

# TCFD REPORT 2020/2021

**SuMi TRUST**  
SUMITOMO MITSUI TRUST HOLDINGS



SUMITOMO MITSUI TRUST HOLDINGS

## Message from Management



In reference to the anecdote that the discovery of black swans in Australia overturned the long-held belief that all swans are white, an unforeseeable financial crisis is sometimes described as a “black swan” event. Meanwhile, in January 2020, the Bank for International Settlements and the Bank of France referred to a financial crisis caused by climate change to be a “green swan” event and pointed out that unlike the global financial crisis (GFC) of 2007–2008, there would be limits to what kind of response measures financial authorities and central banks could employ. It is said that climate risks can be either physical—i.e., wind and flood damage wrought by typhoons—or those pertaining to a major shift in the state of the economy, known as transition risks. Financial authorities, financial institutions, and various stakeholders like corporations and civil society will need to work together closely to transform social and economic systems, but most importantly, each and every one of us must have the self-awareness to stand up and face this difficult situation head on.

In 2019, we added climate change to the list of items (known as materiality) that significantly impact the value creation of the SuMi TRUST Group. This decision was based on the reasoning that climate change risk is no longer considered a topic concerning the future even for us as a financial institution—it is now a pressing issue, particularly highlighted by the extensive damage to many regions in Japan caused by the repeated visitation of powerful typhoons. And at our Board of Directors meetings we have shared the fact that the onus is on us to do everything in our power to find solutions to climate change issues as a signatory to the Principles for Responsible Banking (PRB)—which requires us to align our business strategies with the goals of the Paris Agreement and the Sustainable Development Goals (SDGs).

Of course, information disclosure alone cannot solve the problems of climate change. We require concrete action if we are to realize a society with net-zero carbon emissions. In Europe, the EU has agreed to an enormous budget of some ¥92 trillion to roll out an “EU taxonomy” and hasten the implementation of the European Green Deal. Japan is now aiming to catch up to the EU following the government’s announcement that it will pledge to reduce greenhouse gas emissions to net zero by 2050 and vigorously push ahead with environmental innovation finance policies. To act in unison with global action, we too are committed to achieving the following goals: (1) reaching zero CO<sub>2</sub> emissions at SuMi TRUST Bank by 2050; and (2) facilitating sustainable finance of ¥5 trillion in the banking sector over the long term (FY2021–2030).

The world is currently exposed to a new risk—the COVID-19 pandemic. Even though economies have been dealt a devastating blow, they have at least so far managed to avoid the repercussions of a full-blown financial crisis, which I think owes to the wisdom of the people who overcame the previous GFC that culminated in the bankruptcy of Lehman Brothers. In the absence of a so-called “vaccine” for climate change, humanity has no choice but to confront the risks of climate change for the next few decades. As a financial group specialized in trust banking, we will aim to demonstrate our high level of expertise related to finance, trusts, and technology and work towards realizing a carbon-free society together with our clients. We look forward to the continued support of all our stakeholders.

Director & President  
Sumitomo Mitsui Trust Holdings

A handwritten signature in black ink, appearing to read 'F. Ohnishi', written in a cursive style.

# CONTENTS

Message from Management	
Introduction	2
Chapter 1: Governance	3
Climate Change Governance in the SuMi TRUST Group	3
Supervision by the Board of Directors	4
Chapter 2: Strategy	5
Identification of Climate Risks and Opportunities	5
Climate Change Scenario Analysis	6
Chapter 3: Risk Management	11
Climate Change Risk Management Structure	11
Climate Change Risk Management for Loans	12
Climate Change Risk Management for Portfolio Investments	15
Chapter 4: Metrics & Goals	19
Long-Term Target for Sustainable Finance	19
Climate Change Business Opportunities	20
Long-Term CO <sub>2</sub> Reduction Targets	22
CO <sub>2</sub> Emission Trends	23
In Conclusion	24

# 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 issues in the form of ESG investment, mainly through Nikko Asset Management's Nikko Eco Fund (1999) and SuMi TRUST Bank's first SRI fund for corporate pensions (2003).



We are also addressing climate change issues from the twin perspectives of investments and loans. For example, SuMi TRUST Bank—in addition to its initiatives on project finance for renewable energy—was the first Japanese bank in March 2018 to make clear its policy on coal-fired power generation.

Since expressing our support of the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD)\* in August 2018, we have continued to identify risks and opportunities and perform analyses of climate-related risks in each of our banking and asset management portfolios. In our 2020 Integrated Report, we embraced the challenge of disclosing scenario analysis results for both transition risks and physical risks in line with TCFD recommendations. Also, every year since 2013 we have published a booklet on the topic of climate change as part of our broader ESG Report, but this year we have revised the content of that booklet to publish our first-ever TCFD Report.

\*Group companies supporting the TCFD recommendations: Sumitomo Mitsui Trust Holdings, Sumitomo Mitsui Trust Asset Management, and Nikko Asset Management.

## ■ Initiatives Related to Climate Change

1999	Launch of Nikko Eco Fund
2003	Full-scale entry into ESG investment (start of SRI funds)
2004	Start of initiatives on environmental finance
2006	Signatory to PRI and Equator Principles
2018	Announcement of support of TCFD recommendations and stance on coal-fired power generation
2019	Signatory to PRB
2020	Review of policy concerning environmental and social considerations for loans and signatory to Poseidon Principles

This report follows the sequence of the TCFD recommendations.

Chapter 1 discusses governance around climate-related risks and opportunities.

We provide information about our climate change governance, supervision by the Board of Directors, and the roles and activities of the dedicated committees that provide support to the Board and Executive Committee.

Chapter 2 discusses climate-related risk analysis.

We identify the main climate-related risks (transition risks and physical risks) in our banking (SMTB) and asset management (SMTAM and Nikko AM) businesses and discuss scenario analyses.

Chapter 3 discusses climate-related risk management.

We discuss not only our climate-related risk management system, but also our risk management approach to lending, including policies for specific sectors and the Equator Principles. Regarding risk management for investment activities, we discuss our participation in global initiatives and examples of engagement with investee companies.

Chapter 4 discusses climate-related metrics, targets, and opportunities.

We discuss our long-term target for sustainable finance and the products and services with which we take concrete action on opportunities. We also discuss SuMi TRUST Bank's target on reducing greenhouse gas emissions.

# Climate Change Governance in the SuMi TRUST Group

Balancing the creation of both social and economic value is at the very core of the Group's management approach in our medium-term management plan and our basic strategy is to generate positive impacts geared towards solving social issues. Our policy on strengthening climate change governance through our core business is to have each business segment and Group company independently select the social issues that must be addressed first. For climate change and other key sustainability issues in Japan and overseas, our Sustainability Promotion Committee functions as a command center for the entire Group and formulates strategies to swiftly implement initiatives whilst collaborating with international organizations and the like.

## Sustainability Promotion System

### Board of Directors

- Establishes the Basic Policy on Social Responsibility of Sumitomo Mitsui Trust Group (Sustainability Policy).
- Stipulates (in the Basic Policy on Corporate Governance) that one of its main roles is to address the problems of climate change and other environmental and social issues concerning sustainability and determines the policy direction the Group should take.
- Hears the findings of the Risk Committee and engages in exhaustive discussions to decide on mainly the issues (materiality) that have a serious impact on the approach of balancing the creation of both social and economic value, as well as operational frameworks.

### Executive Committee

- Hears the findings of the Business Risk Management Committee and engages in exhaustive discussions to establish policies regarding items of materiality for submission to the Board of Directors.
- Engages in exhaustive discussions to decide on all initiatives for Group companies, taking into account the perspective of balancing the creation of both social and economic value.
- For initiatives on key sustainability issues, the Committee establishes medium-term policies in line with the Medium-Term Management Plan, as well as policies for each fiscal year, and manages operations that reflect the PDCA cycle (convenes meetings as the Sustainability Promotion Committee).

### Group companies

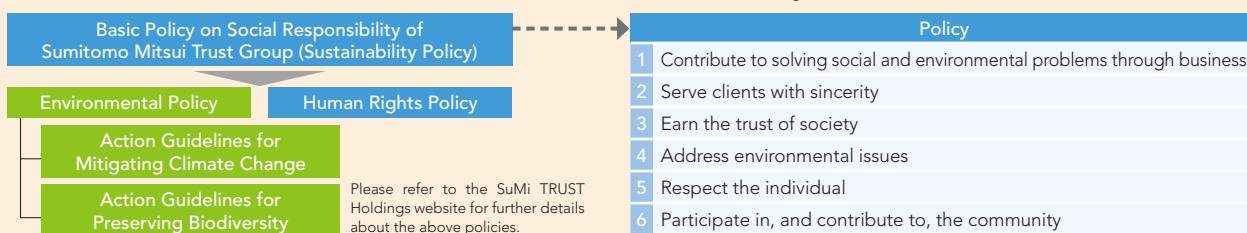
(advances businesses geared towards solving social issues)

Close  
collaboration

### Chief Sustainability Officer

**Sustainability Management Department**  
(addresses key sustainability issues)

### Policies related to sustainability



We have established environmental and human rights policies under the framework of the overarching Sustainability Policy. We also ensure that all directors, executive officers, and employees have a thorough understanding of our Action Guidelines for Mitigating Climate Change and Action Guidelines for Preserving Biodiversity.

### 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.

## Supervision by the Board of Directors

We recognize that climate change is the biggest factor affecting financial markets in terms of risks and opportunities, which is why we are stepping up our initiatives based on the recommendations of the TCFD.

Our Basic Policy on Corporate Governance states that the roles of the Board of Directors include to pursue the sustainable development of society and enhance corporate value of the Group through proactive sustainability initiatives. Specific activities are based on the medium-term policies and plans for each fiscal year decided on by the Sustainability Promotion Committee—meetings for which are held as part of the Executive Committee—and supervised by the Sustainability Management Department. For matters regarding materiality, the Risk Committee

and Business Risk Management Committee function as advisory bodies to the Board of Directors and Executive Committee, respectively.

Numerous climate change measures are intricately linked to the promotion of sustainability and risk management practices, which is why we have adopted a structure under which the Risk Committee and Board of Directors supervise the executive deliberations of the Business Risk Management Committee and Executive Committee in accordance with how these measures are promoted or managed.

### Risk Governance System



In October 2019 we set up a TCFD Project Team (headed by the officer in charge of corporate planning) with the goal of strengthening risk management and information disclosure concerning climate change. In addition to personnel

from the corporate management departments of SuMi TRUST Holdings, the team includes members from Group companies SuMi TRUST Bank, Sumitomo Mitsui Trust Asset Management, and Nikko Asset Management.

### Main Initiatives in FY2019–2020

Meeting Body	Description	
Board of Directors	Reports on the progress of the TCFD Project Team and hears the opinions of directors, including external directors	Supervisory body
Risk Committee	Reports on the progress of the TCFD Project Team and hears the opinions of Risk Committee members, including external advisors	(Advisory body to the Board of Directors)
Executive Committee	Reports on the progress of the TCFD Project Team and content disclosed in the TCFD Report	Executive body
Business Risk Management Committee	Reports on the progress of the TCFD Project Team and content disclosed in the TCFD Report and hears the opinions of Business Risk Management Committee members	(Advisory body to the Executive Committee)
Steering Committee for TCFD Project Team	Regularly convenes committee meetings for discussing TCFD matters (attended by the officers in charge of corporate planning, financial planning, risk management, and asset management planning) Decides on approaches and information disclosure policies, and reports on the results of transition risk and physical risk scenario analyses, among other matters	Execution

# Identification of Climate Risks and Opportunities

The world has started working towards transitioning from a low-carbon society to one with net-zero carbon emissions under the global framework of the Paris Agreement—the stated aim of which is to hold the increase in the global average temperature to well below 2°C above pre-industrial levels and to pursue further efforts to limit the temperature increase to 1.5°C. Europe has long been the leader in this regard and is now rolling out policies based on a so-called “EU taxonomy” and other standards. Japan is expected to finally catch up to the EU following the government’s announcement that it will pledge to reduce greenhouse gas emissions to net zero by 2050 and vigorously push ahead with environmental innovation finance policies. Policies and regulations that mitigate climate change risks will be the driving force behind the transition to a society that consumes different types of energy, but at the same time, they will generate business opportunities in the deployment of, and transition to, technology in society that hastens the shift to a carbon-free society.

In terms of climate change issues, financial institutions are responsible for not only the direct impacts arising from their own business activities, but also the indirect impacts stemming from investee and borrower companies and projects for which the responsibility is much greater.

For instance, medium- to long-term climate change could potentially have a negative impact on the Group’s earnings and financial situation owing to the risk of physical damage to, for example, the natural environment, social infrastructure, and client assets (physical risks), as well as the growing risk of a rapid transition to a low-carbon society owing mainly to policy changes, changes in social norms and financial market preferences regarding climate

change, and technological innovation (transition risks). More specifically, the (physical) risk of natural disasters will impair the credit standing of obligors and the value of their pledged assets, while the (transition) risk of being unable to keep up with the rapid transition to a low-carbon society will trigger earnings deterioration, a decline in securities issued by companies that emit large amounts of CO<sub>2</sub>, and fewer loans extended to such companies. These factors will negatively impact the Group’s credit portfolio and drag down the value of assets held by the Group.

On the other hand, the practice of incorporating the transition to a carbon-free society into business models is a key element in any corporate growth strategy.

## Risks Related to Climate Change

Risk category*	Summary of risks	Characteristics of risks related to climate change
Transition risks	<ul style="list-style-type: none"> <li>• Risk that stricter regulations and technological innovation could affect industries and companies, leading to value impairment in the Group’s loan assets and shareholdings.</li> <li>• Risk that business models and corporate strategies could be affected by regulatory measures aimed at achieving the 2°C target.</li> <li>• Risk that carbon pricing could affect market economies and multilateral economic competitiveness.</li> <li>• Risk that companies may face calls to consider climate change problems when procuring goods and services.</li> <li>• Risk that the market’s shift to low carbon could lead to volatility in the balance of supply and demand for products and services, as well as corporate earnings.</li> <li>• Reputational risk stemming from inadequate climate change-related initiatives and information disclosure.</li> </ul>	<ul style="list-style-type: none"> <li>• High social expectations for lenders and investors to avert or mitigate risks from indirect impacts arising from the activities of investee and borrower companies or projects.</li> <li>• Climate change risks affect entire supply chains, therefore risk management in the supply chains of investee and borrower companies is key.</li> <li>• Establishing quantitative risk assessment methods is challenging.</li> </ul>
Physical risks	<ul style="list-style-type: none"> <li>• Risk that natural disasters could damage social infrastructure and the Group’s assets and consequently pose difficulties for business continuity.</li> <li>• Risk that natural disasters and other events could damage the assets of investee and borrower companies.</li> <li>• Risk that climate change could affect land use, the procurement of resources, and the productivity of primary industries.</li> <li>• Risk that unrelenting global warming could increase the likelihood of heat stroke and pandemics.</li> </ul>	

## Business Opportunities Related to Climate Change

Opportunity category*	Summary of opportunities	Characteristics of business opportunities related to climate change
Resource efficiency, energy sources, products & services, markets, and resilience	<ul style="list-style-type: none"> <li>• There may be more opportunities to provide advisory services and financing to projects and companies that are helping to slow or mitigate climate change.</li> <li>• The transformation of social infrastructure, such as the uptake of renewable energy, may lead to earnings opportunities over the medium to long term.</li> <li>• There may be more opportunities to provide financing for infrastructure and technological development that enhances the capacity to adapt to climate change.</li> <li>• Positive social evaluations as a financial institution helping to address climate change may translate into more business opportunities.</li> <li>• Greater social awareness of climate change may support sales of the Group’s financial products that factor in environmental considerations.</li> </ul>	<ul style="list-style-type: none"> <li>• Climate change-related businesses driving change in energy, transportation, and other social systems will become the mainstream of the economy.</li> <li>• The transformation of social infrastructure over the medium to long term, including the uptake of renewable energy, will contribute to growth in medium- to long-term stable earnings opportunities for the Group.</li> </ul>

\*Categories based on the recommendations of the TCFD

We have summarized (shown in figure to the right) the transition risks, physical risks, and business opportunities in the sectors belonging to the four non-financial groups in the TCFD recommendations most likely to be potentially impacted by climate change and a transition to a low-carbon economy. The four groups are: energy, transportation, materials & buildings, and agriculture, food, & forest.

Taking into account the results of a qualitative assessment and SuMi TRUST Bank’s exposure, in fiscal 2019 we performed a transition risk scenario analysis of the electric power sector and a physical risk scenario analysis of personal mortgage loans (results of which are discussed below). In fiscal 2020 we have consecutively conducted analyses in a similar fashion based on an order of priority that reflects what is most important to SuMi TRUST Bank.

Going forward, we will continue to collect information on global trends and find more effective methods of analysis by implementing stress tests, for example.

## Heat Map

Sector	Transition risk	Physical risk	Opportunity	Exposure
Petroleum, gas, and coal	High	Medium	Medium	Medium
Electric power	High	Medium	Medium	High
Marine transportation	Medium	Medium	Medium	High
Railway transportation	Low	Low	Low	Medium
Automotive and parts	Medium	Medium	Medium	Medium
Property management and development*	Low	High	Medium	High
Chemicals	Medium	Medium	Medium	Medium
Paper and forest products	Medium	High	Medium	Low
Personal mortgage loans	Low	High	Medium	High

\*Personal mortgage loans not included

## Climate Change Scenario Analysis

The percentage of loans exposed to carbon-related assets\*, an indicator of credit exposure to carbon-related assets in the Group's business portfolio, is 5.2% (as of end-March 2020, down 0.4 points from end-March 2019). Despite an increase in the overall loan balance, the decrease in exposure to carbon-related assets owed to an increase in project

finance for renewable energy projects, which are subtracted from total exposure to carbon-related assets.

\*Loans to the energy and utilities sectors (based on the Global Industry Classification Standard, excluding water utilities and independent renewable energy power producers) are defined as "exposure to carbon-related assets" in the TCFD recommendations. Calculation range based on the combined total for SuMi TRUST Bank and Sumitomo Mitsui Trust Bank (Thai).

### (1) Transition Risks

Based on the results of our qualitative assessment of climate-related risks, we identified electric power as the sector for our scenario analysis of transition risks. The fact that the electric power sector has the highest weighting of carbon-related assets was also a factor in identification.

In analyzing transition risks, we employed two scenarios

from the IEA's World Energy Outlook 2019: STEPS\*<sup>1</sup> and SDS\*<sup>2</sup>. In both scenarios, we made assumptions for active investment in renewable energy power generation and no investment at all.

\*1 Stated Policies Scenario (STEPS): A scenario that reflects future policy changes and targets; equivalent to the 3°C target

\*2 Sustainable Development Scenario (SDS): A scenario in which measures necessary for achieving the 2°C target of the Paris Agreement are implemented

### Methodology and Assumptions

- We analyzed the impact on P/L taking into account the additional capex required and fuel price forecasts by examining each company's power generation capacity and power output based on IEA scenarios (mainly demand forecasts by fuel type).
- We employed two scenario assumptions in our approach: (1) the sample company does not invest in new facilities to meet future energy market demand; and (2) the sample company invests in facilities to meet market demand and changes its power generation capacity mix.
- Using their utility portfolios, we carefully examined the sample companies based on asset class and industry sector and categorized them into the following five segments: (1) large power companies; (2) new and renewable energy companies; (3) other domestic power companies; (4) high demand growth markets; and (5) low demand growth markets.

In either the STEPS scenario (3°C target) or the SDS scenario (2°C target), businesses dependent on fossil fuels will generally struggle because demand for clean power sources is expected to grow stronger and regulations around carbon emissions in each country will only get tougher. This tendency is more conspicuous in the 2°C target scenario.

Profits will basically decrease if a company has no intentions whatsoever of investing further in renewable energy. Companies reliant on fossil fuels that also have inefficient cost structures might see EBITDA fall into negative territory. The dependency on fossil fuels will cancel out strong demand growth in high-growth markets. The impact of carbon costs will be greater in the 2°C target scenario.

Profits will basically increase if a company invests further in renewable energy because it will reap the benefits of stronger demand for energy overall. That said, the boost from profit improvement owing to a switch to renew-

able energy will be limited in Japan under the 3°C target scenario because of weak demand growth rate in the domestic market. Profit growth will be greater under the 2°C target scenario thanks to higher renewable energy-related sales on the back of stronger demand for renewable energy, as well as reduced costs owing to lower fossil fuel prices. If a company can make the switch to renewable energy, it should be able to absorb the stronger impact of carbon costs under the 2°C target scenario.

Below are the results of our scenario analysis.

	STEPS scenario	SDS scenario
No investment in renewable energy power generation	Credit rating worsens by 2–3 notches	Credit rating worsens by 2–3 notches
Active investment in renewable energy power generation	No changes observed in credit rating	No changes observed in credit rating

## (2) Physical Risks

We identified mortgage loans to individual clients as the subject of our scenario analysis of physical risks. The fact that mortgages account for roughly one third of all loans and the noticeable trend in recent times of homes suffering wind and flood damage largely as a result of powerful

typhoons and abnormal weather events were the reasons for identification.

In our analysis we employed two scenarios known as RCP2.6 (2°C scenario) and RCP8.5 (4°C scenario) from the IPCC Fifth Assessment Report. They are both widely used as physical risk scenarios.

### Methodology and Assumptions

- **Target regions and risks: Flooding in Japan\*.**
- **Basic approach: We performed a trial calculation to assess how much our mortgage loan portfolio would be damaged by flooding as a direct result of climate change.**
- **Two climate scenarios: The temperature increase is limited to 2°C through the end of the 21<sup>st</sup> century (RCP2.6 scenario) and the temperature increase exceeds 3°C (RCP8.5 scenario).**
- **Two assumptions on the rate of decline in property value: The most likely case (MLC) and the reasonable worst case (RWC).**

\*The scale of flooding is limited to major floods expected to occur once every 100 years.

#### 1. Measuring Changes in Property Value Owing to Floods

Based on an analysis of the correlation between flood events in Japan and subsequent changes in property market prices, we calculated the rate of decline in property value caused by a flood disaster, as well as property value taking into account baseline property valuations and the probability of floods occurring under a climate change scenario.

#### 2. Clear Indication of Impact on Overall Portfolio

As changes in valuations for each property in the mortgage loan portfolio affect the portfolio's LtV ratio\*, a decline in the LtV ratio clearly demonstrated a climate change risk.

\*Loan to Value ratio



#### Changes in LtV Ratio in the Portfolio

RCP8.5 scenario: Under the RWC (21% decline in property value), around 40% of the mortgage loan portfolio will face the risk of at least 10% deterioration in the LtV ratio. Under the MLC (10% decline in property value), however, there are hardly any properties for which the LtV ratio will deteriorate by 10% or more; some 30% of the portfolio will see a 5%–10% deterioration in the LtV ratio and roughly 50% will experience a 1%–5% deterioration.

RCP2.6 scenario: Even if the temperature increase is kept to under 2°C, we still expect floods to occur, which under the MLC would likely drag down the LtV ratio by 5%–10% for about 1% of properties in the portfolio.

We calculated that credit costs on mortgage loans at SuMi TRUST Bank would increase by around ¥7.0 billion by the year 2100 compared to the end of March 2020 based on the probability of floods occurring and the rate of change in property value caused by flood damage in either scenario. We think the financial impact of physical risks in mortgage loans at SuMi TRUST Bank is limited.

### (3) Climate-Related Portfolio Analysis by SMTAM

Sumitomo Mitsui Trust Asset Management (SMTAM) evaluates the climate change risks in the assets it manages according to asset class. It uses two assessment methods: (A) a fixed-point analysis based on information disclosure and performance of the companies comprising the portfolio; and (B) a transition path analysis based on future climate change scenarios. Below we disclose a summary of the results of SMTAM's analyses of domestic and foreign equity. Note that the analyses makes use of data and methods of an external agency\*<sup>1</sup> (base date: June 30, 2020).

\*<sup>1</sup> Institutional Shareholder Services Inc.

#### 1. Domestic Equity

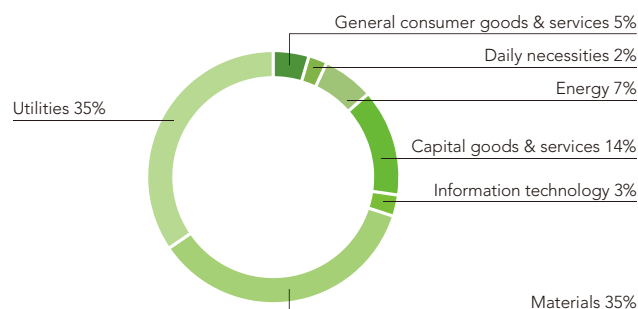
##### A. Fixed-point observation

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 company disclosure data and other information. Looking at industry-specific emissions shows that utilities and materials account for 70% of total emissions. Notably, even when we look at portfolio emissions per unit of sales, we see that these two industries still contribute nearly 60% of total emissions.

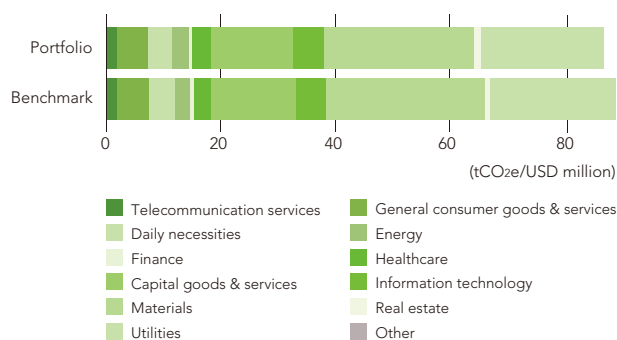
##### B. Transition path analysis

Transition pathway analysis assesses how the portfolio's climate change risk will change in the face of different scenarios for future climate change. The projected greenhouse gas emissions of the portfolio are compared with the projected carbon budgets calculated according to different climate change scenarios, and this produces an

#### Weighting of Greenhouse Gas Emissions by Industry in SMTAM's Portfolio

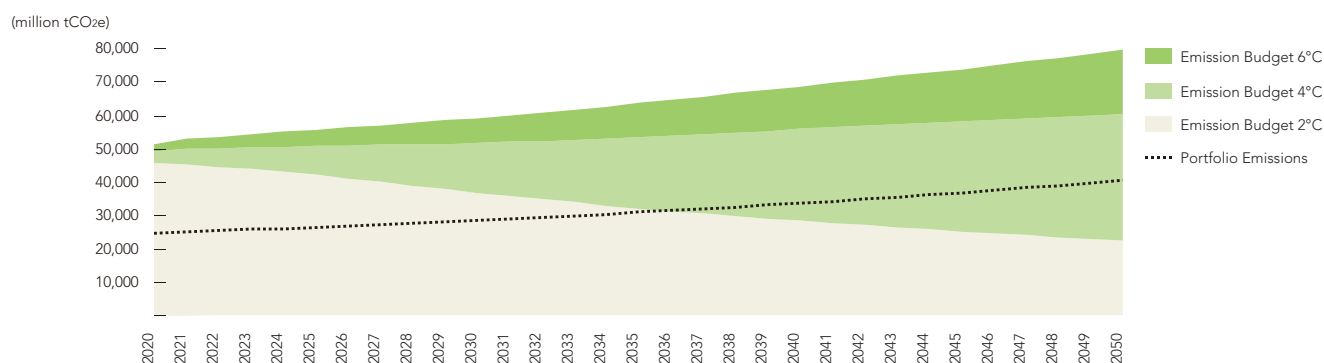


#### Comparison of Greenhouse Gas Emissions per Unit Sales



assessment of the portfolio's resilience relative to the different scenarios over time. Specifically, the portfolio was compared against the 2°C scenario, the benchmark of the Paris Agreement as well as a 4°C scenario and a 6°C scenario. Assuming the status quo, the portfolio's emissions will reach the level permitted under the 2°C scenario in 2036, and will likely exceed it thereafter.

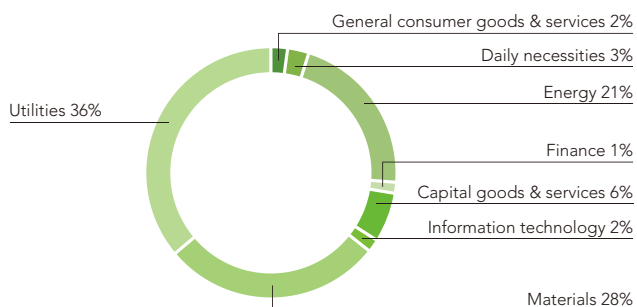
#### Estimates of Portfolio's Future Greenhouse Gas Emissions Compared to Emissions under Each Climate Change Scenario



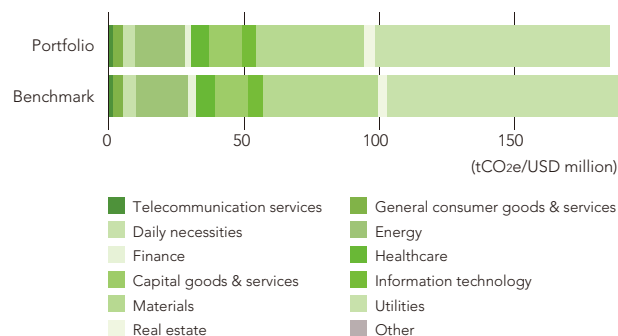
## 2. Foreign Equity

### A. Fixed-point observation

#### ■ Weighting of Greenhouse Gas Emissions by Industry in SMTAM's Portfolio\*<sup>2</sup>



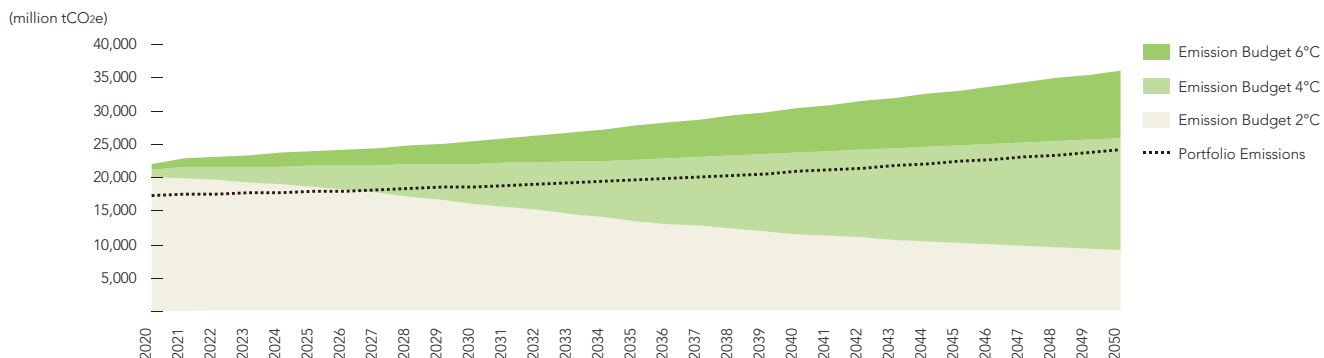
#### ■ Comparison of Greenhouse Gas Emissions per Unit Sales\*<sup>3</sup>



### B. Transition path analysis

This method confirms that the portfolio's emissions will reach the level permitted under the 2°C scenario in 2027, but will likely exceed it thereafter.

#### ■ Estimates of Portfolio's Future Greenhouse Gas Emissions Compared to Emissions under Each Climate Change Scenario\*<sup>4</sup>



For all investee companies in its domestic and foreign equity portfolios, SMTAM monitors yearly greenhouse gas emissions (greenhouse gas intensity: Scopes 1 and 2) per unit sales and future estimates of greenhouse gas emissions (Scope 1) in each portfolio up until they exceed the volume of emissions based on the 2°C scenario, taking into account strategies, risk management, and the problem of accessing various data.

SMTAM's policy is to continually engage with investee companies in order to achieve the aim of the Paris Agreement to "hold the increase in the global average temperature to well below 2°C above pre-industrial levels and to pursue efforts to limit the temperature increase to 1.5°C above pre-industrial levels." See pages 17–18 for more details.

\*2 Scopes 1, 2, and 3

\*3 Scopes 1 and 2

\*4 Scope 1

#### (4) Climate-Related Portfolio Analysis by Nikko AM

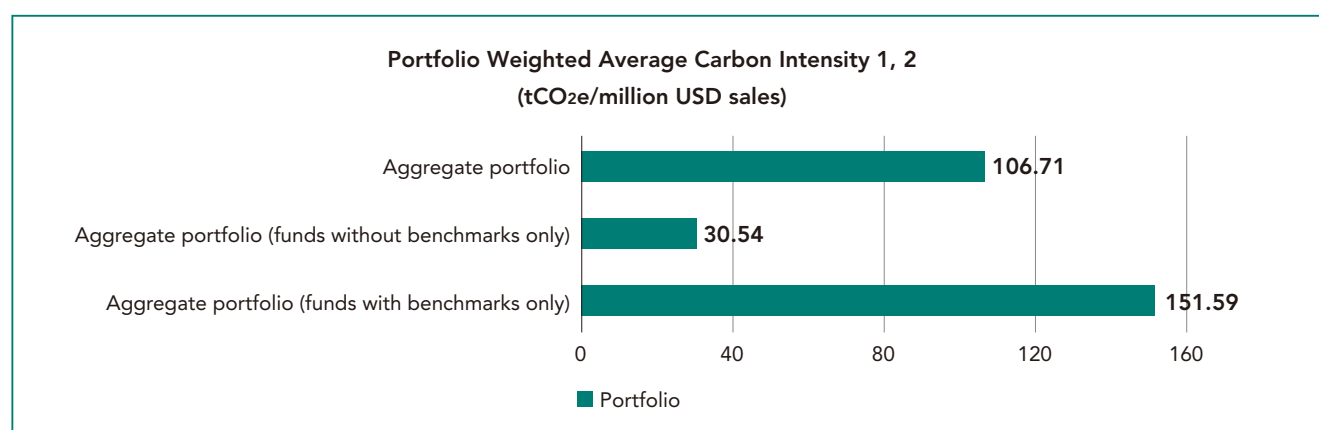
The TCFD recommends the use of weighted average carbon intensity, whilst acknowledging the challenges and limitations of current carbon footprint metrics.

Nikko Asset Management's (Nikko AM) experience is that carbon intensity figures do not add much value in considering climate change portfolio risk. The problem is exacerbated particularly when considering the lack of comparability and reliability, based on the status of current insufficient greenhouse gas disclosures. For example, weighted average carbon intensity is based on Scope 1 (direct emissions from fossil fuel combustion) and Scope 2 (indirect emissions resulting from electricity usage) emissions. This excludes emissions arising from products that would fall under Scope 3 (all indirect emissions not included in Scope 2 that occur in the value chain of corporate activities, including both upstream and downstream emissions).

This means that the risks of an automobile company that switches from producing diesel-powered vehicles to electric vehicles would not be identified using this metric.

Nikko AM's aggregate portfolio weighted average carbon intensity is 106.71 tCO<sub>2</sub>e/million USD sales, with coverage of 53% of assets under management in its active equity strategies. Figures are generated by MSCI ESG Research and may also be derived from company disclosures or estimates.

The aforementioned aggregate portfolio includes both funds with benchmarks and funds without. If computing an aggregate portfolio comprising only funds with benchmarks, the weighted average carbon intensity is 151.59 tCO<sub>2</sub>e/million USD sales, which is lower than the aggregate benchmark. The equivalent for an aggregate portfolio for funds without benchmarks is 30.54 tCO<sub>2</sub>e/million USD sales.



(as of end-Dec 2019)

1. Assets under management (AUM) of reported portfolios covers 53% of Nikko AM's core active strategies.
2. Figures are generated by MSCI ESG Research. Figures may also be derived from company disclosures and/or estimates by MSCI ESG Research.

In addition, the US Sustainability Accounting Standards Board (SASB) considered climate risk to have material financial impacts in 72 of 79 industries according to their Technical Bulletin on Climate Risk. However, greenhouse gas emissions are considered to be material for only 23 of the 79 industries.

Nikko AM has implemented a third-party carbon portfolio analytics tool that helps assess companies on metrics such as CO<sub>2</sub> emissions per unit of production, carbon risk management, and stranded asset exposure. In addition, it continues to explore scenario analysis tools that can add value to analysis at both company and portfolio levels. The field is rapidly developing with tools addressing dif-

ferent climate risks such as transition and physical risks. Leading academics say that while global trends in climate change impacts are more clearly defined, there remains a high degree of uncertainty at a regional and company level where such climate scenario analysis tools can be most readily applied.

In 2019, Nikko AM's ESG Global Steering Committee held discussions on the various scenario analysis tools available from external service providers. Nikko AM will continue to assess whether existing and newly-available climate scenario analysis tools can be applied to its portfolio management, bearing in mind the different characteristics of those portfolios.

# Climate Change Risk Management Structure

We have identified climate change, the consideration of how borrowers and investees impact society and the environment, and the pursuit of sustainability-themed business opportunities to be items of materiality that affect our medium- to long-term value creation process. We have formulated policies for specific sectors in which we offer loans and we adopt a cautious approach to sectors where there are concerns about the impact on climate change by engaging with clients. For investments too, we are contributing to the realization of a sustainable society by encouraging companies to disclose climate change information and take concrete steps towards addressing climate change issues through engagement activities and the exercise of voting rights.

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.

Under the framework of our Sustainability Policy, we established a policy concerning the environment and in addition to contributing to efforts aimed at mitigating and adapting to climate change pursuant to our Action Guidelines for Mitigating Climate Change, our basic policy is not to provide financing for any new coal-fired power plants as part of our policy concerning environmental and social considerations for loans. Furthermore, owing to revisions made in fiscal 2019, a climate change risk assessment was added to the items of due diligence in the Equator Principles, guidelines that we apply to large-scale project finance.

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 frequency, degree of impact, and severity. From among the significant risks identified, the officer in charge of risk selects the top risks and emerging risks 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. The former are risks that have the potential to significantly impact the Group within the space of one year and warrant the attention of management, while the latter are risks that are unlikely to significantly impact the Group within one year, but have the potential to do so over the medium to long term (more than one year). As of the end of March 2020, "climate change" has been added to our list of emerging risks because it poses a considerable risk over the medium to long term and we have started monitoring carbon-related exposure within the RAF as a reference indicator.

In fiscal 2019 and 2020 we performed scenario analyses of both transition risks and physical risks. We intend to inject the knowledge we acquired from these analyses into our management of credit, market, and operational risks, and subsequently have relevant departments discuss this information and utilize it when engaging in dialogue with clients. Furthermore, we have started thinking about assessing climate change risks and making active use of such assessments in fiscal 2021.

Going forward, our TCFD Project Team and relevant departments plan to discuss and examine revisions to various rules and policies incorporating frameworks and practical operations that are in line with the risk governance framework in the ECB's guide outlined below.

## ECB guide on climate-related and environmental risk management for financial institutions

### 4. Business models and strategy

4.1	Business environment	Institutions are expected to understand the impact of climate-related and environmental risks on the business environment in which they operate, in the short, medium and long term, in order to be able to make informed strategic and business decisions.
4.2	Business strategy	When determining and implementing their business strategy, institutions are expected to integrate climate-related and environmental risks that impact their business environment in the short, medium or long term.

### 5. Risk governance and risk appetite

5.1	Management body	The management body is expected to consider climate-related and environmental risks when developing the institution's overall business strategy, business objectives and risk management framework and to exercise effective oversight of climate-related and environmental risks.
5.2	Risk appetite	Institutions are expected to explicitly include climate-related and environmental risks in their risk appetite framework.
5.3	Organizational structure	Institutions are expected to assign responsibility for the management of climate-related and environmental risks within the organizational structure in accordance with the three lines of defence model.
5.4	Reporting	For the purposes of internal reporting, institutions are expected to report aggregated risk data that reflect their exposures to climate-related and environmental risks with a view to enabling the management body and relevant sub-committees to make informed decisions.

### 6. Risk management

6.1	Risk management framework	Institutions are expected to incorporate climate-related and environmental risks as drivers of existing risk categories into their risk management framework, with a view to managing, monitoring and mitigating these over a sufficiently long-term horizon, and to review their arrangements on a regular basis. Institutions are expected to identify and quantify these risks within their overall process of ensuring capital adequacy.
6.2	Credit risk management	In their credit risk management, institutions are expected to consider climate-related and environmental risks at all relevant stages of the credit-granting process and to monitor the risks in their portfolios.
6.3	Operational risk management	Institutions are expected to consider how climate-related and environmental events could have an adverse impact on business continuity and the extent to which the nature of their activities could increase reputational and/or liability risks.
6.4	Market risk management	Institutions are expected to monitor on an ongoing basis the effect of climate-related and environmental factors on their current market risk positions and future investments, and to develop stress tests that incorporate climate-related and environmental risks.
6.5	Scenario analysis and stress testing	Institutions with material climate-related and environmental risks are expected to evaluate the appropriateness of their stress testing, with a view to incorporating them into their baseline and adverse scenarios.
6.6	Liquidity risk management	Institutions are expected to assess whether material climate-related and environmental risks could cause net cash outflows or depletion of liquidity buffers and, if so, incorporate these factors into their liquidity risk management and liquidity buffer calibration.

## | Climate Change Risk Management for Loans

### (1) Policies for Specific Sectors

#### 1. Policies as a Responsible Trust Bank Group

SuMi TRUST Holdings has established the “Environmental Policy” to reduce the environmental burden 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)

##### (1) Coal-fired power generation (recently revised)

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

Balance of project finance loans for coal-fired power generation

End-March 2020: ¥133.8 billion

FY2030: Targeting a 50% reduction in balance of loans vs. end-March 2020

Around FY2040: Targeting a loan balance of zero

##### (2) Forestry

The rapidly developing 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 other items. SuMi TRUST Bank engages with timber manufacturers and manufacturers using timbers as raw materials only after careful consideration such as checking their international forest certification status<sup>\*1</sup> as well as fully taking into account whether or not there are existing problems with original inhabitants and local communities.

<sup>\*1</sup> 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 developments are the main causes for the devastation of tropical rainforests and the decline in biodiversity. SuMi TRUST Bank 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<sup>\*2</sup> as well as fully taking into account whether or not there are existing problems with original inhabitants and local communities.

<sup>\*2</sup> RSPO (Roundtable on Sustainable Palm Oil) and others that aim to observe NDPE (No-deforestation, No-peat and No-exploitation) and the preservation of HCS (High Carbon Stock) forests

#### 3. Review of Sector Policies

SuMi TRUST Bank regularly reviews the suitability of established sector policies 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 bank group, to ensure that SuMi TRUST Bank's directors and employees deepen their understanding of ways to reduce environmental impact, policies for human rights, and sector policies, the Bank continually conducts educational training. The company also spares no effort to ensure that directors and employees comply with all relevant regulations and procedures.

#### 5. Communication with Stakeholders

SuMi TRUST Bank continues to engage in dialogues and collaborations with various stakeholders on themes that are relevant to the sector policies that it has established. The Bank trusts that dialogues and collaborations with these stakeholders will prove useful when considering reviews to improve the sector policies to stay in line with the changing social environment and to continue improving their effectiveness.



## (2) Project Finance Initiatives

SuMi TRUST Bank is cognizant of the fact that financing large-scale development projects may indirectly have an adverse effect on the natural environment and regional communities. Based on this awareness, the Bank 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. As such, in February 2016 the Bank signed on to the Equator Principles, a set of international private sector guidelines for assessing environmental and social risks in mainly project finance.

The fourth iteration (EP4) of the Equator Principles was adopted at the Equator Principles Association Annual Meeting in November 2019. The principles were expanded in scope to include refinancing and certain other transactions and updated to strengthen commitments to indigenous peoples in developed countries. In addition, efforts to address climate change were strengthened by updating the due diligence requirements to include a transition risk analysis alongside the consideration of alternative proposals for projects with annual greenhouse gas emissions in excess of 100,000 t-CO<sub>2</sub>, as well as a physical risk analysis for projects expected to generate significant impacts.

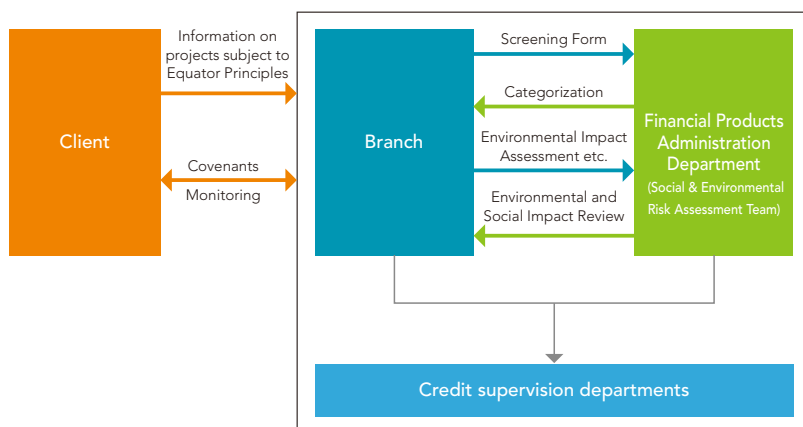
SuMi TRUST Bank currently applies EP4 to projects for which it acquired a client mandate after October 1, 2020. With EP4, SuMi TRUST Bank will continue to contribute to the achievement of a sustainable environment and society by making sure that projects take into account environmental and social considerations 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 priority 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 2019 (April 1, 2019 to March 31, 2020), there were 26 projects to which we applied the Equator Principles.

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 (Social & Environmental Risk Assessment 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 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

Sector	FY2019			
	A	B	C	Total
Mining	0	0	0	0
Infrastructure	0	4	2	6
Oil & gas	1	0	0	1
Electric power	3	15	0	18
Petrochemicals	0	0	0	0
Other	0	1	0	1
Total	4	20	2	26

### (3) Ship Finance Initiatives

For more than 50 years the Group has given top priority to steadily providing ship finance to meet the varied needs of its clients. The shipping market is heavily influenced by mainly global economic fundamentals and supply and demand for vessels, but in addition to strengthening our financing of environmentally sound investments and environmental initiatives by client companies in response to stricter environmental regulations and climate change risks, we have signed on to the Poseidon Principles to support, from a financial perspective, the reduction of greenhouse gas emissions in the global shipping industry. Not only are companies incorporating environmental measures into their basic philosophy on corporate administration, but even government administrations in Europe and the US are doing the same by focusing on the idea of “BuildBack Better.” This is an area that is rapidly growing in importance even in the shipping industry, which is why we intend to ramp up our initiatives going forward.

#### Signatory to the Poseidon Principles

SuMi TRUST Bank 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 an initiative spearheaded by private financial institutions to align with the greenhouse gas (GHG) reduction targets adopted by the International Maritime Organization (IMO)\*<sup>1</sup> for global shipping, as well as the IMO’s comprehensive GHG reduction strategy\*<sup>2</sup>, 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.



Signatories to the Poseidon Principles will, on an annual basis, assess the CO<sub>2</sub> emission reduction efforts of each ship subject to finance and calculate and publish the overall climate alignment of its ship finance portfolio. SuMi TRUST Bank plans to start calculating CO<sub>2</sub> emission reduction efforts (climate alignment) based on the Principles in fiscal 2021.

By becoming a signatory to the Poseidon Principles, and as a member of the maritime cluster of Japan, SuMi TRUST Bank will continue to support the business activities of its clients as a financial institution that offers ship finance worldwide, and will aim to contribute to mitigating climate change risks in the marine transportation industry.

Financial institutions publish climate alignment of ship finance portfolios	Scope of the Poseidon Principles	Climate alignment										
<ul style="list-style-type: none"><li>• Every year, signatory financial institutions calculate CO2 emissions for vessels in their portfolio.</li><li>• Every year, each financial institution calculates and publishes the climate alignment of their overall ship finance portfolio based on the CO2 emissions of each aforementioned vessel.</li><li>• SMTB plans to publish climate alignment calculation results from fiscal 2021.</li></ul>	<table><tr><td>1</td><td>Vessels with at least 5,000 gross tonnage</td></tr><tr><td>2</td><td>Vessels that trade on international voyages</td></tr><tr><td>3</td><td>Vessels secured with a loan</td></tr></table> <p>Vessels that satisfy the three conditions above are included in the scope of the Poseidon Principles</p> <p><b>Example of disclosure</b></p> <table><tr><td>Total loan balance of ship finance</td><td>\$1,000m</td></tr><tr><td>Climate alignment</td><td>-1%</td></tr></table> <p>Note: Actual format of disclosure may differ</p>	1	Vessels with at least 5,000 gross tonnage	2	Vessels that trade on international voyages	3	Vessels secured with a loan	Total loan balance of ship finance	\$1,000m	Climate alignment	-1%	<ul style="list-style-type: none"><li>• In order to reduce CO2 emissions by 50% by fiscal 2050, the secretariat of the Poseidon Principles determines the amount of CO2 emissions considered currently fair for each ship type and size class (decarbonization trajectory).</li><li>• The actual volume of carbon emissions for each single vessel is compared with the aforementioned decarbonization trajectory and the difference represents the vessel's climate alignment.</li><li>• A positive climate alignment score means a vessel is misaligned (above the decarbonization trajectory), whereas a negative or zero score means a vessel is aligned.</li></ul>
1	Vessels with at least 5,000 gross tonnage											
2	Vessels that trade on international voyages											
3	Vessels secured with a loan											
Total loan balance of ship finance	\$1,000m											
Climate alignment	-1%											

## | Climate Change Risk Management for Portfolio Investments

The engagement policies of Sumitomo Mitsui Trust Asset Management and Nikko Asset Management are as follows.

### ESG Engagement Policy of Sumitomo Mitsui Trust Asset Management

SMTAM sees engagement as a chance to seek best practices from companies and engage in dialogue so as to contribute to the enhancement of corporate value over the medium to long term by solving the ESG issues of investee companies. Activities are undertaken jointly by the Stewardship Development Department (experts in the field of ESG) and the Investment Research Department (experts on industrial and corporate affairs) based on 12 items of ESG materiality (e.g., climate change, human capital, governance improvement) likely to affect corporate value.

And in addition to its own engagement activities, SMTAM also conducts activities through collaborative engagements by participating in global initiatives that aim to address numerous agenda items, such as greenhouse gas emissions, palm oil, forest conservation, access to medical care, and diversity (appointment of women to management positions).

### ESG Engagement Policy of Nikko Asset Management

Engagement activities at Nikko AM involve the exchanging of opinions in line with an investee company's growth phase from a long-term perspective with regard to not only earnings and financial strategies, but also the management policies, business strategies, shareholder return policies, and ESG issues mentioned in non-financial information already disclosed. Nikko AM engages with a broad range of parties, from the management teams of investee companies, through to their finance departments, business planning departments, and even officers in charge of business operations. Particularly with regard to companies that are reluctant to disclose information, Nikko AM endeavors to reinforce the benefits of engagement by proposing meetings with management.

With the goal of supporting the creation of medium- to long-term corporate value, Nikko AM seeks to realize closer engagements with investee companies so that they might share accurate information about their situation.

## (1) Participation in Global Initiatives

### Activities through Climate Action 100+

#### **SMTAM: Participation in steering committee (April 2020)**

Over 500 asset management firms around the world participate in Climate Action 100+ (CA100+) to conduct joint engagement activities targeting more than 160 of the world's biggest greenhouse gas-emitting corporations. As a lead manager of nine firms in the Asian region, SMTAM directly engages in dialogue with investee companies and in April 2020 it became a new member of the CA100+ steering committee as the investor representative for Asia.

The work of CA100+ is conducted through partnerships based in each region, but the formulation of engagement policies for each region, the formulation of government-level engagement plans, and the administrative control of communicating information are mainly handled by a steering committee comprising 10 members (as of

end-June 2020) representing each global region. While it is an honor for SMTAM to be part of the steering committee and represent the Asian region in the world's largest joint engagement initiative, it also means it carries a great responsibility to drive change in Asia and around the world.

#### **SMTAM, Nikko AM: Announcement of new benchmark and letter to company CEOs (September 2020)**

As a new initiative, the CA100+ steering committee wrote to the representatives of applicable listed companies in September 2020, calling on them to adopt a net-zero company benchmark. The letter not only requested companies to take ambitious action towards achieving net-zero greenhouse gas emissions, but also notified them that the evaluation results based on such a benchmark (still under development) for measuring each company's consistency and feasibility of a net-zero transition pathway will be made public in spring 2021. Despite the fact that decarbonization by around 2050 is required in order to achieve the so-called 1.5°C scenario set out under the

Paris Agreement, or in other words, net-zero greenhouse gas emissions for the entire planet, this letter reflects the assumption that such a target is still out of reach even when factoring in the independent targets initiated by governments and corporations. Both SMTAM and Nikko AM will participate in the design and promotion of this project for the Asian region and seek the positive commitment of companies through separate dialogue as lead managers.

**Dialogue with Brazilian government and central bank regarding development management of tropical rainforest in Amazon basin**

**Sumitomo Mitsui Trust Asset Management**

SMTAM is a signatory to both the PRI and Ceres initiatives, which jointly run a working group on forest conservation engagement, known as the Investor Initiative for Sustainable Forests. As part of the group's activities, in June 2020 SMTAM started engaging with the Brazilian government after sending an open letter requesting that the responsible government agency discloses information about effective forest protection and management practices for the Amazon, as well as the state of developments in the region. SMTAM is the only Japanese asset manager to support this initiative from the outset and currently participates in the project as one of its lead managers. On four occasions in July 2020, the initiative engaged in dialogue with the vice president of Brazil and the governor of the Central Bank of Brazil.

In addition to the working group's discussions, SMTAM has also engaged in stand-alone dialogue with Brazil's central bank governor and the Brazilian ambassador to Japan. Unlike the European financial institutions, which hinted at the possibility of suspending investments and loans to Brazil, the president and CEO of SMTAM, Yoshio Hishida, communicated SMTAM's unique views and participated in a meaningful exchange of opinions with reference to the history of economic relations between Japan and Brazil.

The Amazon and the area referred to as the Amazon biome is a region of mostly tropical rainforest that covers 60% of Brazil's land. Environmental conservation in this area is needed in order to keep climate change in check and maintain biodiversity. The current administration has announced a policy of pursuing more liberal development of the Amazon basin and concern is growing among investors about rapid deforestation owing to the regular occurrence of forest fires and the government's advocacy for the liberalization and deregulation of agricultural development.

As it continues to engage in dialogue with the Brazilian authorities and the embassy of Brazil in Japan, SMTAM's policy up ahead will be to steadily respond to the administration's initiatives, monitor the situation, and throw its support behind a balanced approach to environmental conservation and economic development in the Amazon basin.



## (2) Climate Change-Related Engagement

### Sumitomo Mitsui Trust Asset Management

#### Overseas case example—1

##### • KEPCO (South Korea/electric power)

**ESG issue: Encouraging disclosure of information related to climate change**

#### Viewpoint of engagement leader

We can easily assume that KEPCO's business will be heavily affected by climate change, but its response has been lackluster. It also has plans for coal-fired power plants in South Korea and Southeast Asia, so we thought the company runs the risk of ending up with stranded assets in the future.

#### Opinions of SMTAM

##### Independent dialogue with SMTAM

- Overseas, KEPCO has plans to invest in coal-fired power plants in Southeast Asia, but in the context of the framework of the Paris Agreement, we think it runs the risk of ending up with stranded assets in the future. We also see issues with profitability after taking into account power generation costs.
- We can easily assume that KEPCO's business will be heavily affected by climate change, but concern is growing among domestic and foreign investors. We believe management should strengthen its climate change measures, urgently draft a policy, and consider disclosing information based on the framework of the TCFD.

##### Engagement with the government

We communicated our view to the Ministry of Economy and Finance in South Korea—one of KEPCO's major stakeholders—saying that it should encourage the company to do more to address climate change issues. We sent a letter jointly signed by four institutional investors.

##### Utilization of CA100+

Through the CA100+ initiative, we partnered with local stakeholders to express to local news media our opposition to KEPCO's planned investment in coal-fired power plants in Indonesia, Vietnam, and the Philippines.

#### Company response

- KEPCO's policy is in line with that of the South Korean government. It will consider setting GHG emission reduction targets and disclosing information under the framework of the TCFD. More specifically, it will look to reduce emissions by shutting down inefficient power plants and replacing them with more efficient ones. As for the development of renewable energy sources in South Korea, it is already undertaking projects mainly in the area of wind power generation.
- Regarding concerns about its overseas coal-fired power plant business, management plans to gain the understanding of interested parties following the completion of an environmental assessment, therefore it has no plans to change course.

#### Company action

We received a letter saying that the company will disclose climate change-related information based on the framework of the TCFD in its fiscal 2020 sustainability report (yet to be published).

#### SMTAM's assessment / future approach

More and more investors are turning away from investing in coal-fired power plant businesses. Reputational risk and the risk of ending up with stranded assets remains a factor, therefore we will continue to urge the company to withdraw from this business.

#### Overseas case example—2

##### • Royal Dutch Shell (UK/energy)

**ESG issue: Encouraging disclosure of information related to climate change**

#### Viewpoint of engagement leader

At Royal Dutch Shell's annual general meeting of shareholders, a shareholder proposal was submitted that called for management to set climate change-related targets in accordance with the Paris Agreement. With industry peers in Europe announcing more in-depth reduction targets, we thought the company needs to consider taking a second look at its targets.

#### Opinion of SMTAM

Royal Dutch Shell was one of the first companies among its industry peers to target a 50% reduction in emissions by 2050 and has since pushed ahead with concrete measures geared towards achieving that goal. It has also taken the initiative at the executive management level by incorporating its climate change policy into officer compensation assessment criteria. While we hold a generally positive view of these initiatives undertaken thus far, the fact is that the company's reduction target will compare unfavorably with other industry peers in Europe that are currently looking to go carbon neutral by 2050. We think management probably needs to review its plans.

#### Company response

After engaging in dialogue with SMTAM in March 2020, Royal Dutch Shell has continued to conduct its own internal assessments of the situation. In April 2020 it announced it would revise its targets.

#### Company action

In April 2020, the company announced its ambition to go carbon neutral by the year 2050. It also announced its commitment to reduce CO<sub>2</sub> emissions by 65% (previously 50%) over the same time frame.

#### SMTAM's assessment / future approach

While we commend management's decision to review its targets, we will continue to urge the company to do the same with the numerical targets specified by the person that submitted the shareholder proposal. We also intend to ask the company to strengthen its commitment on publishing information in an easy-to-understand format for investors.

## Sumitomo Mitsui Trust Asset Management

### Domestic case example—1 • Materials company

**ESG issue: Encouraging GHG reductions and ESG information disclosure**

#### Viewpoint of analyst

Even though the company's business structure means it is a large emitter of greenhouse gases, management has not made public any medium- to long-term reduction target. Some overseas investors have therefore identified the company as a target for divestment. We thought the company needs to clearly disclose a medium- to long-term policy and GHG reduction target to address climate change in order to realize a sustainable society and potentially enhance corporate value.

#### Opinions of SMTAM

Whilst management has set a greenhouse gas emissions reduction target through fiscal 2021 and aims to have environmentally-friendly products and technologies account for a certain percentage of sales, we think it needs to formulate a medium- to long-term GHG reduction plan that aligns with the goals of the Paris Agreement and establish concrete numerical targets. Alongside sales targets for environmentally-friendly products, the company also needs to disclose how much these products contribute to reducing GHGs. And for the purpose of enhancing the effectiveness of its reduction plan, adding reduction targets to assessment indicators for officer compensation would also be an effective approach.

The company excels at keeping energy costs low with the use of coal-fired power generation, but given the severe criticism worldwide concerning the use of fossil fuels, there is a strong likelihood that it will lose its business competitiveness.

#### Company response

- The company is currently discussing internally the setting of medium- to long-term targets on environmental issues. Management wants to refer to the opinions of investors when establishing targets for lowering greenhouse gas emissions.
- The company wants to reduce its environmental footprint through alternative products and recycling. It also aims expand its lineup of environmentally-friendly products.
- Management will seriously consider the idea of reflecting GHG reduction targets into its compensation system.

Immediately shutting down its own coal-fired power generation will present a challenge, but management is seriously discussing the matter, including the reshuffling of its business portfolio.

#### Company action

The company demonstrated its support of the TCFD recommendations in April 2020 and then in its environmental vision released thereafter, it announced its aim of reducing GHG emissions by 80% by the year 2050. In addition, it disclosed medium-term targets through 2030; namely, a target for lowering GHG emissions and a sales weighting target for environmentally-friendly products.

#### SMTAM's assessment / future approach

The disclosure of a medium-term policy and targets to address climate change is a step forward.

That said, because the company's medium-term targets do not align with the goals of the Paris Agreement, we plan to continue engaging in dialogue with management regarding concrete initiatives aimed at further reducing emissions and the company's stance on coal-fired power generation.

## Nikko Asset Management

### Domestic case example—1

#### • Food manufacturer

**ESG issue: Climate change**

#### Analysis

Even in the food industry, which is generally exposed to significant climate change risks, we recognize that the company's business faces the risk of climate change in no small measure in terms of its environmental footprint and the impact on business from both physical and transition risks. We shared our awareness of such issues with the company and exchanged opinions about its governance framework, awareness of climate change risks, and initiatives for turning risks into business opportunities. We also told management that we would like to see more proactive information disclosure.

#### Result

The company's awareness of climate change risks is growing stronger year by year, but discussions at present by the board of directors, and on a management level, are certainly not good enough. The company is currently working on formulating a long-term vision extending beyond 2040 and in formulating that vision, it recognizes that addressing climate change is one key issue. The company's board continues to evolve into one that better reflects the perspectives of various stakeholders thanks to the appointment of outside officers that boast management experience, relationships with consumers, and experience in capital markets. The company responded by saying it would formulate a policy based on active discussion by the board of directors and seek to strengthen its information disclosure in its integrated report and other publications.

### Overseas case example—1

#### • Singapore-based agribusiness

**ESG issues: Climate change, biodiversity, human rights, and worker rights**

#### Analysis

Nikko AM engages with the management team through separate meetings and periodically discusses ESG-related issues. Having participated in the PRI Palm Oil Investor Working Group this year and in light of the company's business expansion in regions where the palm oil industry is quite active, Nikko AM examined how it could support and offer its cooperation to other investors that take a keen interest in these issues.

#### Result

The company is known for adopting the best practices in the industry, but particularly considering its business size and importance, we will continue to monitor developments going forward because of the possibility that contentious issues could arise in the future. We also intend to strengthen our cooperative relationship with the PRI Palm Oil Investor Working Group through close and frequent collaboration with the company's management team.

# Long-Term Target for Sustainable Finance

Based on the SuMi TRUST Group's Sustainability Policy and Action Guidelines for Mitigating Climate Change, we are committed to implementing initiatives and supporting efforts aimed at mitigating and adapting to climate change. Driven by our goal of becoming the number one financial institution in ESG management, we aim to incorporate growth strategy themes around ESG and the SDGs in each of our business fields. As a financial institution, we will set long-term targets and contribute to realizing a sustainable society together with our clients, and also work towards attaining medium- to long-term reduction targets on CO<sub>2</sub> emissions generated by our business operations.

This fiscal year we settled on the following purpose for the SuMi TRUST Group: to create new value with the power of trusts and sow the seeds of a prosperous future for our clients and society. We position the creation of new value, in terms of climate change, on (1) efforts to tackle social issues and (2) the development of new technology-driven services and solutions.

As a signatory to the Principles for Responsible Banking (PRB), we are committed to addressing climate change issues with the common goal of achieving a carbon-free society, and as a financial group specialized in trust banking, we will contribute to the realization of a sustainable society by demonstrating our significant expertise in finance, trusts, and technology\*.

\*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 2030, including ¥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 balance of loans executed in**  
**FY2021–2030: ¥5.0 trillion**  
**(incl. ¥3.0 trillion in environmental fields)**

## Examples of Sustainable Finance

- Positive impact finance
- Renewable energy finance
- Financing for green buildings

We also intend to focus on transition finance to support the shift towards a carbon-free society.

- 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.

Category	Type	Examples of sustainable finance
Sustainable finance	Environmental (green) fields	✓ 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.

- In the area of asset management, the combined balance of ESG investing carried out by Sumitomo Mitsui Trust Asset Management and Nikko Asset Management totals some ¥32 trillion. Both asset managers have identified climate change as an important ESG topic and endeavor to minimize climate change risks through engagement with investee companies. They also play a

leading role in Asia by participating in global initiatives on climate change.

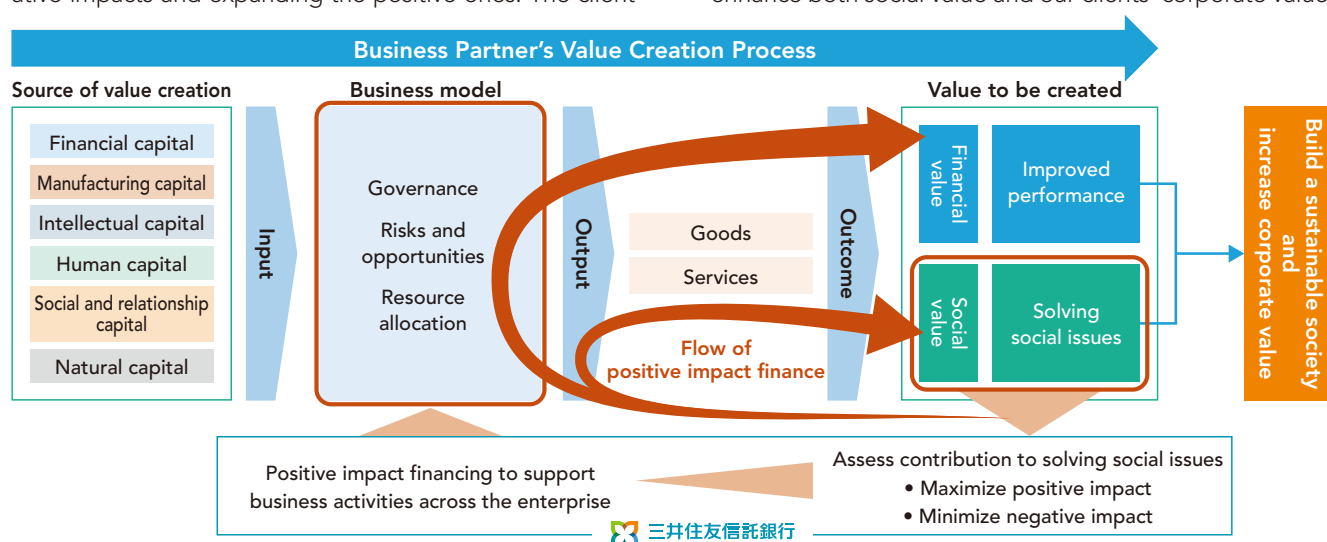
- Going forward, we will continue to examine how we can make contributions in other businesses and consider the establishment of sustainable finance targets for the Group as a whole.

## Climate Change Business Opportunities

### (1) Positive Impact Finance

In September 2019 we became a signatory to the 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, in February 2020 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. As of the end of September 2020, we have concluded 12 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) Renewable Energy Finance

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 17,321

MW. These projects, with annual power output of 45,294 GWh, reduced annual CO<sub>2</sub> emissions by 20.47 million t-CO<sub>2</sub>. The total potential power generation capacity of investment projects in the renewable energy funds came to 341 MW. These projects, with annual power output of 390 GWh, reduce annual CO<sub>2</sub> emissions by 0.21 million t-CO<sub>2</sub>. In equipment financing, Sumitomo Mitsui Trust Panasonic Finance mainly provides support to mega-solar projects. Since the feed-in-tariff (FIT) system was introduced, it has supported 30 mega-solar installations with total potential generation capacity of 52 MW.

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

Category of power generation	Number of projects	Potential capacity (MW)	Annual output (GWh/year)	CO <sub>2</sub> reduction effect (10,000 t-CO <sub>2</sub> /year)
Solar	118	4,664	7,550	386
Wind	30	5,213	11,054	463
Offshore wind	21	6,832	22,991	1,007
Biomass	9	492	3,655	190
Other	1	120	44	2
Total	179	17,321	45,294	2,047

Eligibility inclusion: Project financing involving SuMi TRUST Bank (inside and outside Japan)  
Capacity calculations: Numerical values of potential generation capacity, gigawatt hours of output per year, and CO<sub>2</sub> reduction effect cover all projects in each category.

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

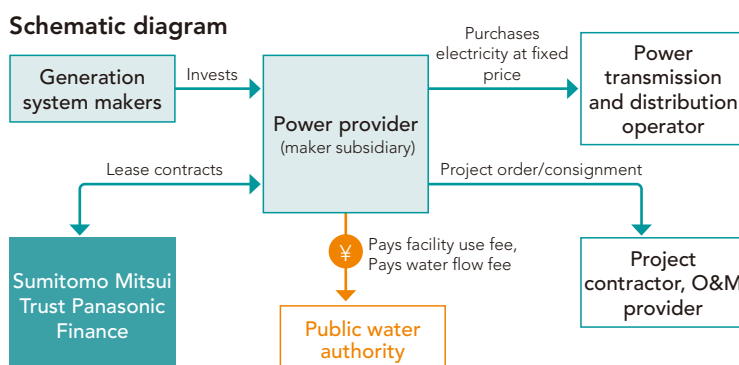
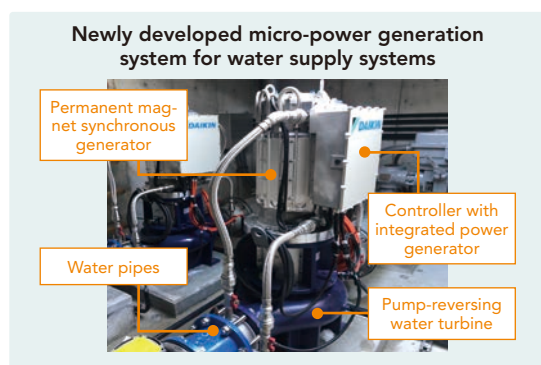
Annual CO<sub>2</sub> reduction (t-CO<sub>2</sub> per year)  
= annual power output (kWh/year) x  
emission coefficient (t-CO<sub>2</sub>/kWh)

- As a general rule, we use estimates 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.
- 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.

### (3) Leasing System for Micro-Power Generation in Water Supply Systems

Sumitomo Mitsui Trust Panasonic Finance proposes the installation of micro-power generation systems in water supply systems across Japan. By promoting the use of natural energy, it is contributing to regional global warming measures and regional revitalization. It borrows water facilities from local governments to deliver a scheme with no

upfront investment costs by installing power generation systems under a leasing system. As of November 2020, the highly efficient power generation systems used in this scheme have been or will be installed at 32 water facilities across Japan to produce a total 1,009kW of power. We expect annual power generation to reach 7,113 MWh and annual CO<sub>2</sub> emissions to be reduced by 3,912 t-CO<sub>2</sub>.



### (4) CASBEE for Real Estate Certification Support Consulting

CASBEE for Real Estate is an environmental performance evaluation system that was developed for use by investors for investment decision-making with the aim of increasing the stock of buildings with superior environmental performance in the real estate market. The system is used extensively by mainly REITs and real estate companies, and SuMi TRUST Bank offers consulting services to help property owners apply for and acquire CASBEE for Real Estate certification. As of the end of September 2020, 377 properties have been certified with CASBEE for Real Estate, 203 of which, or 54%, were subject to SuMi TRUST Bank's consulting services.

■ Number of Properties Certified with CASBEE for Real Estate: 377 (as of end-Sep 2020)



#### ■ Evaluation Items in CASBEE for Real Estate

Energy/ Greenhouse gases	<u>Target setting and monitoring/energy saving standards/O&amp;M<sup>*3</sup> system</u> , usage and emissions intensity (calculated values), <b>usage and emissions intensity (actual values)</b> , natural energy forms
Water	<u>Target setting and monitoring/O&amp;M system</u> , water usage volume (calculated values), <b>water usage volume (results)</b>
Use of resources/ Safety	<u>Conforms to new earthquake resistance standards</u> , high earthquake resistance/seismic isolation and vibration damping, etc., <b>usage of recycled materials</b> , service life of structure materials, necessary renewal interval for main equipment functions, higher self-sufficiency ratio (electricity, etc.), operation and maintenance
Biodiversity/ Sustainable site	<u>No use of invasive alien species</u> , <b>enhancement of biodiversity</b> , soil environment quality/regeneration of brownfields, public transportation access, measures in preparation for natural disaster risks
Indoor environment	<b>Attainment of building sanitation and environmental management standards</b> , use of daylight, natural ventilation function, view

\*1 Underlined items are prerequisites (they must be met to pass an evaluation).

\*2 Items in **red** are related to universal metrics the United Nations Environment Programme's Sustainable Buildings and Climate Initiative (UNEP SBCCI) is studying.

\*3 O&M: operation and maintenance

#### ■ Targets and Results for Climate Change Measures in Environmentally Friendly Property

Target category	Target	Results (cumulative)
Support on acquiring environmental performance certification	At least 20 properties a year	200 properties
Support on realizing environmentally-friendly construction	At least 2 properties a year	14 properties
Activities aimed at spreading awareness of environmentally friendly property (articles, lectures, etc.)	At least 10 times a year	More than 170 times

## Long-Term CO<sub>2</sub> Reduction Targets

### Targeting 50% reduction in CO<sub>2</sub> emissions at SuMi TRUST Bank by FY2030 and zero emissions by FY2050

The aim of the Paris Agreement is to hold the increase in the global average temperature to well below 2°C above pre-industrial levels and to pursue efforts to limit the increase to 1.5°C. In Japan and elsewhere, global initiatives are currently being implemented in an effort to achieve this goal mainly by aiming to realize net-zero CO<sub>2</sub> emissions by fiscal 2050.

As a signatory to the PRB and PRI, the SuMi TRUST Group engages in sustainable finance and ESG investment practices and we therefore have a responsibility to help solve environmental problems through business activities

and reduce our environmental footprint as stated in our Sustainability Policy.

As for our medium- and long-term targets, not only will we aim to achieve the global common goal of zero emissions by fiscal 2050, we have also set our sights on a 50% reduction in emissions by the milestone year of fiscal 2030 (compared to 2019). In setting this goal, we reference the Science Based Targets initiative—the global standard of reduction targets for working towards the goal of the Paris Agreement—which calls for companies to reduce their emissions by at least 4.2% per year in order to limit global warming to 1.5°C.

#### Initiatives for Achieving FY2030 Target

Around 80% of SuMi TRUST Bank's CO<sub>2</sub> emissions derive from purchased electricity, while some 10% is generated by the combustion of utility gas through in-house power generation. Accordingly, it aims to halve its emissions mainly by adopting electricity-related measures.

The Bank will aim to reach this goal through its own independent efforts to conserve energy use and by contributing to the initiatives of broader society; for example, by promoting the use of renewable energy.

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

SuMi TRUST Bank expects to achieve a reduction of roughly 10% by streamlining operations (mainly by curbing overtime), installing more efficient equipment (upgrading servers and air conditioners, switching to cloud computing, etc.) at its computer center, and reducing floor space in the Head Office building and branches.

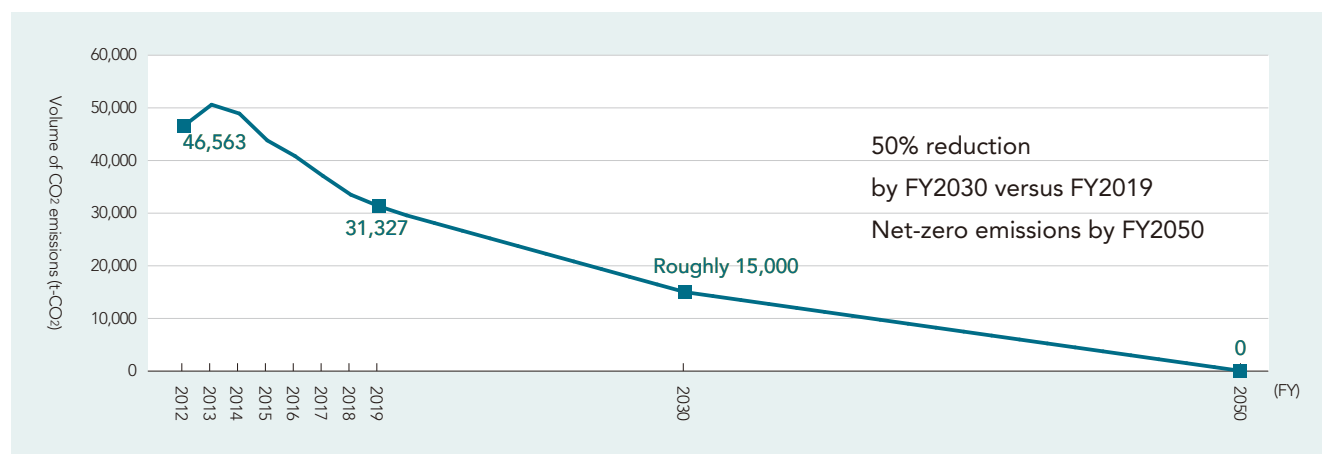
##### (2) Contributing to a Lower Electric Power Emission Coefficient through Increased Uptake of Renewable Energy

The greater uptake of renewable energy for Japan's electric power encourages the decarbonization of electricity and can therefore lower the country's overall electric power emission coefficient. The SuMi TRUST 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. The implementation of this initiative in society at large will likely cut emissions by around 10%.

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

By switching the power we purchase to renewable energy sources, we expect to reduce CO<sub>2</sub> emissions by at least 30%.

CO<sub>2</sub> Emissions since SuMi TRUST Bank's Establishment and Future Targets



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

The Group is striving to reduce its environmental impacts in the form of both inputs such as electricity and gas used for business activities and outputs like CO<sub>2</sub> emitted as a result of those activities. As SuMi TRUST Bank is subject to the Act on the Rational Use of Energy, 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 in fiscal 2019 came to 31,327 t-CO<sub>2</sub>, a

38.1% 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. Even in the second plan period, our reductions far exceeded the mandatory levels.

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

Energy use		FY2015	FY2016	FY2017	FY2018	FY2019
Total energy consumption (heat amount)	GJ	846,829	801,370	736,011	688,949	677,157
Total energy consumption (crude oil equivalent)	kℓ	21,848	20,675	18,989	17,774	17,470
Energy consumption intensity	kℓ/m <sup>2</sup>	0.051	0.049	0.047	0.048	0.047
Electric power	thousand kWh	71,206	66,742	60,444	56,003	54,753
Utility gas	thousand m <sup>3</sup>	2,153	2,107	1,996	1,869	1,893

CO <sub>2</sub> emissions		FY2015	FY2016	FY2017	FY2018	FY2019
Greenhouse gas emissions	t-CO <sub>2</sub>	43,816	40,833	37,068	33,504	31,327
Adjusted greenhouse gas emissions	t-CO <sub>2</sub>	43,470	40,393	36,240	32,864	30,840
Emissions intensity	t-CO <sub>2</sub> /m <sup>2</sup>	0.103	0.098	0.093	0.090	0.085
Adjusted emissions intensity	t-CO <sub>2</sub> /m <sup>2</sup>	0.102	0.097	0.091	0.088	0.084
Scope 1 emissions	t-CO <sub>2</sub>	5,002	4,907	4,575	4,362	4,421
Scope 2 emissions	t-CO <sub>2</sub>	38,813	35,925	32,493	29,142	26,906

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

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

### CO<sub>2</sub> emissions at Buildings Subject to Tokyo Metropolitan Ordinance on Environmental Preservation

		Second Plan Period					
		FY2015	FY2016	FY2017	FY2018	FY2019	Total
Base emissions	t-CO <sub>2</sub>	51,733	52,511	41,123	41,123	41,123	227,613
Emissions upper limit	t-CO <sub>2</sub>	44,402	45,048	35,595	35,595	35,595	196,235
Mandatory reductions	t-CO <sub>2</sub>	7,331	7,463	5,528	5,528	5,528	31,378
CO <sub>2</sub> emissions	t-CO <sub>2</sub>	31,735	30,550	24,926	24,806	23,870	135,887
Emission reductions	t-CO <sub>2</sub>	19,998	21,961	16,197	16,317	17,253	91,726
Excess reductions	t-CO <sub>2</sub>	12,667	14,498	10,669	10,789	11,725	60,348

The figures in the table show emission reductions at SuMi TRUST Bank's four office buildings (Fuchu Building, Shiba Building, Chofu Building, and Meguro Building), along with the head office building, all of which are subject to mandatory emission reductions under the Tokyo Cap-and-Trade Program prescribed in the Tokyo Metropolitan Ordinance on Environmental Preservation. The Chofu Building and Meguro Building were excluded from these results starting in fiscal year 2017. The mandatory reduction ratio is 6% for the head office and 17% for other buildings. The head office is a multi-tenant building and reduction ratios for each tenant have not been set. The Group carried over emission credits (from excess emission reductions in the first plan period) worth 47,540 t-CO<sub>2</sub> to the second plan period. Emissions have been verified by a third-party assessment body.

As for the reduction target for electricity use per total floor area called for by the Japanese Bankers Association, as of

fiscal 2019 we had achieved a considerable decrease of 29.7% compared to fiscal 2009 (target was -10.5%).

### SuMi TRUST Bank's Achievement of Medium- to Long-Term Environmental Targets for Power Usage Intensity

CO <sub>2</sub> reductions (reduction in power consumption)		Power consumption intensity (power consumption/total floor area) reduction target of 10.5% for FY2020 versus FY2009				
		FY2009	FY2017	FY2018	FY2019	FY2020 (target year)
Power consumption intensity	kWh/m <sup>2</sup>	213.31	152.60	151.32	149.93	190.91
	vs. FY2009	—	-28.5%	-29.1%	-29.7%	-10.5%

## In Conclusion

---

The purpose of our first-ever TCFD Report was to not only evaluate and analyze the climate change risks and opportunities in the SuMi TRUST Group (banking and asset management businesses), but to also communicate in detail as much as possible information about the Group's initiatives on tackling climate change.

- By having many of the departments in our banking business get involved in climate-related risks and opportunities, namely the Corporate Planning Department (Sustainability Management Department), Risk Management Department, Wholesale Business Planning Department, and Financial Planning Department, we were able to not only share an awareness of issues in order to provide greener products and services, but we were also able to share how very important it is for management to examine such feedback and formulate strategies.
- By analyzing various scenarios, we gained a qualitative and quantitative understanding of climate-related risks and opportunities and set about addressing them as an organization with the goal of enhancing our resilience.
- By engaging with companies to whom we extend investments and loans, we will continue to facilitate communication from numerous angles as we work towards realizing a society with net-zero carbon emissions.
- We set medium- and long-term targets of halving CO<sub>2</sub> emissions at SuMi TRUST Bank by the fiscal year 2030 and reducing CO<sub>2</sub> emissions to zero by 2050.
- By disclosing information in line with the recommendations of the TCFD, we will continue make every effort to seek more effective communication regarding climate change, including feedback from stakeholders.

As a signatory to the PRI and the PRB, we will continue to utilize various channels to actively participate in global initiatives and engage in dialogue with stakeholders for both our banking and asset management businesses in order to achieve the ambitious targets set out under the Paris Agreement. We will also contribute to the realization of a sustainable society by demonstrating our significant expertise in finance, trusts, and technology so as to support our clients' initiatives on transitioning to a carbon-free society.



**Sumitomo Mitsui Trust Bank, Limited**

**Corporate Planning Department, Sustainability Management Department**

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

Tel: +81 (3) 6256 6251

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



**SUMITOMO MITSUI TRUST HOLDINGS**

- 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.