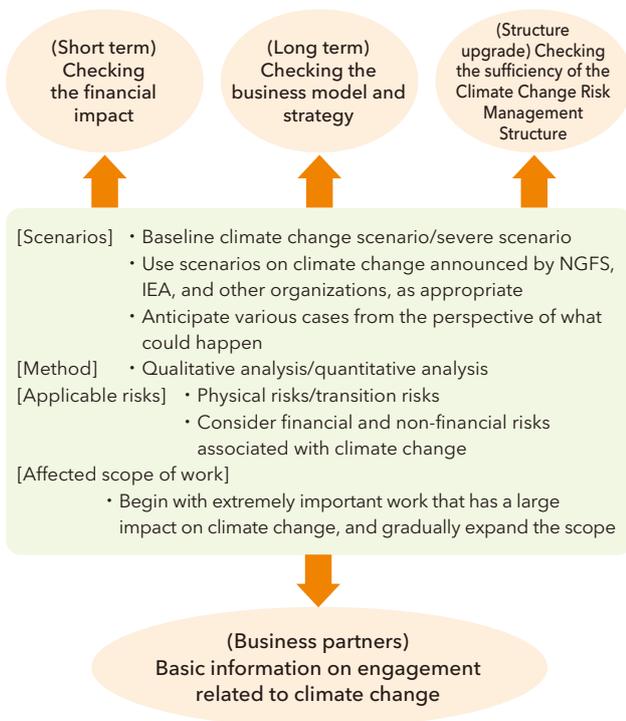


# Climate Change Scenario Analysis

## Scenario analysis framework

We started working on a climate change scenario analysis in key sectors, considering it as a tool to check the sustainability of our long-term business model and strategy, check the impact on our short-term business plan, and be involved in dialogue and engagement on climate change, mainly with our investment and lending partners. We will proactively work to strengthen our capabilities of adapting and mitigating climate change risks, including upgrading our analysis methods and expanding our scope.

### ■ Framework of climate change scenario analysis



## Scenario analysis related to transition risks The case of scenario analysis for the marine transportation sector

We have selected the maritime transportation sector as a sector for scenario analysis of transition risks in FY2021.

The maritime transportation sector is an extremely important sector to the extent that we became the first financial institution in Asia to sign the Poseidon Principles. We seek to achieve more effective risk management and business development by financially supporting our clients' decarbonization efforts through the full use of our capabilities, based on in-depth understanding of their initiatives, in our effort to decarbonize our investment and loan portfolio in addition to the perspective of risk management.

Specifically, we used the IMO's (International Maritime Organization) ocean shipping sectoral scenarios in its fourth report, the NGFS' (Network for Greening the Financial System) "NGFS Climate Scenarios for central banks and supervisors," and "Roadmap to Zero Emissions from International Shipping" of the International Shipping GHG Zero Emissions Project to conduct medium- to long-term scenario analysis, including calculations of the financial impact of the project. We have also started to exchange opinions with our business partners as part of our engagement with them in order to develop scenarios and set parameters that better reflect the actual situation, and to make our analysis models more sophisticated.

### 1. The process of scenario analysis

#### Analysis of the impact of decarbonization on the maritime transportation industry

- Identifying hypotheses about anticipated changes in transition risk, physical risk, etc.

#### Scenario analysis (financial simulation, qualitative analysis)

- Simulation focused mainly on transition risks due to climate change
- Qualitative analysis of the changes expected in the maritime transportation industry after longer-term decarbonization

#### Engagement activities such as exchange of opinions with clients on analysis results and future issues

- Recognition of risks based on scenario analysis
- Exchange of opinions on the status of business partners' initiatives



## 2. Analysis of the impact of decarbonization on the maritime transportation industry

We identified the following impacts of climate change on the maritime transportation industry, including transition risks, physical risks and opportunities, and incorpo-

rated them in our scenario analysis through an exchange of opinions with our business partners who are actually doing the work, and continue to update and engage with them to improve our scenario analysis.

### Transition risk

Topic	Details	Degree of impact	Possibilities
Transportation demand for freight, etc.	[Change in energy transport] Changes in the energy mix will lead to a decrease in demand for cargo (crude oil, petroleum products, petrochemicals, coal, and LNG), while increasing the demand for transportation of next-generation fuels, such as ammonia and hydrogen.	Large	Large
	With the spread of EVs and other next-generation vehicles, there will be significant changes in finished vehicle transportation/supply chain, leading to a decline in vehicle transportation volume.		
Next-generation fuel ships	There will be an increase in R&D expenses and investment in facilities for next-generation fuel ships. At the same time, the promotion of subsidy systems for renewable energy may curb the cost of capital investment through subsidies.	Large	Large
	Operating costs will rise due to price hikes (if no progress is made in passing on costs to customers), including the burden of infrastructure development costs for next-generation fuels. On the contrary, the widespread use of next-generation fueled vessels is expected to lower fuel costs and carbon tax payments, leading to a decrease in operating costs.		
	The asset value of existing ships will decrease, making them stranded assets.		

### Physical risk

Topic	Details	Degree of impact	Possibilities
Abnormal weather	The increase in the frequency of abnormal weather and large typhoons leading to changes in shipping routes and damage to ships, increases costs and harms the reputation of shippers.	Medium to small	Large
Rise in sea level	The risk of a decline in the cost competitiveness of the entire maritime transportation chain due to the cost of measures to prevent flooding of port and other facilities due to rising sea levels and abnormal weather.	Large	Small
Increase in insurance premiums, underwriting constraints	Insurance premiums will constantly remain high due to many insured accidents caused by abnormal weather, or, depending on the route, insurance will surge and underwriting will be constrained.	Medium to small	Medium to small

### Opportunities

Topic	Details	Degree of impact	Possibilities
Change in modes of transportation	Based on characteristics/background of maritime transportation as a means of mass transportation with low environmental impact, investment and development of next-generation fueled ships and the possibility of reducing GHG gas emission intensity by increasing the size of ships and operating them at low speeds, demand for ships may increase as people shift from other means of transportation to marine transportation as an environment-friendly means of transportation.	Medium to small	Large

## 3. Scenario analysis

Based on financial data for fiscal 2019 and data on the number of ships in their fleet, we conducted a scenario analysis according to IMO's demand forecast for shipping capacity, assumed changes in the fuel mix in line with the "Roadmap for Zero Emissions from International Shipping," and referenced the following scenarios presented by NGFS.

Orderly (orderly transition)  
Disorderly (disorderly transition)  
Hot House World (no measures)

The carbon pricing was set by referring to the NGFS scenario, and the calculations were divided into two cases: (1) the carbon tax borne by the company as an operating cost is partially passed on to the fare, and (2) the tax is not passed on at all.

### Decarbonization Scenario in the "Roadmap to Zero Emission from International Shipping"

	LNG → carbon-recycled methane transition scenario	Hydrogen/ammonia fuel expansion scenario
Increasing the efficiency of energy-saving technology and shipping	<ul style="list-style-type: none"> <li>40% improvement assumed in average fuel consumption in international shipping by 2030.</li> <li>45% improvement assumed in average fuel consumption in international shipping by 2050 (+5% improvement from 2030).</li> </ul>	
Use of petroleum-based fuel oil	<ul style="list-style-type: none"> <li>The demand and supply of crude oil as a fuel on land is assumed to decrease and, as a result, the supply of marine fuel oil is also assumed to decrease, by 2050.</li> <li>The construction of ships that use petroleum-based fuel oil is assumed to decrease and all new ships are assumed to use LNG and other alternative fuels after 2035.</li> </ul>	
LNG fuel	<ul style="list-style-type: none"> <li>About 35% of the energy supply for international shipping is estimated to come from LNG in 2050.</li> </ul>	<ul style="list-style-type: none"> <li>About 35% of the energy supply for international shipping is estimated to come from LNG in 2050.</li> </ul>
Carbon recycling methane and biomethane	<ul style="list-style-type: none"> <li>About 40% of the energy supply for international shipping is estimated to come from carbon recycling or biomethane in 2050.</li> </ul>	<ul style="list-style-type: none"> <li>About 7% of the energy supply for international shipping is estimated to come from carbon recycling or biomethane in 2050.</li> </ul>
Hydrogen and ammonia	<ul style="list-style-type: none"> <li>About 10% of the energy supply for international shipping is estimated to come from hydrogen or ammonia in 2050.</li> </ul>	<ul style="list-style-type: none"> <li>About 45% of the energy supply for international shipping is estimated to come from hydrogen or ammonia in 2050.</li> </ul>
CO <sub>2</sub> capture on the ships	<ul style="list-style-type: none"> <li>About 20% of the ships that use LNG fuel are estimated to have implemented this in 2050.</li> </ul>	<ul style="list-style-type: none"> <li>About 5% of entire international shipping is estimated to have implemented this in 2050.</li> </ul>
Wind power propulsion and battery	<ul style="list-style-type: none"> <li>About 2% of entire international shipping is estimated to use wind power propulsion or battery in 2050.</li> </ul>	

#### 4. Themes for exchange of opinions with business partners

We explained the analysis of the impact of decarbonization on the maritime transportation industry and the results of the scenario analysis to our business partners and exchanged opinions on the topics below with the objective to enhance our understanding of their development plans for next-generation fuel ships as well as the level of technical difficulty in achieving such plans and use those insights to refine our climate change sce-

- ✓ Technology development for next-generation fuel ships, and prospects of making and implementing plans for commercial operation
- ✓ Changes in fund procurement and other needs for decarbonizing, including introduction of next-generation fuel ships
- ✓ Status of introduction of internal carbon pricing and operational issues

#### Evaluation and analysis of physical risks

Physical risks refer to risks that may manifest due to disasters caused by climate change. Main risks may include an increase in floods due to rising temperatures or increase in damage caused by typhoons. Physical risks are further classified into sudden risks arising from individual weather phenomenon and long-term risks due to changes in climate patterns.

Sudden risks are those that negatively impact our finances due to sudden weather phenomenon such as floods, droughts, and wildfires. In contrast, long-term risks include rising sea levels, changes in ecosystems due to changes in annual rainfall, and changes in environment in which crops grow.

In the previous fiscal year, we analyzed the impact of increased flooding due to global warming on our housing loans as part of our scenario analysis of sudden risks. We plan to follow up with a physical risk analysis of real estate-related investments and loans, which is one of the major sectors of our investment and loan business, to check whether our risk management is sufficient and our business strategy is appropriate, taking measures as required.

nario analysis model, so that we can continue to hold effective dialogues in the future.

Through these dialogues, we hope to promote understanding of business continuity-related issues and business opportunities for our business partners in transition to a carbon-neutral society. We also seek to hold an active exchange of opinions on the various ways in which the Group can provide support to and collaborate with our business partners to appropriately promote their activities aimed at a carbon-neutral society.

#### Plan for the next physical risk scenario analysis

##### Risks to check

- Risk of an increase in abandonment of our real estate-related loans (credit cost) due to more instances of flooding

##### Anticipated scenario

- IPCC2.6 (temperature rise by 1.6 degrees Celsius or less within the 21st century) and IPCC8.5 (same, temperature rise by over 4 degrees Celsius), etc.

##### Business to be analyzed

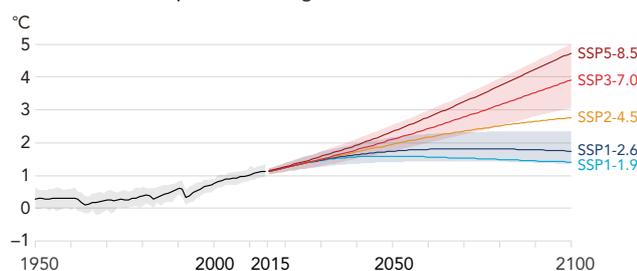
- Investments and loans in real estate (real estate non-recourse loans)

##### Anticipated method

- In the scenario of temperature rise mentioned above, estimate the increase in the probability of flooding and the proportionate loss in areas with properties subject to the loans and investments, and calculate the change in the estimated loss ratio on investments and loans

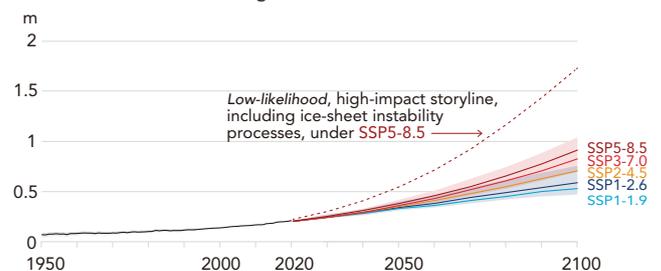
#### (Reference) IPCC: Global warming scenarios

Global surface temperature change relative to 1850–1900



#### (Reference) IPCC: Prediction of rise in the sea level by scenario

Global mean sea level change relative to 1900



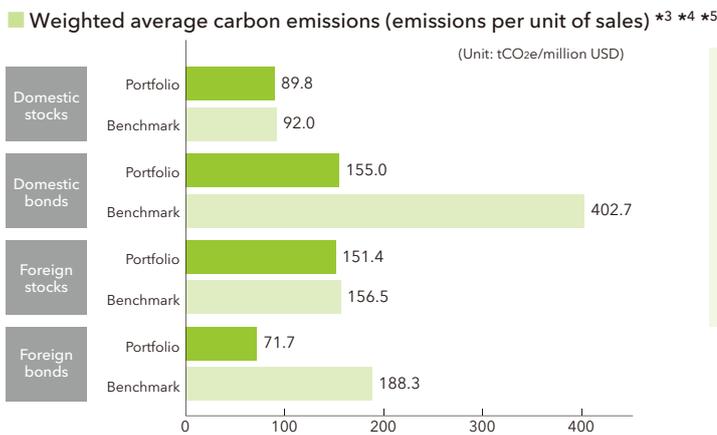
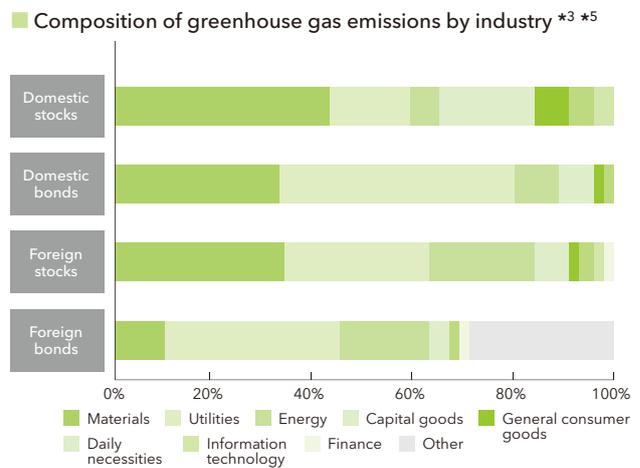
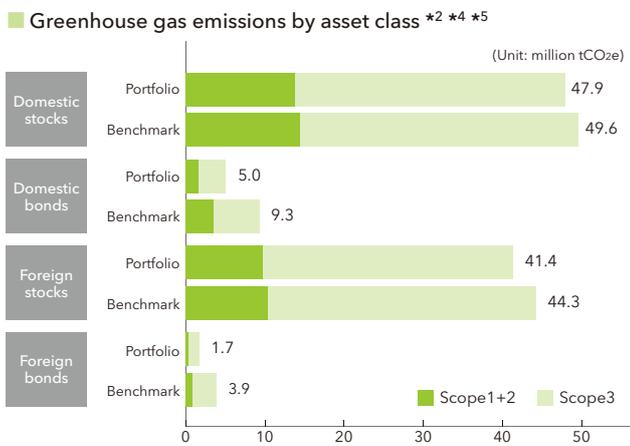
### Climate-related portfolio analysis by Sumitomo Mitsui Trust Asset Management

Sumitomo Mitsui Trust Asset Management (SMTAM) evaluates the climate change risks in the assets it manages first by asset class and then for the whole assets by combining all the asset classes. It uses two assessment methods: 1. a fixed-point analysis based on information disclosure and performance of the companies comprising the portfolio; and 2. a transition path analysis based on future climate change scenarios. Below SMTAM discloses a summary of the results of SMTAM's analyses of domestic and foreign stocks and bonds. Note that the analyses use data and methods of an external agency \*1 (base date: June 30, 2021).

#### 1. Fixed-point analysis (greenhouse gas emissions, etc.)

This is an attempt to ascertain the status of Greenhouse Gas Emission Exposure and other conditions at a fixed point in time, based on investee companies' disclosure data and other information.

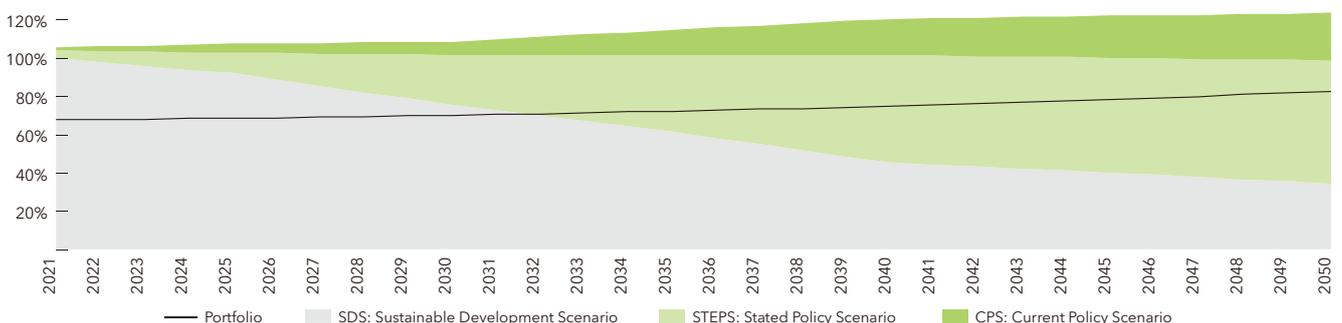
SMTAM takes domestic and foreign stocks and bonds into consideration, and the emissions for each asset are below the benchmark. The utilities and materials sectors account for a large portion of the total for each asset in terms of emissions by industry.



Weighted average carbon emissions (emissions per unit of sales) are also lower than the benchmark for each asset. The large value of domestic bonds in both the SMTAM portfolio and the benchmark is likely due to the large share of the utilities sector, including electric power companies. Although foreign stocks are also large in value, this could be due to the relatively large holdings of stocks issued by companies in the utilities and materials sectors in China and Asia.

#### 2. Transition path analysis

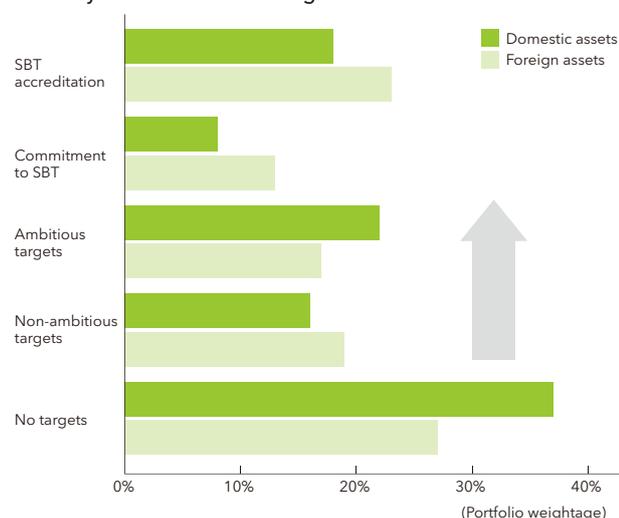
Comparison of projected pathways of greenhouse gas emissions for all SMTAM-managed assets and emission budgets for each climate change scenario \*5 \*6 \*7 \*8



Transition pathway analysis assesses how the portfolio's climate change risk will change in the face of different scenarios for future climate change. The estimates of the portfolio's future greenhouse gas emissions are compared with the projected carbon budgets calculated according to different climate change scenarios, and this produces an assessment of the portfolio's compatibility with different climate change scenarios (climate resilience). The evaluation is based specifically on three scenarios: SDS (Sustainable Development Scenario), STEPS (Stated Policy Scenario), and CPS (Current Policy Scenario) by the International Energy Agency (IEA). This

confirms that the total emissions of all SMTAM-managed assets (domestic and foreign stocks and bonds) are likely to reach the level permitted under SDS in 2032. As mentioned earlier, this could be due to the relatively large holdings of equities and bonds in the utilities and materials sectors in China and Asia, and this may suggest that it is important to encourage greater efforts to address climate change in these regions and sectors.

### ■ Survey of climate-related targets



SMTAM has confirmed that some investee companies in its asset portfolio have not been proactive in addressing climate change issues. SMTAM considers setting ambitious goals, committing to SBT and increasing the number of certified investee companies\*8 as one of the important measures and will actively encourage our investee companies to work on these.

SMTAM will keep enhancing its initiatives and disclosure on climate change issues under the supervision of its Board of Directors. The objective will remain unchanged.

- Reduce greenhouse gas emissions from investee companies through engagement and collaboration with stakeholders, including exercise of voting rights and policy recommendations.
- SMTAM offers investment strategies and products that address climate change and optimally allocate capital to (1) maximize clients' investment returns and (2) contribute to climate change issues through collaboration between investee companies and SMTAM. SMTAM will continue to work diligently to achieve these objectives.

\*1 ISS (Institutional Shareholder Services)

\*2 Based on Scopes 1+2+3

\*3 Based on Scopes 1+2

\*4 The benchmarks are as follows:

Domestic stocks: TOPIX

Domestic bonds: NOMURA-BPI Overall (corporate bonds only)

Foreign stocks: MSCI-ACWI (ex-Japan)

Foreign bonds: Bloomberg Global-Aggregate (excluding Japan) (corporate bonds only)

\*5 Adjusted for each asset. Calculated on the basis of assets owned by SMTAM against the corporate value.

\*6 All industries except fossil fuel producing industries: Scopes 1+2, Fossil fuel producing industries: Scope 3, Electric power: Scope 1

\*7 Sustainable Development Scenario (SDS): The scenario aimed at sustainable development of the world. Scenario aligned with the goal of the Paris Agreement to stay well below +2 degrees Celsius and limit to +1.5 degrees Celsius. Stated Policy Scenario (STEPS): Scenario for achieving policy measures Scenario for achieving the goals stated by the government (+2.7 degree Celsius at the end of this century)

Current Policy Scenario (CPS): Scenario to maintain the current policy measures. Scenario for maintaining the current situation without any policy changes (+3.2 degree Celsius at the end of this century)

\*8 SBT (Science Based Targets): Greenhouse gas emission reduction target set by companies for the next five to 15 years, according to the standards specified by the Paris Agreement. The numbers must be consistent with the indicators required by latest weather science. SBT is implemented as one of the WMB (We Mean Business) initiatives, and is established and operated by WMB organizations such as the World Resources Institute (WRI) and CDP.

SBT accreditation: Having targets accredited by the organization mentioned above. Even after accreditation, the amount of emissions and the progress made on the measures must be disclosed every year, and the adequacy of the targets must be checked periodically.

SBT commitment: committing to setting SBT targets within two years

### Nikko Asset Management’s climate-related portfolio analysis

While TCFD recognizes the challenges and limitations of current carbon footprint indicators, it recommends using weighted average carbon intensity. The table below shows the weighted average carbon intensity (WACI) of

nine funds representing major active equity strategies and their benchmarks as of December 2020, managed by Nikko Asset Management (Nikko AM).

#### ■ Weighted average carbon intensity (WACI) for Nikko AM’s Representative Active Equity Funds

Representative Funds	Benchmark	Portfolio WACI	Benchmark WACI
		(tCO <sub>2</sub> e/US\$M Sales)	(tCO <sub>2</sub> e/US\$M Sales)
Global Equity	MSCI ACWI	25.9	155.3
Asia Equity (ex Japan)	MSCI AC Asia ex Japan	66.7	239.3
China Equity	CSI 300	118.2	219.4
New Zealand Equity	S&P/NZX 50 Index Gross with Imputation	128.7	120.8
Japan Equity Growth	TOPIX Total Return Index	69.3	84
Japan Equity Fundamental Value	TOPIX Total Return Index	131.4	84
Japan Equity Core	TOPIX Total Return Index	47.9	84
Japan Equity Research Active	TOPIX Total Return Index	52.1	84
Japan Equity Enhanced Index	TOPIX Total Return Index	79	84

\*WACI is calculated using MSCI ESG Research and defined as Scope 1 (direct) + Scope 2 (indirect) greenhouse gas emissions normalized by sales in USD.

According to a survey by the Sustainability Accounting Standards Board (SASB), 68 out of 77 industries are significantly affected by climate change risks in some way. However, only 21% of the companies surveyed disclose quantitative information on the magnitude and cost of estimated climate change risks, even when they have experienced physical climate change risks or are highly aware that they will be affected.

Nikko AM has been actively testing scenario analysis tools, especially those supported and introduced by PRI.

Research tools are rapidly being developed in this field to address various climate change risks, including transition risks and physical risks. While studies by leading experts have been elucidating the macro impacts of climate change, impact as the regional or corporate level is still extremely unclear. Scenario analysis tools can be useful at this micro level. Nikko AM continues to explore how various scenario analysis tools can be applied to managing a variety of unique portfolios.

## Climate Change Risk Management Structure

We identify climate change to be a priority issue (materiality) that has implications for both the Group's corporate value and the building of a sustainable society. It is therefore a key point of focus for our risk management.

Overarched by the Sustainability Policy, we established the Action Guidelines for Mitigating Climate Change to contribute to efforts aimed at mitigating and adapting to climate change. Also, in the policy of environmental and social considerations in the loan business, we committed not to provide financing for new coal fired power plans in principle. Regarding the Equator Principles which is a guideline applied to large scale project finance, a climate change risk assessment was added to the items of due diligence in 2020.

Within the framework of Group-wide risk management resolved by the Board of Directors, every quarter we exhaustively bring to light risks and identify and evaluate those considered to be significant risks in terms of probability, degree of impact, and severity. From among the significant risks identified, the Executive Officer in charge of risk selects the top risks (risk that may have a major impact within a year and require the management's attention) and emerging risks (risks that do not have a probability to cause a major impact within a year

but could be significant in the medium to long term of over a year), and monitors and manages them within our existing risk appetite framework (RAF) by submitting a risk management status report to the Board of Directors on a quarterly basis. As of September 30, 2021, we have raised "climate change-related risk" from emerging risks to top risks due to recent significant changes in public perception of climate change and the Group's efforts to establish a full-fledged system in the second half of the year to uphold its Carbon Neutral Commitment and participate in the NZBA.

In fiscal year 2021, the relevant departments have been holding discussions about upgrading the credit risk management framework from the perspective of transition risk and physical risk. They will identify and evaluate climate change-related risks, incorporate them into the investment and loan process, and apply them to monitoring during the term. By the end of fiscal year 2021, we will also introduce comprehensive risk management guidelines, define a three lines of defense, and establish a reporting system, with the aim to manage climate change-related risks in each risk category of the existing risk management framework from a long-term perspective.

## Climate Change Risk Management for Loans

### (1) Policies for specific sectors

#### 1. Policies as a responsible trust banking group

SuMi TRUST Holdings has established the Environmental Policy to reduce the environmental load arising from its business activities. We also have in place Action Guidelines for Mitigating Climate Change and Action Guidelines for Preserving Biodiversity to address particularly serious environmental issues. We are endeavoring to tackle those issues through dialogue and collaboration with various stakeholders.

#### 2. Transactions warranting special attention (related to climate change only)

Details are provided on the next page.

#### 3. Review of policies for specific sectors

SuMi TRUST Holdings regularly reviews the suitability of

established policies for specific sectors and the status of how transactions are being addressed at Sustainability Promotion Committee in our Executive Committee, etc., to reconsider the policies as well as make improvements to our operations as necessary.

#### 4. Education and training

As a member of a responsible trust banking group, we continually conduct educational training to ensure that SuMi TRUST Holding's directors and executive officers as well as employees deepen their understanding of ways to reduce environmental impact, policies for human rights, and policies for specific sectors. The company also spares no effort to ensure that directors, executive officers and employees comply with all relevant regulations and procedures.

## 5. Communication with stakeholders

SuMi TRUST Holdings continues to engage in dialogues and collaborations with various stakeholders on themes that are relevant to the policies for specific sectors that it has established. The Bank believes that dialogues and

collaborations with these stakeholders will prove useful when considering reviews to improve the policies for specific sectors to stay in line with the changing social environment and to continue improving their effectiveness.

### Transactions that require special attention (related to climate change only)

#### 1. Coal-fired power generation

SuMi TRUST Holdings, in principle, does not engage in new projects for the construction of coal-fired power plants.

Target for reduction of credit balance for coal-fired power generation projects

[No change]

- 50% reduction in credit balance (in comparison to March 31, 2020\*1) by the end of FY2030
- Zero credit balance by around FY2040

Actual (as of March 31, 2021): ¥141.5 billion\*2

\*1 Credit balance on March 31, 2020: ¥133.8 billion

\*2 Increase due to projects for which support had already been declared before the policy was announced in March 2018 (no similar projects at present)

#### 2. Forestry

The rapidly spreading global deforestation is creating various problems such as reduction in biodiversity, decline in the stability of ecosystems, lower watershed protection, lower fixation of carbon dioxide and such. SuMi TRUST Holdings engages with timber manufacturers and manufacturers using timber as raw materials only after careful consideration such as checking their international forest certification status\*3 as well as fully taking into account any problems that may exist with original inhabitants and local communities.

\*3 FMC (Forest Management Certification) issued by FSC (the Forest Stewardship Council) for forestry management and forestry business operations; CoC (Chain of Custody Certification) for processing and distribution management of certified forest products, and others.

#### 3. Palm oil

Palm oil is derived from "oil palms" grown on plantations. While palm oil demand is rapidly growing owing to its convenience and rising preference for wholesome foods, environmentally destructive ways of growing them are causing devastation of tropical rainforests and the decline in biodiversity. SuMi TRUST Holdings engages with producers of palm oil and manufacturers using palm oil as a raw material only after careful consideration such as checking their international/local sustainable palm oil certification status\*4 as well as fully taking into account any problems that may exist with original inhabitants and local communities.

\*4 RSPO (Roundtable on Sustainable Palm Oil) and other initiatives to observe NDPE (No-deforestation, No-peat and No-exploitation) and the preserve HCS (High Carbon Stock) forests

#### 4. Coal mining

There is a risk of negative impact on the environment and society, such as the impact of toxic waste discharged from coal mines on the ecosystem, casualties from coal mines caving in, and violation of human rights. In principle, we do not finance new coal mining projects (thermal coal) or new coal mining projects using the mountaintop removal mining (MTR) method because these projects may cause an increase in GHG emissions that affect climate change.

#### 5. Oil and gas

Oil and gas mining operations pose the risk of a negative impact on ecosystems, biodiversity, and the living and natural environments of local residents. We will take careful measures, such as giving due consideration to the impact on the environment and any problems that may exist with the original inhabitants and local communities. We will be particularly careful in considering oil sands mining, shale oil and gas projects, Arctic mining, and pipeline construction initiatives.

#### 6. Hydroelectric power generation

Large-scale hydroelectric power projects pose the risk of a negative impact on ecosystems, biodiversity, and the living and natural environments of local residents. We will take careful measures, such as giving due consideration to the impact on the environment and any problems that may exist with the original inhabitants and local communities. We will be particularly careful in considering large-scale hydroelectric power generation initiatives (output of 25 MW or more) that involve the construction of dams.

#### 7. Large-scale plantations

Development of large-scale plantations pose the risk of deforestation and violation of human rights, as well as a negative impact on ecosystems, biodiversity, and the living and natural environments of local residents. We will take careful measures, such as giving due consideration to the impact on the environment and any problems that may exist with the original inhabitants and local communities. We will be particularly careful in considering initiatives that involve the development of forests and peatlands.

## (2) Project finance initiatives

SuMi TRUST Holdings recognizes the fact that financing large-scale development projects may indirectly have an adverse effect on the natural environment and local communities. Based on this awareness, we deemed it necessary to introduce a risk management framework that monitors whether a project's impact on the environment and community has been duly considered in the decision-making process for project finance and, in February 2016, we signed the Equator Principles, a set of international private sector guidelines for assessing environmental and social risks in mainly project finance.

The fourth revision (EP4) of the Equator Principles was adopted in November 2019. SuMi TRUST Holdings currently applies EP4 to projects for which it acquired a client mandate after October 1, 2020. With EP4, SuMi TRUST Holdings will continue to contribute to achieving a sustainable environment and society by making sure that projects take into account environmental and social considerations based on the Equator Principles.

### <Application of the Equator Principles>

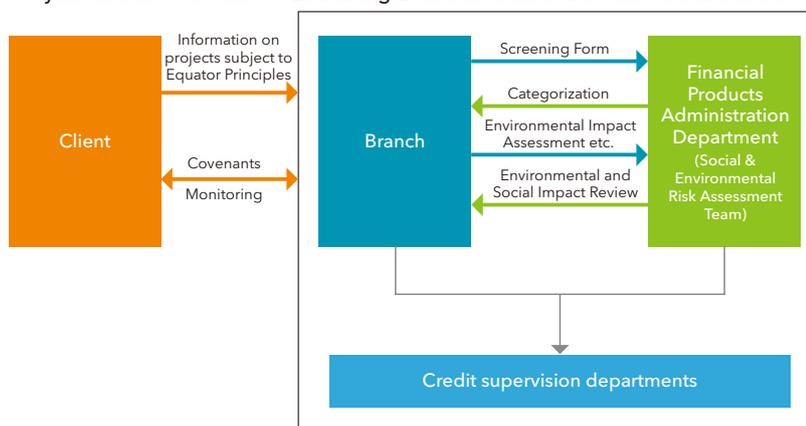
Because the SuMi TRUST Holdings has identified "Taking into account how borrowers and investees impact society and the environment" as a sustainability-related pri-

ority issue (materiality), we incorporate risk management procedures based on the Equator Principles into our project finance decision-making process to ensure that due consideration is given to each project's impact on the natural environment and local community. In fiscal year 2020 (April 1, 2020 to March 31, 2021), there were 14 projects to which we applied the Equator Principles.

In the fourth revision, topics on due diligence have been added to strengthen efforts to address climate change risks, including greater consideration of indigenous ethnicities in developed countries, expansion of some transactions applicable for refinancing, the requirement to conduct a transition risk analysis under TCFD in addition to considering alternatives for projects with annual GHG emissions of more than 100,000 t-CO<sub>2</sub>, and the requirement to conduct a physical risk analysis when substantial impact is expected.

SuMi TRUST Bank drew up policies for protecting the environment and communities based on the Equator Principles framework and procedures for evaluating social and environmental impacts. Financial Products Administration Department (Project Environment Team) carries out assessments of environmental and social impacts relating to individual projects.

### Systems and Processes for Evaluating Environmental and Social Considerations



**Application processes:** Following internal policies based on procedures for evaluating social and environmental considerations, the Equator Principles overseeing department carries out assessments of environmental and social impacts relating to individual projects.

**Implementing environmental and social impact reviews:** Reviews of the environmental and social impacts of a project proposed by developers take into account its industry, the country where it is sited, and whether it meets the standards called for by the Equator Principles, and from there, a comprehensive risk is judged.

**Monitoring compliance:** Compliance with important items concerning environmental and social impacts have been reflected into loan agreements, and compliance with these is regularly confirmed through such methods as reports on project compliance status on these fronts.

**Company training programs:** Regular training sessions are provided for employees in departments and sections relating to sales, assessment, and screening to foster a thorough understanding of internal operations supporting environmental and social impact reviews and raise their awareness about related concepts.

### Application of the Equator Principles Project Finance Cases

Sector	FY2020			Total
	A	B	C	
Mining	0	0	0	0
Infrastructure	0	0	0	0
Oil & gas	1	1	0	2
Electric power	2	9	0	11
Petrochemicals	0	0	0	0
Other	0	0	0	0
Total	3	10	0	13

\*Apart from these there was one refinancing case tied to projects.

### (3) The Poseidon Principles

For more than 50 years we have given top priority to steadily providing ship finance to meet the varied needs of clients in the marine transportation information. The marine transportation market is heavily influenced by mainly global economic fundamentals and supply and demand for ships, but decarbonization initiatives in the marine transportation industry are not only urgent issues but also movements that decide the direction in which the marine transportation sector should proceed, and give a significant impact on the market trend. In March 2020, SuMi TRUST Holdings became the first financial institution in Asian countries to sign on to the Poseidon Principles, an initiative launched by financial institutions to address climate change risks in the marine transportation industry. As a financial institution that is a signatory to the Poseidon Principles, we conducted a quantitative assessment of the contribution of our ship financing portfolio to the reduction of GHG emissions from international shipping based on the GHG emission reduction target set out by the International Maritime Organization (IMO)\*1, and decided to publish the results as Portfolio Climate Alignment once a year, starting in FY2020.

#### SuMi TRUST Holding's Portfolio Climate Alignment (as of December 31, 2020) : -0.8%

By signing the Poseidon Principles, as a member of

the Japanese maritime cluster and a financial institution providing ship finance at a global level, we will continue to support the business activities of our clients and contribute to addressing climate change risks in the marine transportation industry.

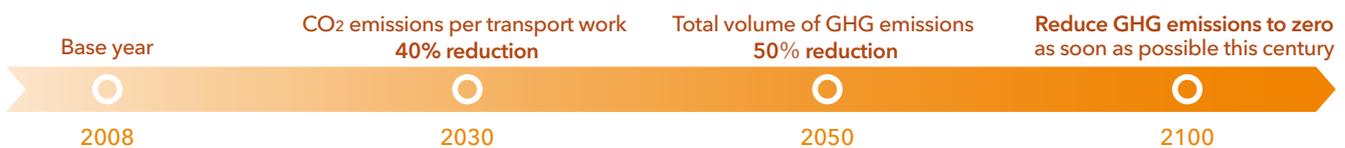
#### <Overview of the Poseidon Principles>

As an initiative spearheaded by private financial institutions to align with the greenhouse gas (GHG) reduction targets adopted by the International Maritime Organization (IMO) for global shipping, as well as the IMO's comprehensive GHG reduction strategy to achieve those targets\*2, the Poseidon Principles were established in June 2019 by 11 major global banks that provide ship finance. The management and administration of the Poseidon Principles is carried out by the Poseidon Principles Association, which comprises all signatory financial institutions. There are four principles - Principle 1: Assessment of climate alignment; Principle 2: Accountability; Principle 3: Enforcement; and Principle 4: Transparency.

\*1 The IMO is a United Nations' specialized agency responsible for shipping safety, preventing marine pollution by ships, and promoting international cooperation on marine affairs.

\*2 GHG reduction strategy: This strategy was adopted by the IMO in April 2018 with a vision to reduce GHG emissions from international shipping to zero as soon as possible in this century. Specifically, the strategy aims to reduce total annual GHG emissions by at least 50% by 2050 compared to 2008.

#### IMO's GHG reduction strategy



#### <Regarding Portfolio Climate Alignment>

The Poseidon Principles specify a Trajectory Value for annual CO<sub>2</sub> emission efficiency (CO<sub>2</sub> emissions per unit of transport) for each type and size of ship, based on the IMO's GHG emission reduction target (adopted in April 2018) of a minimum 50% reduction in total GHG emissions from international shipping in 2050 (compared to 2008 levels). The actual volume of annual CO<sub>2</sub> emissions for each ship we extend a loan is compared with the Trajectory Value and the difference represents the vessel's climate alignment. Portfolio Climate Alignment

as defined by the Poseidon Principles is then calculated as the sum of the weighted average of the Vessel Climate Alignment for each ship in our ship lending portfolio based on the outstanding loan balance. Portfolio Climate Alignment shows the contribution of our ship lending portfolio to CO<sub>2</sub> emission reduction targets. If the value is below the Trajectory Value specified by the Poseidon Principles, it is displayed as a negative value (success) and if it is above the Trajectory Value, it is displayed as a positive value (failure).

## Climate Change Risk Management for Portfolio Investments

### SuMi Trust Asset Management's Engagement Policy

SuMi Trust Asset Management (SMTAM) views engagement activities as opportunities to seek best practices from companies, and communicates its opinions with the aim to contribute to the enhancement of corporate value over the medium to long term. SMTAM has established 12 important ESG themes, such as climate change and governance improvement, for top-down activities while conducting bottom-up activities at the same time by linking these to the business strategies of individual companies. Activities are undertaken jointly by relevant members of the Stewardship Development Department (experts in the field of ESG) and analysts of the Research Department (experts on industrial and corporate analysis). SMTAM uses our networks in Tokyo, New York and London to engage with our own investee companies globally. SMTAM also conducts various activities through a wide variety of initiatives, such as PRI and Climate Action 100+, and engage with stakeholders other than our investee companies.

### (1) Participation in global initiatives

Activities through PRI (Principles for Responsible Investment) and Palm Oil Working Group

#### - Engagement activities for financial institutions -

As a PRI signatory, SMTAM joined the PRI Palm Oil Working Group (WG) in 2016 as Lead Manager and has been continuously active since then. Established in 2011, this WG is the oldest working group in PRI. It was set up at a time of devastation of tropical rainforests and decline in biodiversity due to palm oil production, poor conditions for workers, and conflicts with local residents during land development had become major social issues. In 2018, the WG decided to strengthen its engagement activities with financial institutions in ASEAN. The main aim of these activities is to encourage financial institutions, which play an important role in the palm oil supply chain by providing funds, to strengthen their monitoring of palm oil producers' compliance. In November 2018, members of the WG, including SMTAM, visited financial institutions in the ASEAN region for an engagement activity seeking clarification of the role of the financial industry in transitioning to a sustainable palm oil sector and strengthening monitoring of financial institutions.

### Example of engagement activities through the PRI Palm Oil WG

Company involved: CIMB Group, Malaysia (finance)

#### Decision to strengthen engagement with financial institutions in ASEAN

In 2018, the WG decided to strengthen its engagement activities with financial institutions in ASEAN.

To encourage financial institutions, which play an important role in the palm oil supply chain by providing funds, to strengthen their monitoring of compliance by palm oil producers.

#### Engagement with CIMB

SMTAM started engagement with the CIMB Group, which is a leading financial group in Asia and has a significant presence in ASEAN, by urging it to (1) clarify its role as a financial institution in the transition to a sustainable palm oil sector, and (2) strengthen monitoring of compliance by palm oil producers.

#### Company action

- As SMTAM conducted repeated engagement activities, the company established policies to (1) become the first financial institution in the region to incorporate EES (environmental, economic, and social) into its risk assessment, (2) incorporate sustainable finance policies into the screening criteria for borrowers, and (3) promote stronger monitoring of compliance by palm oil producers.
- In December 2020, the company committed to phase out coal-related financing by 2040. It is the first Malaysian financial institution to announce phasing out with a clear timeline.

#### Future policy

As SMTAM expands the scope of engagement to include other financial institutions in ASEAN, SMTAM has begun to receive positive responses from top-level ASEAN groups regarding sustainability activities, while the mid-level and lower-level groups are still at the stage of promoting an understanding of sustainability activities at financial institutions. SMTAM plans to conduct engagement activities with financial institutions in the ASEAN region to help resolve the palm oil issue.

## (2) Multi-engagement activities

### - Engagement with the Indonesian government

In November 2020, the Indonesian government formulated the Omnibus Law aimed at speeding up business and achieving economic effects by simplifying laws and regulations. At the bill stage, SMTAM was concerned that the implementation of the law could lead to deforestation, and decided that engagement with multiple stakeholders other than investee companies is necessary because collaboration between government, public policy institutions and private as well as public entities was essential to resolve social issues.

SMTAM collaborated with 35 overseas investment management organizations to send a letter to the government in September 2020 stating that the stimulus package under the law could lead to deforestation. Later, SMTAM received individual replies to our letter from the Vice Minister of Foreign Affairs and the Minister of Environment and Forestry of Indonesia. SMTAM also held independent engagement with the Ambassador to Japan, in which SMTAM expressed our opinions that (1) long-term investors do not consider the law itself to be a problem, but seek transparency in the way it will be applied, and (2) particular consideration should be given to ensuring that forest conservation does not suffer. The government said it took into account various stakeholders such as investors and environmental groups when enforcing the law, and will give due consideration to a balance between economic stimulus and environmental conservation, particularly regarding measures to prevent deforestation, in the detailed implementation rules.

## (3) Activities through Climate Action 100+ (CA100+)

More than 600 asset managers participate in Climate Action 100+ (CA100+) worldwide and carry out collaborative engagement at a global level with more than 160 companies with high greenhouse gas emissions. SMTAM had direct dialogs as a lead manager for 9 companies in the Asia region, and in April 2020, became a new member of the CA100+ Steering Committee which represents Asia.

## (4) Examples of engagement related to climate change

### Engagement: Global example 1

#### CASE 1 Ameren (US, power)

- Promotion of ESG information disclosure (environment)
- Corporate governance

#### Viewpoint of the person responsible for engagement

SMTAM decided to review the greenhouse gas reduction target (80% reduction by 2050, compared to 2005), which was inferior to that of similar companies, considered it necessary to improve corporate governance to achieve this.

#### SMTAM's opinion

- In May 2020, Ceres members submitted a shareholder proposal to appoint an independent person as chairperson of the Board of Directors, with the aim to strengthen measures to reduce greenhouse gas emissions, but the proposal was rejected.
- However, SMTAM considers it necessary to improve corporate governance by appointing an independent person to chair the Board of Directors, and to set more ambitious targets for greenhouse gas reduction as well as disclose information.

#### Company response

The approval rate for the shareholder proposal was only 29% because the company was in the process of reviewing its environmental governance system. Meanwhile, the GHG emission reduction target is under review and scheduled to be announced in September 2020. The cost of coal-fired power generation is low, but it will be phased out, and the company is considering ways to balance various factors, such as fuel purchasing power and stable supply.

#### Company action

- In September 2020, the company announced the target to achieve net zero greenhouse gas emissions in 2050.
- The following points were explained in a dialogue held in December 2020: (1) the review was held top-down, (2) the locations for wind power generation were roughly decided, and (3) other than renewable energy, the key point was to improve efficiency by upgrading gas power generation facilities.

#### SMTAM's assessment and future policy

The change in the GHG reduction target to net zero and its disclosure was evaluated as progress. In the future, SMTAM plans to monitor the specific progress toward achieving net zero and the progress of low-carbonization of the gas business.

## Engagement: Global example 2

### CASE 2 ArcelorMittal (Luxemburg, iron and steel)

- Climate change issue
- Promotion of information disclosure (environment)

#### Viewpoint of the person responsible for engagement

SMTAM believed that encouraging the company, as a leader in the global steel industry, to take the initiative to reduce GHG emissions and disclose information would encourage similar initiatives in the industry.

#### SMTAM's opinion

Governments must become more involved if the global steel industry is to overcome environmental challenges. One typical example is investment in advanced technologies such as technology related to hydrogen and carbon dioxide storage (CCS, etc.). From this perspective, it is necessary to strongly promote consultations with the government and industry groups, and disclose information on their activities to stakeholders.

#### Company response

- SMTAM believes that government support is essential for the steel industry to secure investment efficiency that satisfies shareholders while making large investments to address environmental issues in the steel industry where profitability is difficult. However, even in Europe, which is an advanced region, government encouragement of the steel industry has been slow.
- Although there is a need to increase electric furnace production in the future, blast furnace production will have to remain to a certain extent. It is important to boost the strength of crude steel in electric furnaces, so that the entire scrap iron supply chain can be restructured to secure high quality scrap.
- First, aim to decarbonize the European region by 2030. In other regions, the aim is to set a realistic goal of decarbonizing by 2040, depending on the maturity of the policies in each region.
- SMTAM will proactively consider strengthening information disclosure.

#### Company action

The company affirmed its active commitment to reducing GHG emissions. There was also a common understanding that this can only be implemented through various types of support from the government authorities in each country, as well as the involvement of the entire supply chain.

#### SMTAM's assessment and future policy

- Continue to conduct engagement activities with ArcelorMittal to reduce GHG emissions.
- There are also plans to encourage the development of steel products with low environmental impact (zero carbon steel) through engagement and other initiatives with the regulatory authorities of each country and related industries.

## Engagement: Domestic example 1

### CASE 3 Manufacturing company A

- Reduction of GHG emissions
- Corporate governance

#### Analyst's viewpoint

As global concern about climate change increase, scrutiny of companies with high absolute GHG emissions is increasing, and there is a need to address climate change issues. Moreover, since there is a listed subsidiary, SMTAM considered it necessary to ensure that the Board of Directors of the subsidiary was independent.

#### SMTAM's opinion

It is appraisable that TCFD-based scenario analysis has been disclosed in the Integrated Report, but it is also necessary to disclose the financial impact and plans to reduce the company's own GHG emissions. To reduce GHG emissions, it may be necessary to substitute the current material with low-carbon raw material "a" in the medium term and switch to decarbonized raw material "b" in the long term to achieve a GHG-free society. There may also be a need to consider a recycling process that emits less GHG than a process that uses fossil fuels as raw materials.

The Company's Guidelines for the Exercise of Voting Rights require the at least one-third of the directors of listed subsidiaries to be external directors from the perspective of independence. There is room for improvement because this standard had not been met as of June 2019.

#### Company response

Although industry associations have set targets for reducing GHG emissions, individual companies have not set specific targets. There are also issues related to the disclosure of the financial impact of TCFD. SMTAM would like to work on developing specific reduction plans and proactively communicating and disclosing information. The use of low-carbon raw material a is technically feasible, but mass procurement and productivity of the manufacturing process pose challenges. SMTAM is strongly conscious of the need to be carbon-free by 2050. However, this goal is difficult to achieve using only the current manufacturing method. Therefore, SMTAM is also considering recycling methods.

SMTAM is extremely aware of the need to ensure that the Board of Directors of listed subsidiaries are independent, and would like hire people in the future.

#### Company action

In August 2020, the company decided to build new manufacturing facilities for recycling at its overseas bases. In March 2021, it announced a long-term environmental vision. The goal is to achieve -30% GHG emissions by 2030 and carbon neutrality by 2050.

The number of independent external directors increased to more than one-third of the board of directors in two listed subsidiaries in June 2020 and June 2021, and a majority of the members of the voluntary Nomination and Compensation Committee are also independent external directors.

#### SMTAM's assessment and future policy

Although certain dialogue goals have been achieved in the long-term environmental vision announcement, SMTAM will seek disclosure of the roadmap, including specific measures to achieve the 2030 target. SMTAM will also continue to seek to expand the scope of targets to include overseas businesses, disclose the financial impact of internal carbon pricing and the introduction of a carbon border tax, and include ESG indicators in executive compensations.

Engagement: Domestic example 2

**CASE 4 Non-manufacturing company B**

- Management strategy
- Promotion of ESG information disclosure (environment)



**Nikko Asset Management's Engagement Policy**

Nikko Asset Management (Nikko AM) encourages the sustainable creation of corporate value through active dialogue with investee companies on key issues, including ESG and climate change. These dialogues enable us to deepen our understanding of the companies, including the quality of their management teams and their future direction, and include it in our evaluation of investments and adjust the scale of our investments as appropriate. Through engagement, Nikko AM shares an accurate understanding of the situation of investee companies and the challenges they are facing, and encourage them to improve their corporate value over the medium to long term. As part of this effort, Nikko AM places emphasis on dialogue on corporate management systems and initiatives related to risks and opportunities from climate change. In March 2021, Nikko AM also published Nikko AM's Key ESG Themes, including initiatives towards carbon-free society, on its website for Japanese companies, clearly indicating to investee companies the themes that Nikko AM considers to be the source of medium- to long-term corporate value enhancement and, ultimately, increased returns on investment.

**(1) Activities through Climate Action 100+ (CA100+)**

CA100+ is a collaborative engagement initiative that encourages companies to disclose climate change-related governance and financial information according to the TCFD and reduce emissions throughout the value chain. Nikko AM is working with other investors as a member of CA100+.

## (2) Examples of engagement on climate change

### Engagement: Global example 1

#### Global equity: Example of a meal kit provider

##### ● Analysis

The Meal kit provider has the goal of providing sustainable food solutions on a large scale to customers in all markets where they operate and it should be recognized for being at the forefront of such innovation and playing a part in solving the planet's problems. However, there is a significant gap between the company's fundamental objectives and the way they are perceived by external rating agencies, investors and consumers. The company does not rank among the top group in ESG rankings by the ESG rating agencies ISS, MSCI and Sustainalytics. Packaging waste directly related to meal kits was the biggest concern for consumers.

##### ● Action

Nikko AM had discussions with the company's management to raise awareness of the issue and to help them understand how it could be resolved.

##### ● Results

The management team acknowledged the need to do more to communicate the company's sustainability efforts to stakeholders, and held a Capital Markets Day on the topic of sustainability the following month. They took the opportunity to explain to market players about the three pillars of sustainability: (1) addressing food waste, (2) reducing CO<sub>2</sub> emissions, and (3) sustainable packaging.

They also announced quantitative and detailed environmental goals for 2021. These goals show the company's long-term commitment to sustainability. Nikko AM believes that engagement with the management team has been key to being able to support the company's progress in improving its ESG practices.

### Engagement: Global example 2

#### Asia ex-JP Equity: Example of a REIT company

##### ● Analysis and action

Nikko AM held engagement activities with the company's management on green goals. Currently, the company is aiming to reduce energy use per unit of sales by 30%, GHG emissions by 30%, and water use by 60% by 2030. Nikko AM suggested that the management should be more ambitious and aim for net-zero carbon emissions. The management team explained that the targets were set when the Singapore government announced its environmental standards. They are currently in the process of re-evaluating the targets and believe that it is possible to achieve net-zero carbon emissions. The more ambitious goal is also expected to cost millions of dollars to achieve, but the management team has responded that they will consider Nikko AM's suggestion. They explained that all buildings need to be energy efficient, and the efficiency of high-rise buildings needs to be increased to achieve this difficult target. They also clarified that the amount of energy used in the first place will have to be reduced if a certain level of efficiency improvement cannot be expected, and that they are not willing to offset emissions by purchasing renewable energy certificates. Nikko AM also discussed the company's carbon accounting process with the management team. They explained that they used a conversion factor to calculate carbon footprint from energy used, but no further analysis is being conducted at present.

##### ● Results

The company is currently working on improving its carbon accounting reporting according to TCFD recommendations, studying carbon emissions against targets mentioned, and working with external consultants to improve overall sustainability reporting.

## Key Metrics and Primary Targets related to Climate Change in the SuMi TRUST Group

The SuMi TRUST Group sets specific metrics and targets to manage according to our strategies related to climate change and the basic policy on risk management in order to monitor the Group's actions to tackle climate change.

The tables below show our key metrics and primary goals for this fiscal year. We regularly check the metrics and, if there have been any changes in the external environment and/or our strategies have been updated, we review the metrics accordingly.

### ■ Metrics and Goals related to Climate Change in the Group

#### Category

Business opportunities arising from climate change

#### Metric

Cumulative execution amount of sustainable finance

#### Targets

Cumulative execution amount in FY2021 - FY2030: ¥5.0 trillion

#### Category

Risk management

#### Metric

GHG emissions in the Group

#### Targets

Net zero by 2030

#### Category

Risk management

#### Metric

GHG emissions in investment and loan portfolios

#### Targets

Net zero by 2050

#### Category

Risk management

#### Metric

Exposure to carbon-related assets

#### Targets

—



## Long-Term Target for Sustainable Finance

In its Sustainability Policy and Action Guidelines for Mitigating Climate Change, the SuMi TRUST Group has announced its commitment to initiatives and support intended for climate change mitigation and adaptation. Driven by our goal of becoming the No. 1 financial institution in ESG management, we aim to incorporate a growth strategy that revolves around ESG and the SDGs in each of our business fields. As a financial institution, we set long-term goals to help create a sustainable society with our clients. We are also committed to achieving medium- to long-term goals to cut CO<sub>2</sub> emissions attributable to our business operation.

We will tackle the issue of climate change head-on to create a carbon neutral society, while making full use of our significant expertise on finance, trust business, and technologies\* as a trust bank group, thereby contributing to the creation of a sustainable society.

\*Forming a group of experts with discerning engineering capabilities to deploy technology in social settings for the purpose of realizing a society with net-zero carbon emissions.

SuMi TRUST Bank has set a new long-term target for sustainable finance in the banking sector (loans to corporate clients): ¥5.0 trillion in cumulative loans over the 10-year period from fiscal 2021 through fiscal 2030, in-

cluding ¥3.0 trillion in environment-related fields. The Bank will aim to solve climate change and other environmental and social issues and help realize a sustainable society together with clients by actively supplying funds to environmental and social fields.

### Long-Term Target for Sustainable Finance

Cumulative execution amount in  
FY2021 - FY2030 ¥5.0 trillion  
(including ¥3.0 trillion in  
environment-related fields)

Loans of ¥328.5 billion were executed by the end of September 2021.

Sustainable finance refers to financing extended to businesses and clients that contribute to solving environmental and social issues based on such international standards as the Green Bond Principles and the Social Bond Principles. For instance, loans, syndicated loans, fixed income investment services, fund investments, financial advisory services, and trustee services.

### Examples of Sustainable Finance

	Category	Type	Examples of sustainable finance
Sustainable finance	Environmental (green) fields	Green finance	✓ Businesses that adapt to, or mitigate, climate change. For example, renewable energy, energy efficiency improvement, and green buildings
		Social finance	✓ Employment creation, poverty reduction, nurturing of startup firms, regional revitalization, basic infrastructure like public transport and water supply, and essential services such as hospitals and schools.
		Finance based on assessments of ESG/SDGs	✓ Positive impact finance ✓ Sustainability-linked loans
		Transition finance	✓ Businesses that help society transition to net-zero carbon emissions. ✓ Businesses that help society adapt to a rapidly aging population.
		Other	✓ Other businesses that help solve environmental problems and social issues.



## SuMi TRUST Group Medium-term CO<sub>2</sub> Reduction Target

<SuMi TRUST Group Carbon Neutral Commitment> (reduction in the Group's CO<sub>2</sub> emissions)

**We will achieve net-zero greenhouse gas (GHG) emissions  
in the SuMi TRUST Group by 2030.**

We set the goal of zero CO<sub>2</sub> emissions at SuMi TRUST Bank, our core subsidiary, by 2050. Then, seeing that the trend toward carbon neutrality has accelerated, we decided to achieve net-zero GHG emissions in the SuMi TRUST Group by 2030.

### Initiatives to Achieve FY2030 Target

Approximately 80% of SuMi TRUST Bank's CO<sub>2</sub> emissions come from purchased electricity, while some 10% is generated by the combustion of utility gas through in-house power generation. Hence, we aim to cut the Bank's emissions mostly through electricity-related measures. We aim to attain this goal through our own efforts to conserve energy and by contributing to initiatives undertaken across society, including increased uptake of renewable energy.

#### (1) Saving Energy by Streamlining Operations and Using More Efficient Equipment

We plan to streamline operations (mainly cut overtime

hours), install more efficient equipment (e.g., updated servers and air conditioners; cloud computing services) at the computer center, and reduce floor space at the Head Office building and branches, among others, as ways to cut CO<sub>2</sub> emissions.

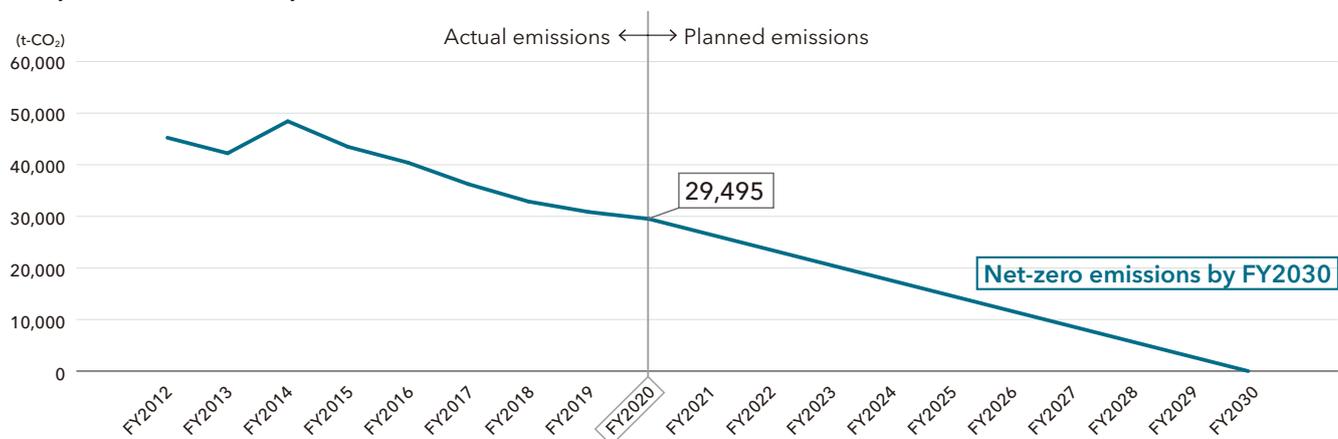
#### (2) Contributing to a Lower Electric Power Emission Coefficient through Increased Uptake of Renewable Energy

The greater uptake of renewable energy for Japan's electric power facilitates the decarbonization of electricity and can therefore lower the country's overall electric power emission coefficient. The Group contributes to the greater adoption of renewable energy by leveraging its trust and finance functions, which ultimately leads to a reduction in CO<sub>2</sub> emissions at SuMi TRUST Bank.

#### (3) Adoption of Renewable Energy by SuMi TRUST Bank

We will switch the power we purchase to renewable energy sources, thereby reducing CO<sub>2</sub> emissions.

■ Adjusted GHG Emissions by SuMi TRUST Bank\*



\*Adjusted GHG emissions

The term "adjusted GHG emissions" refers to GHG emissions from specified emitters' business activities, the carbon dioxide equivalent quotas that specified emitters have voluntarily acquired and transferred to the government's management account in order to achieve the targets prescribed in Article 3 of the Kyoto Protocol, the GHG emissions adjusted and acquired by the means specified by the Ministers of the Environment and of Economy, Trade and Industry, taking account of the domestically certified emission reduction amount, among others, that specified emitters have acquired. (Article 1, paragraph (4) of the Order on Reporting, etc., of Carbon Dioxide Equivalent Greenhouse Gas Emissions, etc.)

## CO<sub>2</sub> Emissions Trends

The Group is committed to reducing its environmental impacts in the form of both inputs such as electricity and gas used for business activities and outputs such as CO<sub>2</sub> emitted as a result of those activities. As SuMi TRUST Bank is subject to the Act on Rationalizing Energy Use, we calculate the volume of energy consumption and CO<sub>2</sub> emissions at all of our offices across Japan using a common system.

Annual emissions were 29,495 t-CO<sub>2</sub>, a 42% reduction compared to the peak of 50,605 t-CO<sub>2</sub> recorded in fiscal

2013. The large buildings in the Tokyo metropolitan area that house SuMi TRUST Bank offices are subject to the mandatory reductions in CO<sub>2</sub> emissions prescribed under the Tokyo Metropolitan Ordinance on Environmental Preservation. In the second plan period, our reductions far exceeded the mandatory levels again.

The tables below show CO<sub>2</sub> emissions at SuMi TRUST Bank's offices in Japan.

From the next fiscal year onward, we will publish reductions in CO<sub>2</sub> emissions across the Group.

### Energy Consumption and CO<sub>2</sub> Emissions (Domestic Offices)

Energy use		FY2016	FY2017	FY2018	FY2019	FY2020
Total energy consumption (heat amount)	GJ	801,370	736,011	688,949	677,157	670,227
Total energy consumption (crude oil equivalent)	kl	20,675	18,989	17,774	17,470	17,291
Energy consumption intensity	kl/m <sup>3</sup>	0.049	0.047	0.048	0.047	0.047
Electric power	thousand kWh	66,742	60,444	56,003	54,753	53,940
Utility gas	thousand m <sup>3</sup>	2,107	1,996	1,869	1,893	1,890

CO <sub>2</sub> emissions		FY2016	FY2017	FY2018	FY2019	FY2020
Greenhouse gas emissions	t-CO <sub>2</sub>	40,833	37,068	33,504	31,327	30,029
Adjusted greenhouse gas emissions	t-CO <sub>2</sub>	40,393	36,240	32,864	30,840	29,495
Emissions intensity	t-CO <sub>2</sub> /m <sup>2</sup>	0.098	0.093	0.090	0.085	0.081
Adjusted emissions intensity	t-CO <sub>2</sub> /m <sup>2</sup>	0.097	0.091	0.088	0.084	0.080
Scope 1 emissions	t-CO <sub>2</sub>	4,907	4,575	4,362	4,421	4,297
Scope 2 emissions	t-CO <sub>2</sub>	35,925	32,493	29,142	26,906	25,732

Scope of calculation: Offices of SuMi TRUST Bank in Japan subject to the Act on Rationalizing Energy Use. Group companies, including Sumitomo Mitsui Trust Asset Management, are also tenants in some of the buildings.

Calculation methods: Pursuant to the methods prescribed under the Act on Rationalizing Energy Use (some figures may not add up due to rounding).

### CO<sub>2</sub> Emissions at Buildings Subject to the Tokyo Metropolitan Ordinance on Environmental Preservation and Progress toward Mandatory Levels of Reduction

		Third Plan Period (FY2020)	
		Fuchu Building	Head Office Building
Base emissions	t-CO <sub>2</sub>	25,704	13,287
Emissions upper limit	t-CO <sub>2</sub>	18,764	11,294
Mandatory reductions	t-CO <sub>2</sub>	6,940	1,993
CO <sub>2</sub> emissions	t-CO <sub>2</sub>	10,670	9,053
Emission reductions	t-CO <sub>2</sub>	15,034	4,234
Excess reductions	t-CO <sub>2</sub>	8,094	2,241

- The figures in the table show emission reductions at SuMi TRUST Bank's Fuchu and Head Office Buildings that are obliged to cut CO<sub>2</sub> emissions under the Tokyo Cap-and-Trade Program prescribed in the Tokyo Metropolitan Ordinance on Environmental Preservation.
- The Head Office Building is jointly owned property, and the percentages of mandatory CO<sub>2</sub> reductions are not specified for each owner.
- The percentages of mandatory CO<sub>2</sub> reductions for the Fuchu Building and the Head Office Building are 27% and 15%, respectively.
- The figures for mandatory reductions and emissions upper limits are those per fiscal year.
- The emissions have been verified by a third-party assessment body.

## GHG Emissions in Investment and Loan Portfolios

### (1) GHG emission reduction target in investment and loan portfolios

In October 2021, the SuMi TRUST Group announced its Carbon Neutral Commitment.

The Commitment states the Group's goal is to achieve net-zero GHG emissions not only from the Group's own business operation, but in the Group's investment and loan portfolios (i.e., GHG emissions to which the investments and loans extended by the Group contribute through activities by corporate or individual borrowers and investees), by 2050.

We plan to work on specific milestone targets set to achieve the goal (chronological GHG emission reduction targets including one by 2030) and on specific initiatives and action plans to cut GHG emissions by major sectors, then by other sectors, in line with the framework of the Net-Zero Banking Alliance (NZBA).

### (2) Calculating GHG emissions in investment and loan portfolios

The Group plans to keep calculating the GHG that has been emitted from activities in the portfolios to measure progress toward the above goal, and make a regular disclosure through the TCFD report.

We calculate GHG emissions in accordance with international standards that are widely adopted for the calculation of GHG emissions, including the PCAF Standard\*2 published in 2020 by the PCAF\*1.

To accurately calculate GHG emissions attributable to activities by our borrowers and investees, however, we will need to accumulate information and to improve and expand our database. This can be done by receiving information about various economic activities by our corporate and individual borrowers and investees, or by collecting data on GHG emissions disclosed by the borrowers and investees.

Hence, the Group plans to create a database of information first from its priority sectors, then from other sectors, following the schedule of GHG emission disclosure required by the NZBA, in order to calculate GHG emissions in increasingly wider areas.

\*1 PCAF: The Partnership for Carbon Accounting Financials. This is an international initiative established in 2015 mainly by European financial institutions. The PCAF develops methodologies to measure GHG emissions connected to all asset classes, including investments and loans, and provides assistance with the preparation of data.

\*2 PCAF Standard: The Global GHG Accounting and Reporting Standard for the Financial Industry. This is a standard related to the calculation of GHG emissions in Scope 3 of investments and loans by asset class published by the PCAF in 2020.

### (3) About the initial trial calculations of GHG emissions

As stated above, we need to establish a framework for calculating GHG emissions, which includes creating a database. To announce our Carbon Neutral Commit-

ment, we estimated approximate GHG emissions in our current investment and loan portfolios as shown below.

#### <Corporations and Transactions for Trial Calculation of GHG Emissions in This Report>

- Investments and loans extended to corporations in Japan\* and mortgage loans provided by SuMi TRUST Bank. Structured finance, investments and loans extended to overseas corporations, loans for individual clients other than mortgage loans, and investments and loans for other Group companies are excluded.

\*Investments and loans extended to corporations in Japan include investments and loans designed for the shipping industry that are in the form of structured finance.

#### <Standards Used for Trial Calculations>

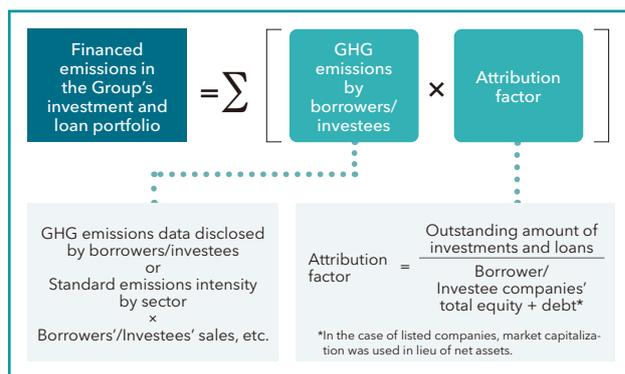
- In principle, we used either of the following for trial calculations in accordance with the PCAF Standard: (1) GHG emissions data disclosed by the companies/individuals to whom we extend investments and loans, or (2) Estimated figures calculated by multiplying financial indicators (e.g., borrowers'/investees' sales) by each sector's standard emissions intensity.
- Some of the figures (less than 10%) were calculated by multiplying our balance of investments and loans by each sector's standard GHG emissions intensity.

#### <Data Collection>

- We referred to the information disclosed via data service companies or on each company's website to collect the GHG emissions data disclosed by our borrowers and investees as mentioned in (1) above.
- As for the data mentioned in (2) above, we used the financial indicators (e.g., borrowers'/investees' sales) we acquired, and applied each sector's intensity data or model offered by an external specialized vendor for



#### Formula



the standard intensity.

- When we found anything missing from the GHG emissions data disclosed as stated in (1) (e.g., some areas were not included in the disclosed information), we complemented it by applying the method stated in (2).

**<Figures Used for Trial Calculation>**

- The balance of investments and loans was current as of March 2021.
- The financial indicators (e.g., borrowers'/investors' sales) were from the most recent accounting periods for the borrowers/investees we had in November 2021 when we performed the trial calculations.

**<Other Presuppositions and Supplementary Information about the Trial Calculations>**

- At the moment, much of the GHG emissions data disclosed by borrowers and investees is only a part of the whole data or is not calculated by an advanced method. The PCAF plans to increase the sectors in which borrower and investee companies are required to disclose their Scope 3 portfolio emissions. According to the PCAF Standard, disclosure is optional for business-

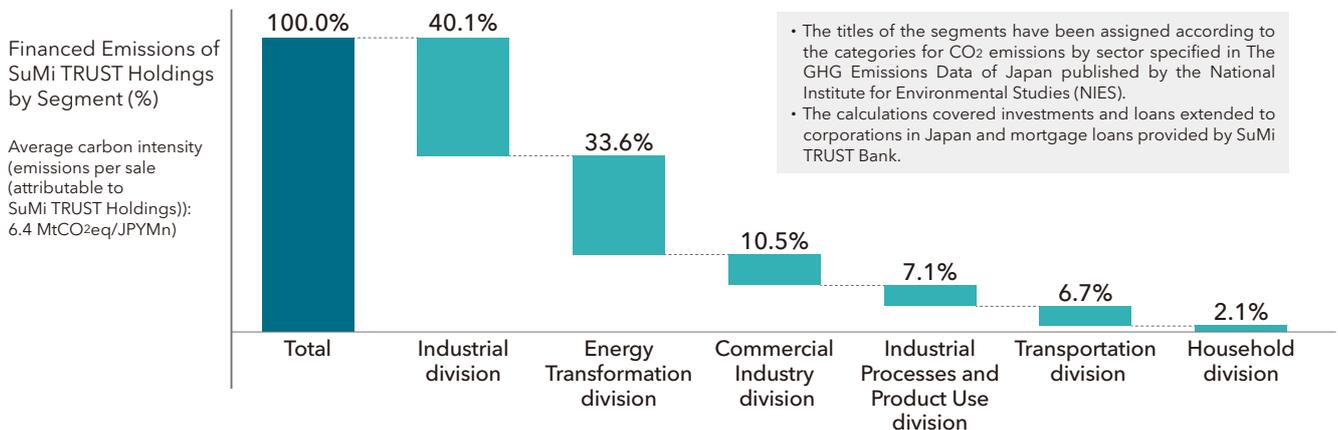
es that are not in these sectors. Hence, the emissions data that we have calculated may significantly change going forward.

- Each sector's standard emissions intensity that we used for the trial calculations in this report has been calculated based on GHG emissions disclosed by companies and on external databases. The data disclosed by companies may significantly change going forward, and the methodology to calculate standard intensity will likely become more refined and advanced. This means that the figures of GHG emissions may also dramatically change in the future.
- The calculation methods for GHG emissions (e.g., formula, definitions, standards) may be changed going forward as a result of discussions about international standards that should be specified and/or enhancement. When there are multiple calculation methods, we may switch to a different method sometime in the future in order to ensure that our calculation is done by a method that is best suited for the Group's business characteristics. If the switch takes place, we will specify what exactly has changed when the results of calculation is published in the report.

**<Results of Trial Calculations>**

[SuMi TRUST Bank: Estimated GHG emissions connected to investments and loans extended to corporations in Japan and mortgage loans]

**Percentages of GHG Emissions by Segment (Investments and Loans Extended to Corporations in Japan and Mortgage Loans Provided by SuMi TRUST Bank)**



(Note) The divisions included in the segments in the above figure are as follows:  
 Industrial division: Iron and steel, transportation equipment, miscellaneous products, electronics, construction, pulp/forestry, agriculture, and other manufacturing  
 Energy Transformation division: Oil, gas, and power generation  
 Commercial Industry division: General trading companies, real estate, leasing, and other non-manufacturing  
 Industrial Processes and Product Use division: Chemical, cement, aluminum  
 Transportation division: Marine transportation, air transportation, land transportation, railways  
 Household division: Mortgage loans by SuMi TRUST Holdings

In the process of these trial calculations, we advanced our understanding of the GHG emissions in our investment and loan portfolios in broad strokes, differences in carbon intensity (GHG emissions per sales unit etc.) between sectors, and the characteristics of carbon intensity in each sector.

The total GHG emissions estimated this time was 86.4 million tonCO<sub>2</sub>e, and the average carbon intensity (emissions attributable to us per sale) was 6.4 MtCO<sub>2</sub>eq/

JPYMn. When we looked at the estimates by sector, the Energy Transformation division's carbon intensity (oil, gas, and power generation) was higher than the average.

From now onward, we will move ahead with our initiatives to achieve net-zero GHG emissions in our investment and loan portfolios in accordance with the NZBA framework. In this process, we plan to select priority sectors based on the results of trial calculations, explore what we can do to support and promote reductions in

GHG emissions by our borrowers and investees in each sector, and set goals so that we will keep working toward them.

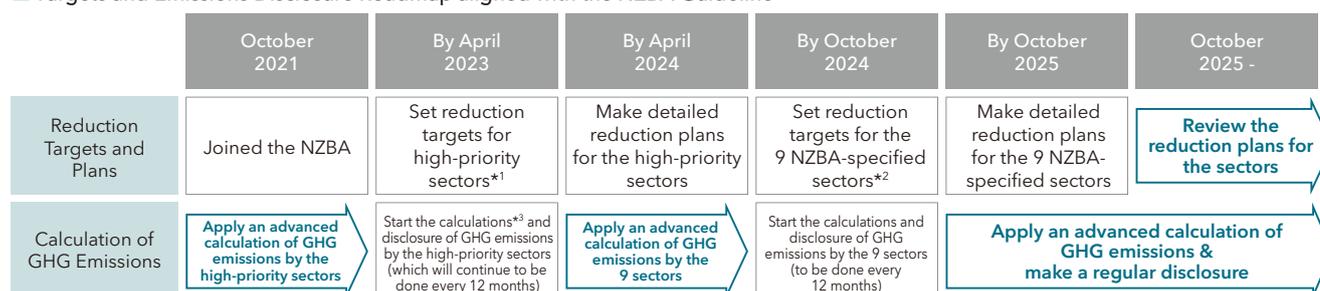
#### (4) Our future actions

To pursue the policy of achieving net-zero GHG emissions in its investment and loan portfolios by 2050, the SuMi TRUST Group will set specific reduction targets and work out detailed action plans first for major sectors, and then for other sectors, in order to achieve the long-term goal based on the framework of the NZBA.

The NZBA requests its members to set GHG emission reduction targets by sector using science-based scenarios, including the Financial Sector SBT Guidance provided by the Science Based Targets initiative. We plan to set targets following such scenarios.

As for the calculations of GHG emissions, we will work to improve the accuracy of our calculations and expand the scope of the calculations according to the PCAF Standard, starting from major sectors as mentioned above.

#### Targets and Emissions Disclosure Roadmap aligned with the NZBA Guideline



\*1 High-priority sectors: One or more sectors selected from the 9 sectors below. These are carbon-intensive sectors that are key to a financial institution's strategies and have priority.

\*2 9 NZBA-specified sectors: agriculture; coal; oil and gas; aluminum; real estate; power generation; cement; iron and steel; and transport.

\*3 Calculations of GHG emissions: Calculations that meet the previously described GHS Standard requirements.

#### Policy on Advanced Calculation and Disclosure of GHG Emissions

What to Advance	Description
Administrative work	Determining a calculation method, working out a calculation process, and implementing a third-party verification
Data	Ensuring better conformance to the PCAF. Switching to a particularly reliable calculation method among those that conform to the PCAF (from "estimating based on financial indicators" to "estimating based on the amount of activity" and to "applying business partners' disclosed data")

## Status of Exposure to Carbon-related Assets

With the TCFD recommendations in mind, the Group monitors "exposure to carbon-related assets"\* as one of the metrics applied to identify the risk for climate change.

"Exposure to carbon-related assets" refers the balance of loans and bills discounted mainly for utilities and energy-related sectors (e.g., electricity, oil, and gas), excluding those for renewable energy. As the world moves toward carbon neutral society, loans and bills discounted that likely contribute to significant GHG emissions may lead to a greater cost of credit. This means we should ap-

propriately manage the risk of providing large loans to these GHG-intensive sectors (credit concentration risk).

The exposure to carbon-related assets at the end of March 2021 was ¥1.5 trillion, and the ratio of it to loans and bills discounted in percentage was 5.0%.

We plan to continue monitoring the exposure in order to manage credit concentration risk.

\*The TCFD recommendations define exposure to carbon-related assets as loans and bills discounted for the energy and utilities sectors by the Global Industry Classification Standard (note that water providers and independent renewable power producers are excluded). The scope of calculations is basically the combined total of figures from SuMi TRUST Bank and Sumitomo Mitsui Trust Bank (Thai) Public Company Limited.

#### Exposure to Carbon-related Assets in Fiscal year ended March 31, 2021

Total Carbon-related Assets		Energy Sources (e.g., Oil and Gas)		Utilities (e.g., Electricity)	
Balance of Loans and Bills Discounted (trillion yen)	Ratio	Balance of Loans and Bills Discounted (trillion yen)	Ratio	Balance of Loans and Bills Discounted (trillion yen)	Ratio
1.5	5.0%	0.4	1.2%	1.1	3.7%

## Postscript

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In this second issue of our TCFD report, we present the Group-wide initiatives centering on the SuMi TRUST Group Carbon Neutral Commitment, which was announced in October 2021, as part of the Climate Change Adaptation and Mitigation PT.

To achieve carbon neutrality by 2050, SuMi TRUST Holdings has membership in the NZBA, and Sumitomo Mitsui Trust Asset Management and Nikko Asset Management, which are the Group's asset management companies, in the NZAMI. We will work on enhancement of the GHG accounting, transition strategy and engagement methodologies through actively participating in global initiatives. We also aim to pursue best practice through information exchange in these initiatives.

Regarding the banking business, we have found a lot of challenges that we have to achieve while working on the initial GHG emissions calculation in the banking business this time. We recognize the importance of encouraging our clients to disclose information, along with cooperating in initiatives such as the PCAF. At the same time, as a trust banking group, we will pursue executing appropriate GHG accounting and developing valuable product and service for actualizing net-zero of the assets and real-estates under custody of our group. We hope we can demonstrate leadership in these field and proceed with various actions.

We recognize that the level of best practice on the information disclosure in line with the TCFD recommendation is still getting higher and higher every year. By getting feedback from stakeholders and facilitating communication with them, we will be able to contribute more to achieve net-zero society. In doing so, we will "create new value with the power of trusts and sow the seeds of a prosperous future for our clients and society," which we define as our Reason for Existence ("Purpose").

Thank you for your continued support.

**Sumitomo Mitsui Trust Bank, Limited**

**Corporate Planning Department, Sustainability Management Department**

1-4-1 Marunouchi, Chiyoda-ku, Tokyo 100-8233, Japan

URL (only Japanese is available): <https://www.smtb.jp/csr/>



- Companies are asked to use their own judgment on whether or not to adopt any of the proposals presented by Sumitomo Mitsui Trust Bank based on this document.
- Companies that do not adopt the proposals made by Sumitomo Mitsui Trust Bank based on this document will not be subject to disadvantageous treatment with regard to other transactions with Sumitomo Mitsui Trust Bank, nor will the adoption of proposals constitute the requirement for engaging in other transactions with Sumitomo Mitsui Trust Bank.