

Natural Capital related Initiatives Using Our Financial Capabilities

The global environment is the foundation for sustaining the life of various living creatures. It comprises of natural capital, such as water, air, soil, as well as marine and terrestrial fauna and flora that are grown in such resources under the blessings of the sun. Humans also depend on natural capital and have utilized it to build social systems and develop the economy. In this process, however, humans have also caused significant consequences.

Natural capital is not inexhaustible. Supplies may be exhausted sooner or later unless we accurately track and manage our dependence and impacts on natural capital. This is closely interlinked with humans' day-to-day activities. For this reason, all SDGs are connected with natural capital. Primarily from the perspective of corporate activities, the Group focuses on natural capital in Japan, where we lay our business foundation, as well as natural capital outside Japan, where we rely on highly for the procurement of raw materials and parts. We have selected goals that contribute to proper dependence on and management of such natural capital.

Challenges for Achieving the Goals

- Deepening understanding of the importance of natural capital
- Establishing approaches for tracking companies' dependence and impact on natural capital
- Visualization of natural capital risks that lead to damaging corporate value
- Expanding financial transactions that contribute to solving companies' challenges related to natural capital

Initiatives for Solving the Challenges

- Appeal the concept and importance of natural capital through various opportunities, such as proposals and seminars for clients.
- Contribute to establishing methodologies for appropriately managing dependence and impacts on natural capital, such as natural capital protocols.
- Identify natural capital risks that have serious impacts on the continuation of overseas procurement, businesses, and projects, and incorporate them into investment and loan processes from the ESG perspective.
- Taking into account that land is the foundation of natural capital in terrestrial ecosystems, strive to restore ecosystems that are suitable for various areas, ranging from mountainous regions to cities, and contribute to the formation of ecological networks.
- Promote related businesses, such as increasing sales of Environmental Rating Loans with Evaluation of Natural Capital Preservation and developing the forestry trust.

KPIs for Solving the Challenges

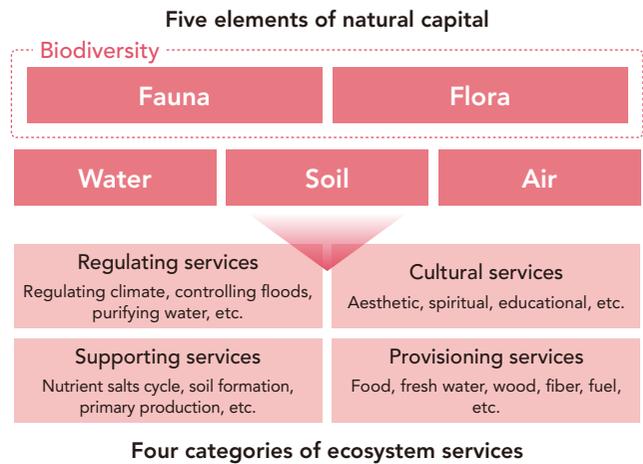
2018/2019	Target	Result	2019/2020	Target
Promotion of activities through proposals and seminars for clients	At least 20 times a year	24 times	Promotion of activities through proposals and seminars for clients	At least 20 times a year
Credit policy concerning natural capital	Introduction in fiscal 2018	Not achieved (slated for introduction in fiscal 2019)	Examination of green infrastructure finance	Submission of proposals to clients
Development of forestry trust	Launch in fiscal 2019	On target	Promotion of forestry trust	Expansion of forestry trust business assessments



Natural Capital Initiatives and Policies of the SuMi TRUST Group

What is Natural Capital?

Natural capital is made up of diverse living creatures and the water, soil, and air that sustain them. These are the foundation sustaining life on earth and conserving them needs to be prioritized ahead of everything else. The way we live depends on natural capital and the ecosystem services they provide. We thus feel continued wise use of natural resources which constitute natural capital over the long run goes beyond mere environmental conservation. It must extend to putting communities on a solid social foundation to enable sustainable economic development.



Natural Capital Finance Alliance (formerly the Natural Capital Declaration)

SuMi TRUST Holdings became a signatory to the Natural Capital Declaration (NCD) proposed by the United Nations Environment Programme Finance Initiative (UNEP FI) at the United Nations Conference on Sustainable Development “Rio+20” held in Rio de Janeiro in June 2012. SuMi TRUST Holdings is the only financial institution

in Japan to have signed the declaration when it originally promulgated. The initiatives of NCD signatories have been expanded through NCD’s reorganization into Natural Capital Finance Alliance (NCFA).



Commitment of Financial Institutions under the Natural Capital Finance Alliance (Excerpt)



We will support the development of methodologies that can integrate natural capital considerations into the decision-making processes for all financial products and services including loans, investment, and insurance policies.

- (a) We will apply a holistic approach to the evaluation of bonds and stocks by integrating natural capital considerations in environmental, social, and governance (ESG) risk analysis in short-, medium-, and long-term growth forecasts of investee companies.
- (b) We will systematically incorporate the consideration of evaluating natural capital into the credit policies of specific sectors, including commodities, that have a major impact on natural capital, either directly or indirectly through the supply chain.

Sumitomo Mitsui Trust Holdings Action Guidelines for Preserving Biodiversity

1. Implementing Measures and Providing Support for Biodiversity Preservation

We will strive to actively protect rare and native species. In our role as a corporate citizen, we will work to support activities for the preservation of biodiversity.

2. Providing Products and Services

We will endeavor to develop and provide products and services that contribute to the preservation of biodiversity, by conducting appropriate economic and social evaluations of the ecosystem and encouraging the sustainable use of living resources through our financial functions.

3. Collaboration with Stakeholders

We will engage in dialogue and cooperation with our stakeholders while working to preserve biodiversity.

4. Education and Training

We will ensure thorough implementation of these action guidelines at all Group companies and will work to provide education and training aimed at the preservation of biodiversity.

5. Information Disclosure

We will actively disclose information about our efforts to preserve biodiversity.

Business and Biodiversity Initiative: Our Initiatives as a Leadership Declaration Signatory

SuMi TRUST Holdings signed a leadership declaration under the Business and Biodiversity Initiative “Biodiversity in Good Company” at the ninth meeting of the Conference of the Parties (COP 9) to the Convention on Biological Diversity held in May 2008 in Germany. Since then, we have continued to carry out activities in line with the principles of the declaration, which was led by the German government.



Declaration	Initiatives in 2018-2019
1. Analyzing corporate activities with regard to their impacts on biological diversity	Not only did we continue to provide environmental rating loans with natural capital evaluation, we also kicked off positive impact finance solutions to assist the initiatives of companies by comprehensively analyzing and assessing the impact of their activities on the economy, society, and the environment, including natural capital.
2. Including the protection of biological diversity within their environmental management system	In our Sustainability promotion system, we draw up a plan for each fiscal year on efforts related to natural capital and review their performance semiannually.
3. Appointing a person in the company responsible for steering all activities in the biodiversity sector and reporting to the Management Board	The Chief Sustainability Officer steers all activities and reports to the Executive Committee.
4. Defining realistic, measurable objectives that are monitored and adjusted every two to three years	Following on from last fiscal year, we established SDG-linked objectives for our natural capital initiatives and stepped up our activities.
5. Publishing activities and achievements in the biodiversity sector in the company's annual, environmental, and/or corporate social responsibility report	We publish a yearly Natural Capital feature report. We disclose our biodiversity initiatives in our ESG report and at various events.
6. Informing suppliers about the company's biodiversity objectives and integrating suppliers accordingly and step by step	We continue to pay attention to procurement of copier paper and office supplies linked to illegal logging in tropical rain forests, which has large detrimental impacts on biodiversity. In our fiduciary services business, we engage as a shareholder with investee companies on activities that contribute to natural capital destruction and voice our concerns.
7. Exploring the potential for cooperation with scientific institutions, nongovernmental organizations (NGOs) and/or governmental institutions with the aim of deepening dialogue and continuously improving the corporate management system vis-a-vis the biodiversity domain.	We became a signatory to the Principles for Positive Impact Finance of the United Nations Environment Programme Finance Initiative (UNEP FI) and actively participated in initiatives aimed at establishing and enhancing methods for evaluating natural capital impacts.

Natural Capital Study Group

Launched in April 2013 by the SuMi TRUST Group and chaired by Masahiro Sato, an associate professor at the Graduate School of International Cultural Studies of Tohoku University, the Natural Capital Study Group regularly brings together members of companies, national and local governments, universities, research institutes, and NGOs for the purpose of facilitating multilateral discussions regarding their topics of research.

Symposium Address

In January 2019 we took part in the panel discussion of a national forum on waterside ecological networks hosted by the Ministry of Land, Infrastructure, Transport and Tourism and presented some examples of the initiatives of financial institutions that aim to find value in natural capital. Then in July we gave a lecture at a seminar about greenery and the SDGs jointly organized by construction firms Sumitomo Forestry and Kumagai Gumi. In particular, we talked about how buildings constructed with biodiversity issues in mind, for example those with rooftop gardens, can enhance property value by boosting office worker productivity.

Booth at EcoPro

Held every year in December at Tokyo Big Sight, EcoPro is Japan's biggest exhibition on the environment. Since 2007, SuMi TRUST Bank has exhibited at EcoPro in collaboration with the Ecosystem Conservation Society-Japan and the Association of National Trusts in Japan with a booth that primarily focuses on natural capital and biodiversity issues.



EcoPro visitors and a SuMi TRUST Bank employee

Natural Capital Products and Services

Evaluating Supply Chain Impacts on Natural Capital

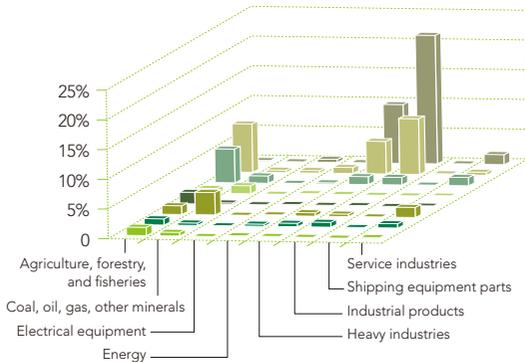
Natural Capital Evaluation

Natural capital evaluation is a service that calculates natural capital dependence arising from corporate activities and estimates the degree of impact for each procured

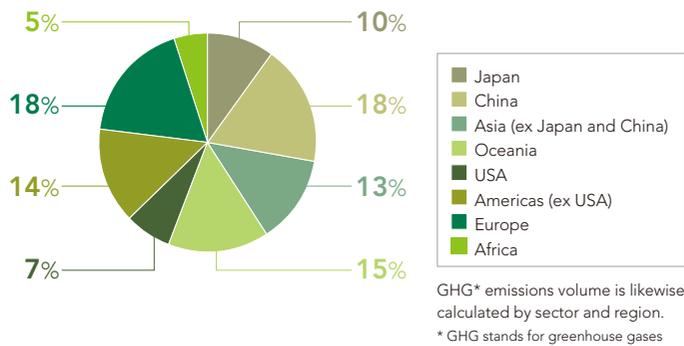
item and for each country and region, tracing back through supply chain.

Example of output from a Natural Capital Evaluation Tool

Breakdown of water usage volume in each region by sector



Ratio of land usage area by region



Benefits of Natural Capital Evaluation

(1) Gaining quantitative risk data related to the supply chain that can be used for management judgments

Can obtain previously hidden risk data related to environmental impacts and the use of resources that are essential to global supply chain management

(2) Obtaining quantitative data on environmental impacts that can be used for information disclosure

Can use the data for scope 3 responses to surveys such as the Carbon Disclosure Project (CDP) survey and for disclosures in integrated corporate reports

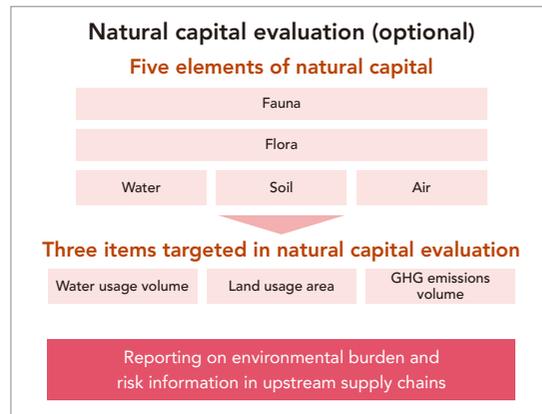
Initiatives for Loans

Environmental Rating Loans with Evaluation of Natural Capital Preservation

The sustainable use of natural capital as resources is vital for a company to continue its business. There is a growing awareness that natural capital-related procurement risk management across the global supply chain is an indispensable part of management strategy.

In April 2013, SuMi TRUST Bank launched its Environmental Rating Loans with Evaluation of Natural Capital Preservation, which embed the concept of

evaluating impacts on natural capital and a company's initiatives into the environmental-rating evaluation process that assesses its environmental measures. This is the world's first attempt to incorporate natural capital evaluation into loan criteria, and the Bank's efforts have been cited in Japanese government environmental white papers and European Commission reports as an example of leading-edge practice.



Note: "Optional" refers to ESCHER calculations provided by PwC Sustainability LLC that are not available without loan products.

Natural Capital Risk Management for Loans

Natural Capital Risk Management for Loans

SuMi TRUST Bank is a signatory to the Equator Principles, a set of international guidelines for private financial institutions that requires project proponents to give due consideration to the impact on the natural environment and the regional community when approving project finance and other loans.

In addition, we have established policies for specific

sectors that promote business activities with significant environmental and social impacts and restrict loans and investments to companies and projects with negative impact. We also intend to establish a policy for sectors that are considered to be involved in the manufacture of palm oil and the illegal logging of tropical rainforests during fiscal 2019.

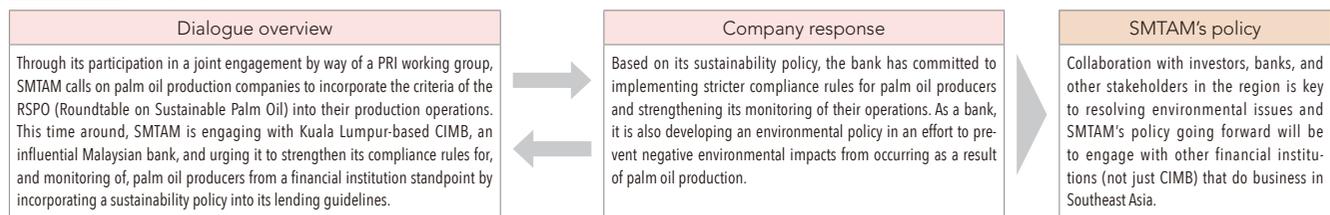
Natural Capital Risk Management for Investment (Asset Management)

Sumitomo Mitsui Trust Asset Management (SMTAM) and Nikko Asset Management have become signatories to the Principles for Responsible Investment (PRI), which was established in 2006. The PRI calls on institutional investors to take into account environmental, social, and governance (ESG) factors in their investment

decision-making processes.

Through engagements, SMTAM requests investees to establish guidelines and policies on the use of and risks related to natural capital, covering supply chains, and to control risks from a long-term perspective.

Case Engagement Concerning Palm Oil Production



Initiatives in the Real Estate Business

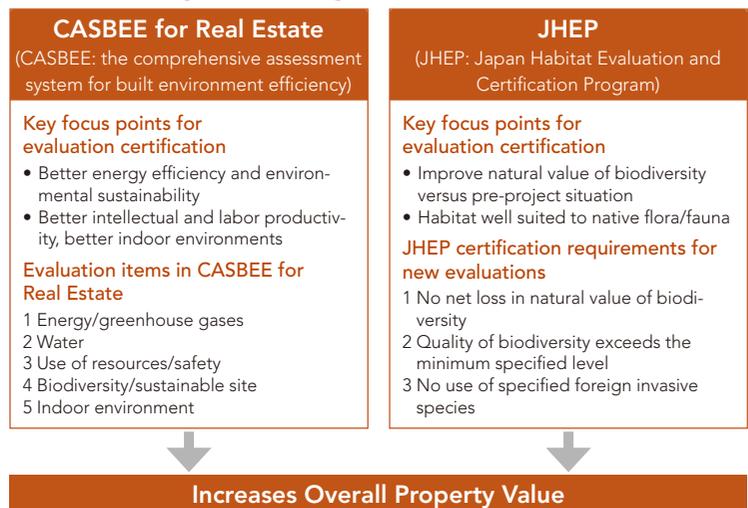
Construction Consulting on How to Foster Biodiversity and Ecosystems

Through the use of CASBEE for Real Estate*¹ and JHEP*² together, the environmental performance of properties can be improved across many dimensions, helping to increase overall property value.

At SuMi TRUST Bank, biodiversity considerations are included in our menu of construction consulting services.

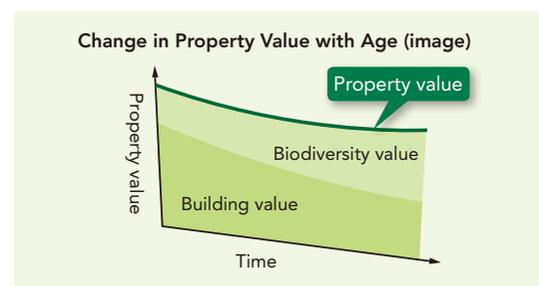
*1 CASBEE for Real Estate: The comprehensive assessment system for built environment efficiency (CASBEE) certification is an environmental performance evaluation system for buildings being developed and promoted in Japan under the guidance of the Ministry of Land, Infrastructure, Transport and Tourism (MLIT). SuMi TRUST Bank is involved in the establishment of criteria.

*2 JHEP: Japan Habitat Evaluation and Certification Program is a system is a system developed by the Ecosystem Conservation Society-Japan to quantitatively evaluate and certify efforts to contribute to the conservation and restoration of biodiversity.



A building's environmental performance is evaluated on many dimensions such as energy savings, global warming mitigation measures, biodiversity, durability, and resource efficiency.

The value of buildings decline with age but the biodiversity value increases every year as the ecosystem surrounding it forms. These offsetting lifecycle patterns can maintain the combined value of the building and site together as a whole. Ecological networks can be created through the connection of local communities, neighboring buildings and green nature reserves.



Forestry Trust

Approximately two-thirds of Japan’s land is covered in forest. Although these forest resources, which consist mainly of artificial forests developed after the Second World War, are now ready for full-scale use, in reality, many have been left untended.

SuMi TRUST Bank is developing a forestry trust scheme that will consolidate and enhance the efficiency

of forestry operations by accepting entrustment of forests—where operations are non-existent because the owners are in old age or live far away, for example—and entrusting forestry operations to a forestry entity. We are working to revitalize Japan’s forestry industry by improving productivity of operations and invigorating the domestic timber market.

Forestry trust and SDGs activities

Our forestry trust initiative is linked to many of the SDGs, but in particular, Goal 15: Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss.

- **Land conservation and watershed protection functions of forests**
Contributing to Goal 6: Clean water and sanitation; and Goal 11: Sustainable cities and communities
- **Prevention of global warming**
Contributing to Goal 13: Climate action
- **Raise wages for forestry workers by turning forestry into a growth industry**
Goal 8: Decent work and economic growth
- **Shorten wood mileage (distribution distance) through wood distribution reforms**
Goal 12: Responsible consumption and production
- **Recycle forest resources by promoting use of timber**
Contributing to the achievement of multiple goals, including Goals 8, 11, and 15



Forestry trust initiative in Okayama Prefecture’s Nishiwakura village

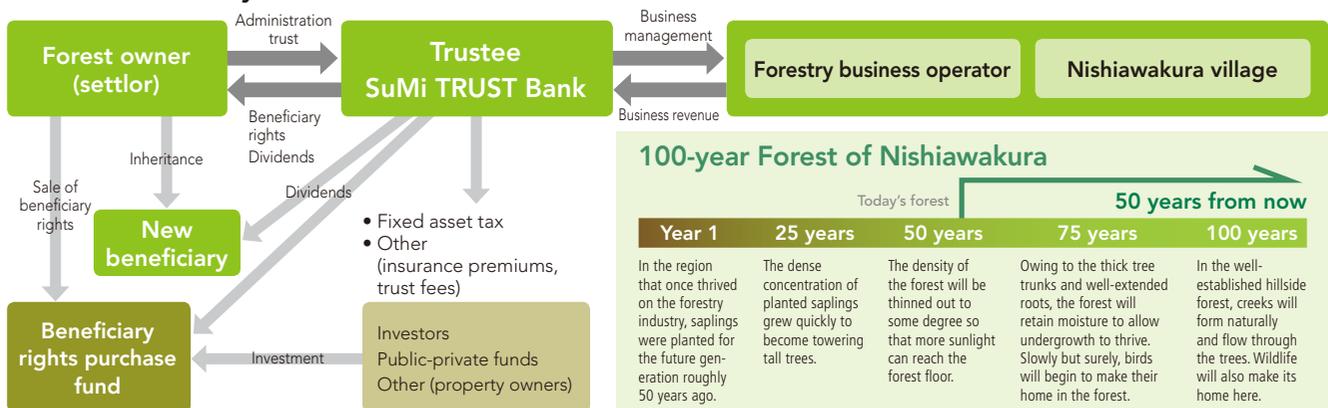
SuMi TRUST Bank has kicked off initiatives in its forestry trust business in the village of Nishiwakura in Okayama Prefecture.

95% of the land area of Nishiwakura village is forest, of which 84% is plantation. The entire village continues to take up the challenge of growing a magnificent 100-year-old forest with trees planted roughly 50 years

ago based on its 100-year Vision of Forest. Our forestry trust business is a solutions proposal unique to a trust bank in which we hope to support the village’s 100-year Vision of Forest with the use of a trust scheme.

Nishiwakura village was selected as an “SDGs Future City” in 2019.

Overview of forestry trust scheme



Source: 100-year Vision of Forest, Nishiwakura village office website

SDGs Future City Initiative

Okayama Prefecture
Nishiwakura village

100-year forest business powered by forestry fund and forest RE Design — Ver. 2.0

We aim to maximize and optimize the value of forests for the entire region through consolidation in a forestry trust business and turn privately-owned forests unsuited to forest management into publicly-owned forests after assessing their economic value. In financing this business, a forestry fund will be set up, which will also have a positive impact on businesses tasked with improving the sustainability of the region by involving investors as key parties.

Source: July 1, 2019 Cabinet Office press release on SDGs Future City selection