Sustainability

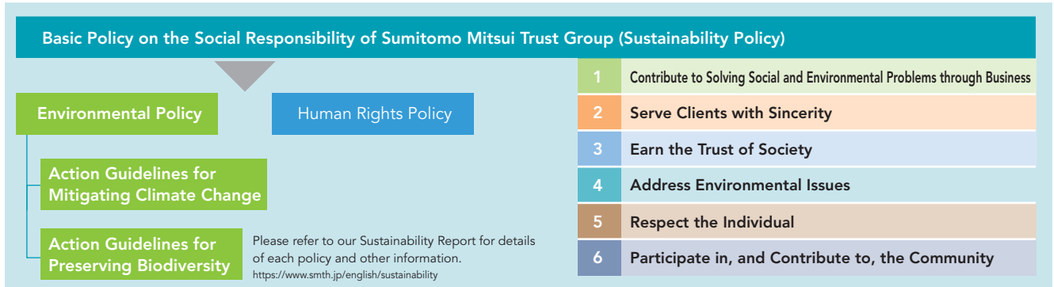
The world faces a wide range of environmental and social problems, including global warming, biodiversity loss, poverty, human rights violations and growing health problems. For companies, the decline in social sustainability that results from the intensification of these problems will lead to deterioration of business foundations in the long run. In order for companies to sustain growth towards the future, they must proactively contribute to the creation of a sustainable society by engaging with a sense of ownership in solving problems.

At the Group, we recognize that it is our social responsibility not only to practice sound management based on a high degree of self-discipline with the background of fiduciary spirit but also to actively contribute to the building of a sustainable society. We pay due consideration to the impact of our business activities on society and provide unique value through our core business to solve social and environmental problems faced by our clients and other stakeholders.

1 Sustainability promotion system

(1) Sustainability Policy

The Board of Directors of SuMi TRUST Holdings has established and publicized "Basic Policy on the Social Responsibility of Sumitomo Mitsui Trust Group (Sustainability Policy)" and the Group's action policy and specific action guidelines related to this Policy.



Revision of the Human Rights Policy

The Group established its Human Rights Policy in December 2013 to ensure that all corporate activities respect individual human rights, diverse values and eliminate discrimination. The revision was made in February 2023 in light of the recent increase in the importance of respect and international demands for human rights issues, as well as changes in human rights issues required of financial institutions.

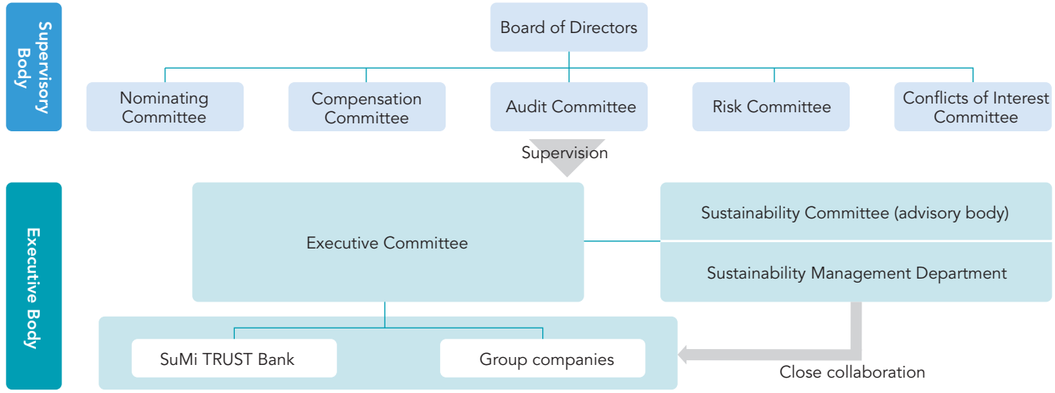
Human Rights Policy: Key points for revision

- The Group revised its human rights policy and reviewed the human rights due diligence system to identify negative impacts on human rights for each client and supplier after reviewing the relationship between the Group's business activities and its responses to human rights issues, and enhance the effectiveness of initiatives for preventing and mitigating negative impacts on human rights (human rights due diligence).
- In light of the nature of recent human rights issues, we identified the Group's key human rights risks in areas with significant risk.
- In addressing human rights issues, we believe it is important for directors, officers, and employees to have a better understanding of human rights issues and have an ownership when tackling. Accordingly, we overhauled the content of our human rights education training program that we continuously used until then, and began offering a new program.

(2) Organizational structure

In accordance with the Group's Sustainability Policy, the Executive Committee, which is an executive body, discusses and decides on various measures for promoting sustainability. The Board of Directors has a supervisory role in this process.The Board of Directors receives reports from the Risk Committee and decides on issues (materiality) that have a serious impact on a balanced creation of both social and economic value, as well as operational framework. The Executive Committee makes decisions on the sustainability initiatives of Group companies from the perspective of a balanced creation of both social and economic value.

In fiscal 2023, the Sustainability Committee is established in the Company and SuMi TRUST Bank as an advisory body to the Executive Committee, which is a part of the reorganization of the Executive Committee. The Committee is chaired by the Officer in charge of the Sustainability Management Department and its members include the Officers in charge of the Corporate Planning Department, the Human Resources Department, and the the IR Department (the Officer in charge of the IR Department is only at SuMi TRUST Holdings), and deliberates on matters related to sustainability. Through deliberation by the Committee and submission to the Executive Committee, we will clarify the universe of issues related to sustainability and strengthen the structure to systematically carry out a series of initiatives, including issue recognition, policy formulation, response implementation, and disclosure.



(3) Risk management related to sustainability

(i) Sustainability-related risks in integrated risk management

In integrated risk management, we periodically identify risks faced by our subsidiaries, group affiliates, and other entities and specifies risks to be managed. In this context, we see risks that are particularly important as "material risks" and classify them into risk drivers, risk categories and then manage the material risk inventory. As materiality, important issues in terms of both risks and opportunities are identified comprehensively. However, we revise the materiality framework in light of relevant material risks and systematically recognize sustainability-related risks through materiality.

(ii) Establishment of a framework for sustainability-related risk management

As part of our sustainability-related initiatives, in fiscal 2022 we developed a system for responding to climate change, revised our human rights policy, and identified important human rights risks. We also developed a system for sustainability-related risk management, including human rights and other environmental and social risk management, based on the framework for climate change related risk management.

Specifically, in April 2023 we established a dedicated sustainability-related risk team within the Risk Management Department of SuMi TRUST Bank to examine the details of our business activities to implement risk management flows such as due diligence utilizing external data on sustainability-related risks. The management flow is scheduled to start in fiscal 2023 for certain businesses, such as credit services, and will be upgraded thereafter in light of the consolidation of business operations and other matters.

2 Climate change response

The Company discloses information on its response to climate change in accordance with the TCFD recommendations. Of the four elements (Governance, Strategy, Risk Management, and Metrics and Targets) that are recommended for disclosure in the TCFD, governance is already mentioned, and the other three elements are as follows.

(1) Strategy

(i) Approach to climate change

Climate change is one of the most serious environmental problems that threaten global economic and social sustainability and is identified in our materiality as ESG/sustainable management including climate change. Under the Group's common action principles, the Action guidelines for Mitigating Climate Change, we will appropriately recognize the risks and opportunities posed by climate change and work to minimize negative impacts and maximize positive impacts through the diverse businesses of the trust bank group.

Specifically, we define climate-change-related risks as physical damage (physical risks) to social infrastructure and nature caused by climate change and extreme weather events over the medium- to long- term, as well as the rapid transition to a low-carbon society (transition risks) caused by climate-change-related policy changes, changes in financial market preferences and social norms, technological innovation, and other events. We strive to control GHG emissions from our own business activities and to manage and monitor the risks of disciplined investments and loans based on sector policies and other factors. At the same time, we will create new investment opportunities, such as investments and loans to promote the utilization of solar and wind power generation the establishment of a renewable energy business based on local production and consumption, and other opportunities. By investing ourselves, we also hope to attract investment, thereby contributing to the circulation of funds among individuals (households), companies, and investors.

(ii) Scenario analysis initiatives to date at SuMi TRUST Bank

The Group has conducted scenario analyses to understand the impact of physical and transition risks on its portfolio of investments and loans over time. SuMi TRUST Bank's past analysis results are summarized below.

Risk type	Sector	Main analysis results
Transition risk (FY2020)	Electric power sector	If a power company does not invest in renewable energy power generation, its credit rating will deteriorate by two to three notches on average
Physical risk (FY2020)	Mortgage loans	Total credit costs increased by 7.0 billion yen from 2019
Transition risk (FY2021)	Shipping sector	Recognized significant differences in financial impact due to assumed scenarios such as increased costs due to the shift to alternative fuels and carbon prices. Exchanged opinions with investment and loan clients
Physical risk (first half of 2022)	Real estate sector (Non-recourse loan)	The impact on credit ratings is limited. Awareness of issues related to potential risks, such as refining estimates of estimated damage in urban areas, underground infrastructure damage, and its long-term impacts
Transition risk (second half of 2022)	All domestic sectors (all domestic corporate borrowers)	Changes in total credit costs have a minor financial impact. Total credit costs increased up to 13.5 billion yen
Physical risk (second half of 2022)	Real estate sector (J-REIT)	The impact is minimal. Total credit costs increased by up to 20 million yen

(iii) Plan for scenario analysis in fiscal 2023

SuMi TRUST Bank's credit portfolio is characterized by its large exposure to asset finance backed by real estate, projects, ships, aircraft and other tangible assets, as well as large enterprises. The importance of physical risk analysis and credit portfolio management is expected to increase in the future, as asset finance generally involves long financing periods and many assets are susceptible to the effects of the natural environment and climate change. In particular, project finance relies on cash flows from natural resources, such as solar and wind power, and we believe it is necessary to analyze and manage the impact of climate change over time.

SuMi TRUST Bank plans to analyze climate change risks in project financing by conducting long-term simulations of sediment disaster risk and equipment damage caused by snow cover (acute risk), as well as changes in snow cover and solar radiation (chronic risk) for solar power generation projects. Specifically, we plan to conduct time-series simulations for each of the IPCC RCP 2.6 (2°C scenario) and RCP 8.5 (4°C scenario) for each region and individual site, and analyze what changes in creditworthiness will occur, based on the risk analysis in the table below.

	Physical risk type		
Project type	Acute		Chronic
	Damage to facilities	Facility inactivity	Changes in resources and management resources Lower utilization
Solar power	Sediment disaster	Sediment disaster Snow cover	Changes in solar radiation due to unfavorable weather conditions Lower availability due to snow cover
Wind power	Sediment disaster	Strong winds such as typhoons	Changes in wind conditions

(iv) Recognition of opportunity

As the social and industrial structures begin to change drastically toward the realization of a decarbonized society, large amounts of capital will be required for technological development and capital investment. According to an estimate by the Japanese government, there will be a demand for funds of 150 trillion yen in Japan alone by 2030. The Group aims to contribute to the realization of a decarbonized society by supporting the improvement of corporate value by responding to the financing needs of these companies and realizing a virtuous circulation of funds, assets and capital that brings rewards to individuals, households, and institutional investors. In order to realize this virtuous circulation in a sound manner, we believe that it is important to actively provide impact assessments to visualize the process of creating social impact, such as carbon neutrality and to not only support the decision-making and impact management of companies engaged in capital investment but also to fulfill accountability to investors who supply funds.

(v) Transition plan for carbon neutrality

The Group has joined the Net-Zero Banking Alliance (NZBA), a banking industry alliance that aims to achieve net-zero GHG emissions in its portfolio of investments and loans, in order to make steady progress as a financial institution. We will formulate interim reduction targets for GHG emissions in our investment and loan portfolio and publicize them gradually. In fiscal 2022, we formulated and announced interim reduction targets for the electric power sector and the oil and gas (upstream) sector. By September 2024, we expect to complete the formulation and publication of the 2030 interim elimination targets for key sectors.

In July 2021, Sumitomo Mitsui Trust Asset Management, a Group asset management company, joined NZAMI (Net Zero Asset Managers initiative) and in November of the same year, Nikko Asset Management also joined. NZAMI is an initiative of asset management companies aiming to achieve net zero GHG emissions from their investment portfolios, and set interim reduction targets for 2030 in fiscal 2022. Sumitomo Mitsui Trust Asset Management and Nikko Asset Management will continue to work on engagement, exercise voting rights, and develop and provide investment products to address climate change issues.

We aim to reduce our own group GHG emissions to net zero by 2030. In fiscal 2022, 100% of the electricity used by SuMi TRUST Bank and Sumitomo Mitsui Trust Panasonic Finance (SMTPFC) at their domestic sites was derived from renewable energy. To achieve these goals, we will promote efforts toward carbon neutrality in cooperation with international initiatives. See the TCFD Report for a description of the various initiatives.

TCFD Report 2022/2023
https://www.smth.jp/english/-/media/th/english/sustainability/report/2022/TCFD-E-all.pdf

■ **Roadmap for carbon neutrality**

	FY2020	FY2021	FY2022	FY2030	FY2040	FY2050
❶ Net zero GHG emissions (NZBA) of investment and loan portfolios						Net zero
Electric power (Emission intensity, g-CO_2eq/kWh)	249			138 to 173		
Oil and gas (Emission reduction rate, $MtCO_2e$)	5.7			-13% to -31%		
Other high carbon intensive sectors*1			Sequentially set by September 2024 (Currently considering steel, automotives, real estate, and shipping)			
❷ Net zero GHG emissions (NZAMI) of the investment portfolio						Net zero
Sumitomo Mitsui Trust Asset Management				50% of investment assets*2: Reduce emissions intensity by half compared with 2019		
Nikko Asset Management				43% of investment assets*3: Reduce emissions intensity by half compared with 2019		
❸ Cumulative amount of sustainable finance initiatives*4				Cumulative total of 15 trillion yen		
❹ Outstanding loans for coal-fired power generation						
Project lending				Halved from March 2020	Zero	
Corporate lending (new and expanded)					Zero	
❺ Net zero GHG emissions of our Group			Trust bank and SMTPFC domestic sites completed the conversion to renewable energy	Net zero		
❻ Strengthening the risk management system						
Scenario analysis						
Transition risk	Electric power sector	Shipping sector	• Simple analysis of power per sector • Detailed analysis of individual electric power, and oil and gas companies	Sequentially expand the target sectors for detailed analysis		
Physical risk	Mortgage loans		• Domestic real estate finance	Start of analysis of domestic project finance and gradual expansion		
GHG emissions from investment and loan portfolios		Initial estimation	• Gradually develop and update measurement methods	Continuous review and upgrading		
Portfolio management (sector policy revision)		Prohibition and caution Clarification of transactions	• Partial ban on loans for coal-fired power generation • Clarification of transition support	Continuous review and upgrading		

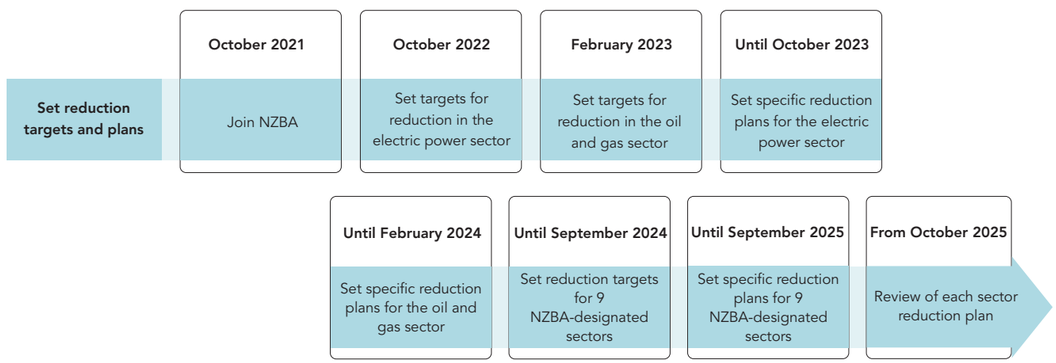
*1 High carbon intensive sectors are the nine sectors that the NZBA Guidelines specify as priority to be targeted: Agriculture, aluminum, cement, coal, commercial and residential real estate, steel, oil and gas, power generation, and transportation

*2 The target is 43 trillion yen, or 50% of the 85 trillion yen in assets under management as of the end of June 2021. Excluded assets under management include assets for which no calculation method for GHG emissions has been established at present, such as sovereign bonds, and will be considered to be added as assets under management starting with those that can be calculated in the future.

*3 Target assets of approximately 13 trillion yen, or 43% of 31 trillion yen of assets under management as of the end of December 2021

*4 Sustainable finance is a general term for businesses that contribute to solving environmental and social issues and finance services to customers based on international standards such as the Green Bond Principles and the Social Bond Principles. In response to greater and greater financing needs related to the environment and climate change, the target amount of initiatives was changed to a total of 15 trillion yen from FY2023 (including 2.5 trillion yen through impact equity).

■ **NZBA initiatives**



■ **NZAMI initiatives**

	Sumitomo Mitsui Trust Asset Management	Nikko Asset Management
Features	Large-scale passive-active strategies entrusted by public and corporate pensions. Developing Asia's premier climate change engagement activities	Strengths in unique equity strategies and ETFs in Japan, Asia and Global. Focus on incorporating decarbonization-related factors into the investment decision process
2030 Intermediate Targets	Targeting 50% of assets under management*5 of approximately ¥85 trillion, halving its carbon footprint from 2019 levels [May 2022]	Targeting 43% of assets under management*6 of approximately ¥31 trillion, halving its carbon footprint from 2019 levels [November 2022]
Initiatives after participation in NZAMI	**Activities as a core member of NZAMI** - Participated in the Advisory Group consisting of six of the NZAMI member organizations [March 2022] - Policy to actively make recommendations on the creation of an international framework on behalf of Japan and Asia	**Selection of priority engagement targets** - Review climate-related targets of investee companies, conduct ongoing dialogue with selected target companies for priority engagement - In addition, new climate-change-related standards were introduced for the voting rights guidelines [April 2022]
Features of engagement and operational methods	**Lead Climate Action 100+*7 activities** - Head of collaborative engagement with Asian companies (lead manager) - Participated in the Steering Committee, the only asset manager in Japan	**Strengthen analysis of investee companies' climate responses** - Add climate-change-related business opportunity/risk assessment items to the investment attractiveness assessment framework - In addition to using them for investment decisions and engagement, use them to develop investment products in response to environmental and climate change

*5 End of June 2021 *6 End of December 2021

*7 One of the international initiatives by asset owners and asset manager around the world. Implemented the joint engagement with companies with high greenhouse gas emissions

(2) Risk management

(i) Positioning of climate-change-related risks

We consider climate-change-related risks to be "top risks" in the management of material risks, and set and manage risk appetite indicators and integrate them into the risk appetite framework. In fiscal 2022, the emission intensity of assets under management of group companies, Sumitomo Mitsui Trust Asset Management and Nikko Asset Management were added to the monitoring index.

In addition, we have defined climate change as a "risk driver" that affects each risk category cross-sectionally and have established climate-change-specific risk management policies for each risk category as follows.

■ **Climate change-specific risk management policy**

		Climate change-specific risk management policy	Risk horizon*8
Credit risk		Client monitoring for climate change (Credit partners' GHG emissions, stranded assets, wind and flood risk monitoring, etc.)	Short, medium, and long term
Market risk		Monitoring the risk of a decline in the price of securities issued by investee companies due to their success or failure in addressing climate change	Short/medium term
Operational risk	Business processing risk (outsourcing)	Continuity of outsourced work due to storm and flood damage at the contractor	Short/medium term
	Event risk (storm and flood damages)	Addressing the adverse impact of increased wind and flood damage caused by climate change on the Group's properties	Short, medium, and long term
	Compliance risk	Compliance with climate-change-related regulations	Short/medium term
	Conduct risk	Addressing the adverse impact on clients, markets, financial infrastructure and society due to the failure of the Group's actions on climate change to meet the expectations and trust of all stakeholders	Short/medium term
Enterprise Risk Management		Addressing the negative impacts on the Group and its stakeholders due to the failure to implement (realize) SuMi TRUST Group Carbon Neutral Commitment	Short, medium, and long term

*8 Short term: 1 year or less, Medium term: More than 1 year to less than 10 years, Long term: 10 years or more

(ii) Heat map of climate change transition risks by sector

We have developed a sector heat map to identify the sectors that are important in managing the transition risks associated with climate change. This heat map is divided into four categories, Very High, High, Middle, and Low, in order from the sectors that are assessed as having a high transition risk, taking GHG emissions, emission intensity and other factors into account.

In addition, from the sectors with the largest exposures, we have classified them into three levels: Large, Medium, and Small. By taking this heat map into consideration, we will identify strategically important sectors and set and manage GHG emission reduction targets and otherwise set sector policies. We will continuously review sector assessments in line with changes in the environment, such as policies, technologies, markets, and other factors related to climate change.

Sector heat map risk rank	Exposure rank: Small	Exposure rank: Medium	Exposure rank: Large
Very High	Coal	Steel	Electric Utilities Oil and gas
High	Cement	Chemicals Automobiles and Components Passenger Air Transportation	Maritime Transportation
Middle	Metals and mining (excluding steel and aluminum) Aluminum		Capital goods
Low	Air Freight Agriculture Building materials (excluding cement)	Paper and forest products Packaged food and meat Beverages Trucking services	Rail Transportation Real estate Management and Development

(iii) Policies for specific sectors

Based on the perspective that investments and loans that have a large negative impact on society need to be prohibited, curtailed, or carefully engaged in, SuMi TRUST Bank has established "policies for specific sectors" and regularly reviews them at the Executive Committee and others. In addition, in the process of making decisions on investment and loan activities, we pay due attention to sector policies.

For details, please refer to page 35 of the December 2022 TCFD Report.

(3) Mertics and targets

Based on its basic strategy and risk management policy, the Group has selected and monitored the following indexes for use in assessing climate-change-related risks and opportunities.

Indicator		Target
GHG emissions of our company group, Scope 1, Scope 2		2030: Net zero
GHG emissions from investment and loan portfolios		2050: Net zero
	Electric power sector	2030: 138 to 173 g-CO_2 eq/kWh
	Oil and gas (upstream) sector	13% to 31% reduction from FY2020
GHG emissions of the investment portfolio		
	Sumitomo Mitsui Trust Asset Management	2050: Net zero 2030: Targeting 50% of assets under management*1, reduce emissions intensity by half from 2019
	Nikko Asset Management	2050: Net zero 2030: Targeting 43% of assets under management*2, reduce emissions intensity by half from 2019
Cumulative amount of sustainable finance initiatives		Cumulative amount of initiatives for FY2021–FY2030: 15 trillion yen
Outstanding loans for coal-fired power generation		FY2040: Zero

*1 Targeting approximately 43 trillion yen, or 50% of 85 trillion yen in assets under management as of the end of June 30, 2021

*2 Targeting approximately 13 trillion yen, or 43% of 31 trillion yen in assets under management as of the end of December 31, 2021

3 Initiatives of Technology-Based Finance

The Group promotes sustainable business that adds scientific knowledge and impact evaluation to asset management, asset administration, and banking, and leverages its strengths in contact with many market participants (investors, companies, individuals, and households) to create a virtuous circulation of funds, assets and capital.

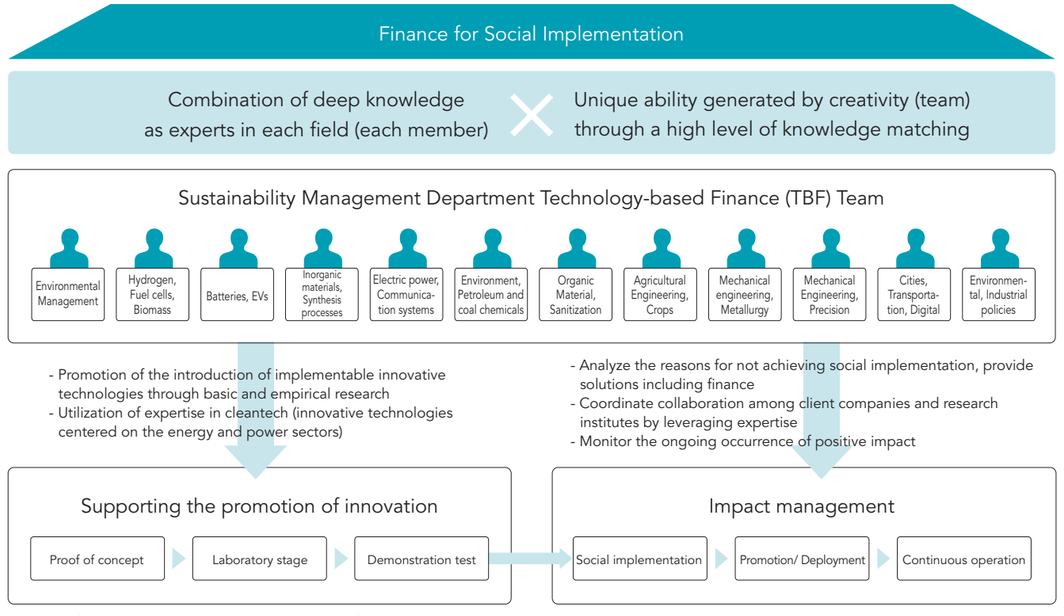
In April 2021, SuMi TRUST Bank established the Technology-based Finance (TBF) Team as an organization that strives for solutions to various issues such as energy, the environment, and resources from a technology perspective. The team consists of researchers and experts from various fields such as hydrogen, rechargeable batteries, electric power, organic chemistry, inorganic chemistry, machinery, agriculture, and cities.

The TBF team aims to help solve social issues by incorporating technical knowledge into the impact assessment process and promoting the social implementation of innovative technologies to increase positive impact and reduce negative impact. In order to solve issues such as climate change, resource circulation, and biodiversity, it is necessary to make the best use of existing technologies and aim for social implementation of innovative technologies through research and development. For that purpose, we need to understand the latest technologies, deepen our dialogue with customers, and approach finance from a scientific perspective. This led to the establishment of the TBF team.

The integration of technology, policy, and finance is important for the social implementation of technology. The TBF team is engaged in various stakeholder collaborations in addition to technology-based impact investment and loan initiatives and the creation of impact businesses. The scope of the TBF team's involvement is expanding, including joint research with universities and companies, exchanges with academia, policy recommendations for ministries and agencies, the establishment of demonstration projects and model projects in cooperation with the policies of each ministry and agency, regional support through ESG regional finance, and the development of financial schemes with municipalities and local banks.

We intend to help solve social issues through technological innovation and the social implementation of technology, and to promote a virtuous circulation of funds, assets and capital through the creation of new businesses, the expansion of business opportunities, and other measures.

■ **Initiatives of Technology-Based Finance (TBF)**



*Please refer to our Sustainability Report 2022/2023 for details on individual initiatives.