

SMBC Group Environmental and Social Framework

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Preamble

Sumitomo Mitsui Financial Group (hereinafter referred to as “SMFG” or “the Group,” with the group collectively referred to as “SMBC Group”) has established this “SMBC Group Environmental and Social Framework” in order to articulate its comprehensive stance to the environment and society and contributing to the realization of a sustainable society.

The framework unifies the Group's internal policies and rules regarding the environment and society, and was established and announced after deliberation by the Management Committee. It will be proactively reviewed on an ongoing basis in light of the revision or abolition of specific policies, rules, or procedures, deliberations by the Sustainability Committee or other bodies, changes in the external environment surrounding the Group's business activities, and the results of regular reviews conducted (once a year, in principle) as part of internal audit.

Stances/approaches expressed in this framework are those of the Group as a whole, and group companies implement this framework in line with each of their businesses.

1. Overall Stance on Sustainability

(1) SMBC Group Statement on Sustainability

With the world facing various societal issues, initiatives involving governments, the public sector, and the private sector are underway with the aim of realizing a sustainable society.

Under these circumstances, SMBC Group declares in its Mission to “contribute to a sustainable society by addressing environmental and social issues” in order to clarify its stance contributing to the sound development of the society.

SMBC Group Statement on Sustainability has been formulated as the Group's basic principle in aiming to realize a sustainable society. As a corporate group with roots in Sumitomo and Mitsui, we will inherit the

commitment to sustainability that our predecessors valued and take actions toward the realization of sustainability, setting priority issues we will focus on.

The SMBC Group Statement on Sustainability defines sustainability as “creating a society in which today’s generation can enjoy economic prosperity and well-being, and pass it on to future generations.” To achieve this, SMBC Group, as a financial institution, will continue to engage in dialogue with our customers and other stakeholders and take actions together with them.

[SMBC Group Statement on Sustainability](#)

(2) Approach to the Environment

SMBC Group has set “Environment”, “Community”, and “Next Generation” as its priority issues (materiality) to tackle so as to contribute to the resolution of societal issues. Of these, the Environment is a common property of all humankind shared between regions and generations, and is the foundation of a sustainable society we aim for. Community and Next Generation both needs the Environment as their foundation as well. By facing various environmental issues such as climate change and contributing to their resolution through our business operations, we will continue making efforts to ensure that this rich planet is passed on to future generations.

SMBC Group has formulated the “Group Environmental Policy” to facilitate ongoing actions to protect the earth’s environment, prevent pollution, and achieve harmony with corporate activities. Based on the Group Environmental Policy, and with “Promotion of Environmental Business,” “Management of Environmental Risks”, and “Reduction of Environmental Impacts” as three pillars, SMBC Group will continue addressing climate change through financial services and reduce negative environmental impacts by leveraging financial functions.

[Group Environmental Policy](#)

① **Approach to Climate Change**

Addressing climate change is one of the biggest global challenges of the 21st century. A study by the United Nations Intergovernmental Panel on Climate Change (IPCC)* indicated that human activity is a factor in global warming, and that unless humankind significantly reduces greenhouse gas (GHG) emissions in the coming decades, it will be extremely difficult to meet the targets set under the Paris Agreement. Under these circumstances, the implementation of measures to tackle climate change has been accelerating worldwide since the adoption of the Paris Agreement, and in October 2020, the Japanese government also declared that it would achieve carbon neutrality by 2050, as it announced a goal of realizing a decarbonized society.

SMBC Group has committed not only to achieving net zero emissions in its own operation by 2030, but also in its overall investment and loan portfolio by 2050, in line with the goals of the Paris Agreement. We are also a member of the Net-Zero Banking Alliance (NZBA), an international initiative consisted of banks aiming for net zero emissions. Through our NZBA membership, we will proceed with the formulation of science based GHG reduction targets and accelerate efforts toward the transition to a decarbonized society.

On the other hand, in the process of realizing a decarbonized society, changes to the current industrial structure may give rise to concerns on regional economies, such as possible job losses and resulting economic disparities. We will aim for an equal and just transition by carefully engaging in dialogue with stakeholders while understanding impacts on the society.

SMBC Group has also expressed its support for the Task Force on Climate-Related Financial Disclosures (TCFD). While improving disclosure in line with the TCFD recommendations, we will work with our customers to resolve issues caused by climate change.

*IPCC Sixth Assessment Report

② Approach to Natural Capital

Natural capital refers to natural resources such as plants, animals, air, water and soil. Damage to natural capital has a major impact on people's lives throughout the supply chain. The stability of natural capital is supported by biodiversity, and any loss in biodiversity has a wide-reaching impact on the environment, economy and society. A study by the Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services (IPBES)* shows that occurrences of factors that trigger changes in nature are accelerating and have significant global implications, but also that collaborative efforts to promote societal change offer the potential for goals related to natural preservation to be attained. SMBC Group believes that the loss of natural capital, including biodiversity, could stealthily impact the wide range of business activities we conduct as a financial group. For example, it could elevate risks and devalue financial assets held. On the other hand, we believe that proper conservation of natural capital will serve to enrich people's lives and improve their health, as it will strengthen the foundations of society.

Given this backdrop, we will be disclosing a broad range of nature-related information through our participation in the TNFD Forum, a stakeholder organization that supports the Task Force on Nature-related Financial Disclosures (TNFD), which is an international body for building a framework for appropriately assessing and disclosing risks and opportunities related to natural capital.

Given their effect on natural capital, including biodiversity, SMBC Group has prohibited the provision of support for new projects that are perceived to have a significant negative impact on wetlands specified in the Ramsar Convention and UNESCO-designated World Natural Heritage sites.

*IPBES Global Assessment Report on Biodiversity and Ecosystem Services

(3) Approach to Respect for Human Rights

Human rights are the right of human beings to live happily as human beings. Companies need to consider the impact of their business activities on the human rights of stakeholders.

SMBC Group will continue to respect human rights as set out in basic principles such as the “United Nations Universal Declaration of Human Rights”, the “ILO Declaration on Fundamental Principles and Rights at Work”, and the “OECD Guidelines for Multinational Enterprises”. In addition, we have produced the “Statement on Human Rights” that reflects the “UN Guiding Principles on Business and Human Rights”. Based on this statement, we will fulfill our responsibility to respect human rights, which is expected of as a global enterprise, by taking actions against negative impacts on human rights.

SMBC Group aims to eliminate all forms of exploitative labor practices from SMBC Group's business and supply chain, including modern slavery, forced labor, human trafficking, and child labor. Furthermore, we understand that our business activities may affect human rights, and therefore work to respect human rights in all our business activities, including our supply chain, through due diligence and remedial actions in the realm of human rights. We conduct these human rights due diligence through dialogues with customers based on risk recognition described in “Governance Structure and Approach to ESG Risks”.

[Statement on Human Rights](#)

(4) Approach to Social Contribution

SMBC Group positions social contribution activities as the foundation that supports SMFG's basic stance toward the realization of a sustainable

society, as set forth in the SMBC Group Statement on Sustainability, and has formulated a Social Contribution Policy to reflect that positioning. Based on this policy, we will fulfill our social responsibilities coexisting with local communities and society.

[Social Contribution Policy](#)

2. Governance Structure and Approach to ESG Risks

(1) Governance Structure

SMBC Group has established the Sustainability Committee, an internal committee of the Board of Directors, as a supervisory body and the Sustainability Promotion Committee as an executive body to manage our sustainability initiatives and to deliberate on responses to environmental and social issues. The Sustainability Committee deliberates on matters related to the progress of the Group's sustainability promotion measures, matters related to domestic and overseas trends surrounding sustainability, and other important matters related to sustainability. It reports and provides advices to the Board of Directors on a regular basis. The Sustainability Promotion Committee, meanwhile, deliberates and decides on plans to realize sustainability. These plans are put together in a groupwide basis by the Corporate Sustainability Department of SMFG. In addition, the Risk Committee, which is an internal committee of the Board of Directors, acknowledges the environment and risks surrounding the Group, and discusses matters related to the handling of risk appetite, matters related to the implementation structure for risk management, and other important matters related to risk management, as well as giving advices to the Board of Directors. Regarding climate change issues, the Sustainability Committee deliberates on the formulation and progress of overall climate change countermeasures. At the Risk Committee, meanwhile, the Group CRO (Chief Risk Officer) regularly reports on the awareness of environment and risks, risk appetite in connection with climate change issues, and the execution of risk management measures related to climate change countermeasures. The Risk Committee deliberates on these matters and provides advices to the Board of Directors.

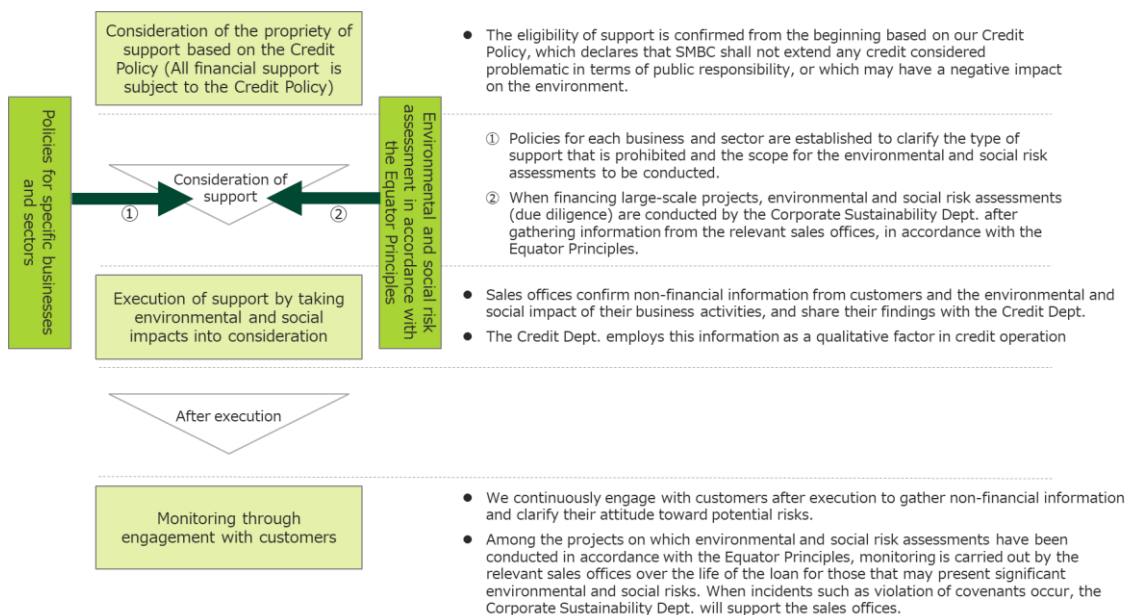
For specific transactions with substantial environmental and social risks that would likely impact enterprise value adversely or result in a loss of trust in SMBC Group, a body in which Management Committee officers participate, from the perspective of complex risk management, discusses

whether to proceed with the transaction as necessary.

(2) Due Diligence

In SMBC Group's Group Credit Policy, which contains overall financing policy, guidelines and rules, the Group declares not to extend any credit considered problematic in terms of public responsibility, or which may have a negative impact on the environment.

Sumitomo Mitsui Banking Corporation, which handles the Group's core credit operations, obtains non-financial information from customers and utilizes it qualitatively in credit operation, as explained below. Moreover, by conducting environmental and social risk assessments on specific transactions, it properly identifies environmental and social risks and manages them through periodic monitoring.



• Understanding non-financial information

At Sumitomo Mitsui Banking Corporation, we recognize our customers' environmental and social impacts from their business activities by understanding not only their financial information, but also non-financial

information represented by ESG, by engaging in dialogues with them. With respect to businesses and sectors that are likely to have an impact on environmental and social risks, we find out about their GHG emissions and what they are doing to address environmental and social risks such as climate change risks, and employ this information as a qualitative factor in credit operation. This non-financial information is updated regularly through monitoring.

In parallel to this, environmental and social risk assessments based on the Equator Principles are also conducted, making our due diligence even more sophisticated and broad reaching.

By gathering non-financial information, we will deepen the quality of engagements with customers concerning ESG risks, actively support their environmental and social efforts, and work together to address risks that are a cause for concern.

- Environmental and social risk assessment

For large-scale projects which may potentially exert a major impact on the environment and society, Sumitomo Mitsui Banking Corporation will continue to comply with the Equator Principles, a set of guidelines developed by private-sector financial institutions for managing environmental and social risks related to financing large-scale projects. Sumitomo Mitsui Banking Corporation will conduct appropriate environmental and social risk assessments by performing due diligence in the Corporate Sustainability Department.

Through this, we expect project companies to conduct activities for environmental and social consideration, including climate change and human rights, such as addressing the TCFD Recommendations and respecting the FPIC (free, prior and informed consent) of local residents.

(3) Prohibited Credits

At Sumitomo Mitsui Banking Corporation, which handles the Group's core credit operations, the Credit Policy, which contains our overall financing policy, guidelines and rules, clearly states that credits must not be

extended to the following cases:

- Credits which may breach social norms such as laws and regulations
- Credits considered problematic in terms of public responsibility, such as credits in conflict with public order and morals and credits which may have negative impacts on the environment*

*Including large-scale development or construction projects which sites are subject to Ramsar wetlands or UNESCO World Natural Heritage Sites or that may have significant negative environmental impacts, and large-scale development or construction projects for which no appropriate environmental impact assessment have been conducted or no environmental management plan formulated even though such projects may significantly destroy the habitats of endangered species

(4) Policies for Specific Businesses and Sectors

SMBC Group is introducing policies for specific businesses and sectors which are likely to have significant impacts on the environment and society. These policies are rolled out to SMBC Group companies, including Sumitomo Mitsui Banking Corporation, SMBC Trust Bank, Sumitomo Mitsui Finance and Leasing Company and SMBC Nikko Securities, in line with their businesses, and to enhance their risk management system continuously.

① Coal-Fired Power Generation

(Policy)

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

In addition, among companies whose main businesses are coal-fired power generation, we will not provide support for those that do not have

any existing transactions, including but not limited to lending, with SMBC Group.

(Understanding of the Business/Sector)

SMBC Group expects our customers to establish and publicly announce long-term strategies aimed at realizing a carbon neutral business model and other initiatives to address climate change. Moreover, SMBC Group will support the activities of our clients contributing to the transition toward and realization of a decarbonized society.

② **Hydroelectric Power Generation**

(Policy)

For those cases in which financing is used for hydroelectric power generation projects, SMBC Group carefully monitors whether appropriate mitigation measures against the impact on biodiversity and local communities caused by resettlement have been implemented and conducts environmental and social risk assessments when we consider lending.

(Understanding of the Business/Sector)

As the transition to a decarbonized society progresses, hydroelectric power generation will play a greater role in power supply. However, when constructing a hydroelectric power plant, it is important to consider the impact on biodiversity associated with dam construction and also on local communities caused by resettlement.

③ **Oil and Gas**

(Policy)

The scope of environmental and social risk assessments that take into account Equator Principles is to be expanded for the following business and

sectors when we consider lending. After identifying and evaluating environmental and social risks, appropriate measures are considered.

- Oil Sand

Oil sand (tar sand) has relatively high carbon intensity and large environmental impacts are associated with its development. As such, SMBC Group conducts environmental and social risk assessments, paying close attention to soil and water pollution caused by wastewater, deforestation, and efforts to protect biodiversity and indigenous communities, when we consider lending.

- Shale Oil and Shale Gas

During shale oil and shale gas development, the use of hydraulic fracturing methods is assumed to cause groundwater contamination and induce earthquakes. SMBC Group carefully monitors whether appropriate mitigation measures have been implemented for these issues, and then we conduct environmental and social risk assessments when we consider lending.

- Oil Gas and Gas Mining Projects in the Arctic

The Arctic Circle (an area north of the 66°33' latitude) is home to rare ecosystems and indigenous people with a unique culture. For mining projects in this region, SMBC Group conducts environmental and social risk assessments, paying close attention not only to environmental considerations but also to measures to protect biodiversity and indigenous communities, when we consider lending.

- Oil and Gas Pipelines

Pipelines are expected to have a wide range of environmental impacts due to oil spills and deforestation, as well as social impacts on indigenous communities, not only at the time of construction but also when completed. SMBC Group carefully monitors whether appropriate mitigation measures have been implemented for these issues, and then

we conduct environmental and social risk assessments when we consider lending.

(Understanding of the Business/Sector)

Oil and gas will continue to be an important source of energy, and we actively consider measures that contribute to the transition to a decarbonized society. On the other hand, as the transition to a decarbonized society progresses, it is important to consider the risk of stranded assets that will cause the value of the assets owned to decline in the future, measures to reduce the environmental impact associated with development, and give proper consideration to the residents of the development area.

④ **Coal Mining**

(Policy)

Support for newly planned and the expansion of thermal coal mining projects, as well as those using the Mountain Top Removal (MTR) method are not provided. Support for newly planned and the expansion of infrastructure developments that are dedicated to above-mentioned projects are not provided either. When considering lending for coal mining projects other than the above, the scope of environmental and social risk assessment that takes into account the Equator Principles is to be expanded, and environmental and social risks are identified and evaluated.

In addition, among companies whose main businesses are thermal coal mining or linked infrastructure development, we will not provide support for those that do not have any existing transactions, including but not limited to lending, with SMBC Group.

(Understanding of the Business/Sector)

In addition to the risks of stranded assets associated with the transition

to a decarbonized society, it is important to consider human rights with respect to the elimination of illegal labor and child labor in coal mines and biodiversity issues associated with mining.

SMBC Group expects our customers to establish and publicly announce long-term strategies aimed at realizing a carbon neutral business model and other initiatives to address climate change. Moreover, SMBC Group will support the activities of our customers contributing to the transition toward and realization of a decarbonized society.

⑤ **Tobacco Manufacturing**

(Policy)

With regard for support for tobacco manufacturers, Sumitomo Mitsui Banking Corporation has confirmed that particular issues including health hazards and considering of human rights to eliminate illegal labor and child labor are being addressed.

(Understanding of the Business/Sector)

Smoking can cause health hazards, such as lung cancer and respiratory dysfunction. In addition, with the cultivation of leaf tobacco (a raw material of cigarettes), it is important to consider human rights to eliminate illegal labor and child labor.

⑥ **Nature Conservation Areas**

(Policy)

SMBC Group does not provide support for new projects that are perceived to have a significant negative impact on wetlands specified in the Ramsar Convention and UNESCO-designated World Natural Heritage sites.

⑦ **Palm Oil Plantation Development**

(Policy)

For palm oil plantation development projects, whether they have been certified by the Roundtable on Sustainable Palm Oil (RSPO), which is given for palm oil produced with environmental and social consideration, is confirmed. Support is only provided after confirming that forest resources and biodiversity are protected when new plantations are developed and that there are no human rights violations, such as child labor. For those customers that have not yet been certified, obtaining certification is encouraged and supported, and submission of a plan to acquire certification is required.

For customers who have no plans to acquire RSPO certification, we encourage their acquirement, and require actions according to the same standard as RSPO certification.

In addition, we will require our business partners to publicly declare their compliance with NDPE (No Deforestation, No Peat, No Exploitation). We also encourage them to enhance their supply chain management and improve traceability to obtain RSPO certification and comply with NDPE through their supply chain.

⑧ Deforestation

(Policy)

For any business involving deforestation, we provide them with support only after having confirmed as per the laws and regulations of respective country that there is no illegal deforestation, burning, nor illegal labor. Among them, especially regarding large-scale farm (*1) development projects, we will require them to publicly declare their compliance with NDPE.

*1 Farm of 10,000 ha or more (e. g. business aimed at cultivating soybeans, natural rubber, coffee, etc., or using it as a grazing land for livestock)

When supporting forest management projects (*2) in countries other than high-income OECD member countries, we will require them to obtain FSC (Forest Stewardship Council) certification or PEFC (Programme for the Endorsement of Forest Certification Scheme) certification, and to declare NDPE compliance. If certification is yet to be acquired, we encourage and support their acquirement, and request them to submit a plan to acquire certification. We also encourage them to enhance their supply chain management and improve traceability to obtain such certification and comply with NDPE through their supply chain.

*2 A forest management business refers to business that nurtures and manages forests, which involves cutting down forest trees for the purpose of harvesting and selling them. This policy does not apply to businesses that only cut trees (thinning) for the purpose of forest conservation without the purpose of harvesting and selling them.

In addition, when considering financing for any large-scale project not limited to the above projects, we will surely conduct environmental and social risk assessments as per the Equator Principles, while closely monitoring the applicant's stance on the following points: impact on virgin forests and ecosystems; mitigation measures for the foregoing; inclusion of peatland development; considerations for workers and local residents, etc.

⑨ Manufacturing of Cluster Bombs and Other Weapons of Destruction

(Policy)

Cluster bombs are considered inhumane, therefore SMBC Group prohibits credit to those manufacturers. In addition, it is confirmed that loans are not used for manufacturing of other weapons of destruction.

(5) In-house Training

SMBC Group regularly organizes study sessions for sales offices and the Credit Department to spread awareness of environmental and social risks internally and enhance understandings of policies for businesses and sectors that are likely to have significant impact on the environment and society, due diligence flow, and environmental and social risk assessment procedures.

(6) Stakeholder Engagement

SMBC Group engages with various stakeholders, including not only customers but also investors, environmental NGOs, local communities, and international initiatives in managing environmental and social risks. Based on the opinions of stakeholders obtained through engagements, we will continuously improve our risk management structure and policies so as to enhance their effectiveness.

3. Sustainability in Our Supply Chain

SMBC Group has established its “Sustainable Procurement Policy”, a set of expectations to promote responsible procurement in its entire supply chain, in light of the environment and society. The policy respects and takes into account international principles and guidelines, such as the ten principles of the UN Global Compact, the “OECD Guidelines for Multinational Enterprises”, and the “United Nations Guiding Principles on Business and Human Rights”.

Under this Policy, SMBC Group will comply with applicable laws and follow fair and transparent procedures based on the principle of free competition in its procurement activities.

[Sustainable Procurement Policy](#)