

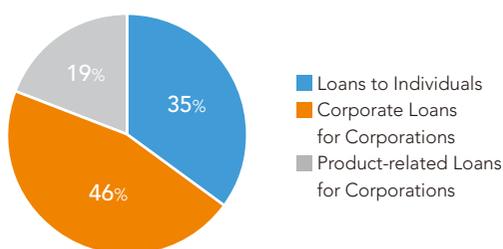
Considering the Environmental and Social Impacts of Corporate Clients

1. Initiatives for Loans (Banking Business)

Sector Exposure

Outstanding loans account for approximately 48% of the Group's total assets of ¥63.6 trillion. Of the total loan balance, about 35% is for individuals, centered on home mortgages, and the remaining 65% is for corporations. The balance of loans for corporations is divided into corporate and product-related loans, with the corporate loan balance accounting for nearly 1/2 of the total loan balance.

Breakdown of Loan Balance

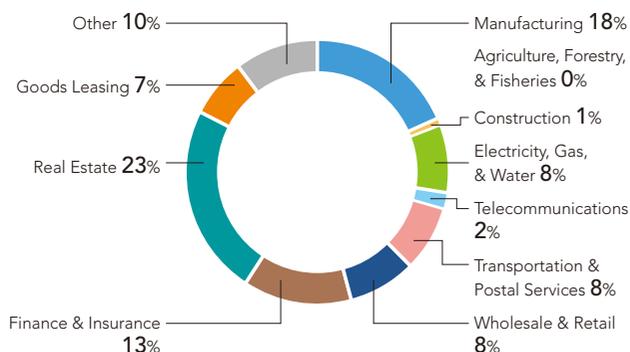


The table on the right shows the loan balance of approximately ¥30 trillion categorized by industry. The following chart shows exposure by sector, with approximately ¥15 trillion in loan balance for corporations at domestic branches as the denominator. This excludes the loan balance in the Overseas Branches category and loan balance for individuals which is included in the Other category. The Real Estate sector accounts for the largest share, followed by Manufacturing, and Finance and Insurance. The top three sectors account for approximately 55% of the total. Second tier sectors include Electricity, Gas, & Water, Transportation & Postal Services, and Wholesale & Retail, with a combined share of about 24%.

Loans by Industry

(Unit: trillion yen)

Manufacturing	3.0
Agriculture, Forestry, & Fisheries	0.1
Construction	0.2
Electricity, Gas, & Water	1.3
Telecommunications	0.3
Transportation & Postal Services	1.3
Wholesale & Retail	1.2
Finance & Insurance	2.1
Real Estate	3.7
Goods Leasing	1.2
Other	12.2
Loans to individuals	10.6
Other	1.7
Domestic branches	26.6
Overseas Branches	4.0
Total	30.6



(Note) Share ratio calculated based on the assumption that the balance of loans for corporations at domestic branches is 100%.

Sector exposure is managed by the Corporate Business Planning Department of SuMi TRUST Bank, and the credit portfolio is reported quarterly to the Credit Risk Committee, the highest decision-making body for investments and loans. From the viewpoint of environmental and social considerations in investments and loans, the Sustainability Management Department fulfills the check function for projects that have a risk of violating SuMi TRUST Bank's policy on investments and loans.

In October 2021 the SuMi TRUST Group issued a carbon neutral declaration.

In it, we set a target of net zero by the year 2050 for not only the GHG emissions generated by the Group itself, but also for the GHG emissions from the Group's investment and loan portfolios—that is, the portion our investments and loans contribute to the volume of GHG emissions produced by the activities of companies and individuals to whom we extend investments and loans.

As we work towards achieving the 2050 goals, our policy going forward will be to formulate specific milestone targets (chronological GHG emission reduction targets through 2030), as well as concrete initiatives and action plans for reducing GHG emissions, beginning sequentially with the major industry sectors in line with the framework of the Net Zero Banking Alliance (NZBA).

Policies for specific sectors

As shown on the next page, SuMi TRUST Bank has established policies for specific sectors that promote businesses with a large impacts on society, and prohibits or restricts investments and loans to companies and projects that have a

negative impact on society, while sharing awareness of environmental and social issues and contributing to building a sustainable society through engagement with loan clients. These policies were reviewed in December 2021 as follows.

(1) Prohibited transactions

- Transactions that are considered immoral
- Transactions with anti-social forces
- Transactions where the use of funds is speculative
- Transactions that involve cluster munitions manufacturers as well as credit transactions with companies that have material involvement in the manufacturing process through lending and other activities with cluster munitions manufacturers.
- Businesses that negatively impact wetlands designated under the Ramsar Convention (newly added)
- Businesses that negatively impact UNESCO World Heritage Sites (newly added)
- Businesses that contravene the Washington Convention (newly added)
- Businesses that use child labor or forced labor (newly added)

(2) Transactions warranting special attention**Cross-sector transactions**

- Businesses that negatively impact indigenous communities
- Businesses that negatively impact high conservation value areas
- Businesses involved in the expropriation of land leading to the forced removal of residents

Sector-specific transactions

- Coal-fired power generation
SuMi TRUST Bank, in principle, will not engage in new projects for the construction of coal-fired power plants.
- Weapons manufacturing
SuMi TRUST Bank will avoid lending and other activities where funds will be used for manufacturing weapons of mass destruction such as nuclear weapons, chemical weapons, biological weapons, or for manufacturing inhumane weapons such as antipersonnel landmines.
- 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*¹ as well as fully taking into account whether or not there are existing problems with original inhabitants and local communities.

*¹ 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.

- 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*² as well as fully taking into account whether or not there are existing problems with original inhabitants and local communities.

*² 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

- Coal mining (newly added)

The extraction of coal from the ground has the risk of negatively impacting the environment and society, mainly owing to the impact that hazardous waste from coal mines has on the ecosystem, the deaths of workers as a result of cave-ins, and violations of human rights. And also given the likelihood that coal mining contributes to higher greenhouse gas emissions, which in turn is driving climate change, our basic policy is not to provide financing for any new coal extraction projects (general coal) or coal mining businesses that use the mountaintop removal method.

- Oil and gas (newly added)

Oil and gas exploration projects carry the risk of negatively impacting ecosystems, biodiversity, the living conditions of residents, and the natural environment. We carefully engage with such businesses after taking into full account environmental impacts and the existence of any problems involving indigenous peoples and local communities. We adopt a particularly cautious approach to oil sands extraction, shale oil and gas projects, exploration of minerals in the Arctic Circle, and pipeline laying.

- Hydroelectric power generation (newly added)

Large-scale hydroelectric power generation carries the risk of negatively impacting ecosystems, biodiversity, the living conditions of residents, and the natural environment. We carefully engage with such businesses after taking into full account environmental impacts and the existence of any problems involving indigenous peoples and local communities. We adopt a particularly cautious approach to large-scale hydroelectric power generation projects (output of at least 25MW) that involve the construction of dams.

- Large-scale plantations (newly added)

Plantation development carries the risk of deforestation, violations of human rights, and negatively impacting ecosystems, biodiversity, the living conditions of residents, and the natural environment. We carefully engage with such businesses after taking into full account environmental impacts and the existence of any problems involving indigenous peoples and local communities. We adopt a particularly cautious approach to projects that involve developments in forests and peatlands.

(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.

Project finance initiatives

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

The revised Equator Principles, known as EP4, were adopted in November 2019 and we currently apply EP4 to projects for which we acquired a client mandate after October 1, 2020. With EP4, we 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

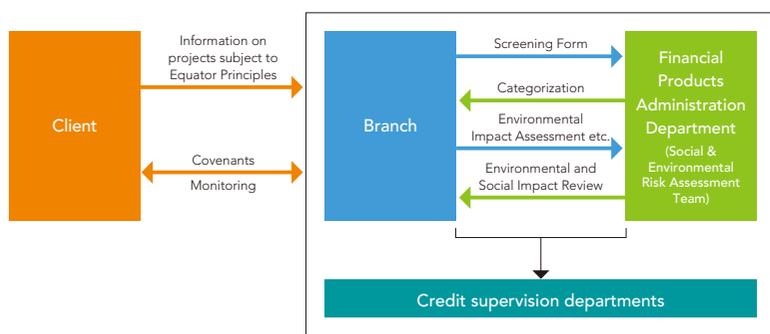
Taking into account how borrowers and investees impact society and the environment is, in our view, a priority issue (materiality) concerning sustainability. We therefore incorporate

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 the local community. In fiscal 2020 (April 1, 2020 to March 31, 2021) there were 14 projects to which we applied the Equator Principles.

In EP4, the principles were expanded in scope to include refinancing and certain other transactions and updated to strengthen commitments to indigenous peoples in developed countries, among other changes. Efforts to address climate change were strengthened by updating the due diligence requirements to include a transition risk analysis in TCFD alongside the consideration of alternative proposals for projects with annual greenhouse gas emissions in excess of 100,000 t-CO₂, as well as a physical risk analysis for projects expected to generate substantial or greater impacts.

We have in place internal operational rules that set out the steps for assessing environmental and social impacts based on the framework of the Equator Principles. The Financial Products Administration Department (Social & Environmental Risk Assessment Team) undertakes the assessment of environmental and social impacts for each individual project.

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.

Types of Financial Instruments and Other Criteria Including Financing Size for the Application of the Equator Principles

Type	Application criteria including financing size
Project finance	All projects with total project capital costs equivalent to USD 10 million or more
FA services*1	Same as the above
Project-Related Corporate Loans (PRCL)*2	If all four of the following criteria are met: 1. The majority of the borrowing amount is intended for a single project in which the borrower has effective control (either direct or indirect) of the project; 2. The total borrowing amount is equivalent to USD 100 million or more; 3. The commitment amounts (at syndication or prior to sell-down) of the individual signatories are equivalent to USD 50 million or more; and 4. The loan term is two years or more.
Bridge loans	Bridge loans with a loan term of less than two years that are intended to be re-financed by a project finance meeting the above criteria or PRCL

*1 Project finance advisory services

*2 PRCL includes the buyer's credit-type export financing but does not include the supplier's credit-type export financing. Furthermore, it does not include asset financing, M&A financing, hedging transactions, leases, L/C transactions, general funds and general working capital to maintain operations of a company.

Implementing Environmental and Social Impact Reviews

In our processes for assessing project finance for projects subject to the Equator Principles, we conduct environmental and social impact reviews to confirm whether the response of project implementers in taking into account environmental and social impacts satisfies the standards set by the Equator Principles. In environmental and social risk/impact reviews based on screening forms, the relevant project is categorized into one of three categories—A, B, and C as shown below—reflecting its environmental and social risks and/or impacts. The Structured Finance Department conducts detailed reviews based on environmental impact assessment reports that take into account the risk/impact category, the status of the country (designated* or non-designated country) where the project is sited, and industry. The results of the environmental and social risk/impact reviews are sent to a credit supervision department, where it devises a comprehensive risk assessment based on the review results.

*Designated countries are those countries deemed to have built robust environmental and social governance, legal systems, and institutional capacity to protect their people and the natural environment. Specifics can be viewed at the Equator Principles Association's website.

<https://equator-principles.com/about-the-equator-principles/designated-countries/>

Company Training Programs

In adopting the Equator Principles in February 2016, we provide multiple training sessions for the employees of sales, assessment, screening and other departments and sections involved to foster a thorough understanding of Equator Principles concepts as well as implementation processes for environmental and social risk/impact reviews. Through regular training programs, we strive to go further to raise awareness regarding environmental and social impacts among our employees and deepen their understanding of Equator Principles concepts and implementation processes for environmental and social risk/impact reviews.

Monitoring Compliance with Equator Principles

As a rule, projects subject to the Equator Principles are engaged to submit regular reports in the loan agreement stipulating compliance with important items concerning environmental and social laws, regulations and rules as well as approvals and permits. Based on regular reports submitted by the borrower of the projects, we monitor compliance with rules relating to the environment and communities.

Number of Projects Subject to Equator Principles

13 projects were subject to the Equator Principles in fiscal 2020. Projects featuring the mark have received thirdparty certification from PwC Sustainability LLC.

Applying the Equator Principles to project finance

	FY2020			
	A	B	C	Total
	3 ✓	10 ✓	0 ✓	13 ✓
Sector	A	B	C	Total
Mining	0 ✓	0 ✓	0 ✓	0 ✓
Infrastructure	0 ✓	0 ✓	0 ✓	0 ✓
Oil & Gas	1 ✓	1 ✓	0 ✓	2 ✓
Power	2 ✓	9 ✓	0 ✓	11 ✓
Petrochemical	0 ✓	0 ✓	0 ✓	0 ✓
Others	0 ✓	0 ✓	0 ✓	0 ✓
Region	A	B	C	Total
Americas	0 ✓	1 ✓	0 ✓	1 ✓
Europe, Middle East, and Africa	2 ✓	0 ✓	0 ✓	2 ✓
Asia and Pacific	1 ✓	9 ✓	0 ✓	10 ✓
Country Classification	A	B	C	Total
Designated Country	0	10	0	10
Non-Designated Country	3	0	0	3
Independent Review	A	B	C	Total
Implemented	3	10	0	13
Not implemented	0	0	0	0

Project-related refinance and project-related acquisition finance

	FY2020	
	Number of Cases	
	1	
Sector	Number of Cases	
Mining	0	
Infrastructure	0	
Oil & Gas	0	
Power	1	
Petrochemical	0	
Others	0	
Region	Number of Cases	
Americas	0	
Europe, Middle East, and Africa	0	
Asia and Pacific	1	
Country Classification	Number of Cases	
Designated Country	1	
Non-Designated Country	0	

In addition to those shown in the table above, there is one other project-related refinancing transaction.

Category	Definition
A	Projects with potential significant adverse environmental and social risks and/or impacts that are diverse, irreversible or unprecedented.
B	Projects with potential limited adverse environmental and social risks and/or impacts that are few in number, generally site-specific, largely reversible, and readily addressed through mitigation measures.
C	Projects with minimal or no adverse environmental and social risks and/or impacts.

Ship finance initiatives

For more than 50 years, SuMi TRUST Bank has given top priority to steadily providing ship finance to meet the varied needs of clients in the marine transportation industry. The shipping market is heavily influenced by mainly global economic fundamentals alongside supply and demand for vessels, but efforts aimed at decarbonization in the maritime shipping industry have become pressing issues and will most likely alter the future direction of the sector and significantly affect shipping market trends up ahead. In March 2020, SuMi TRUST Bank was the first financial institution in Asia to sign on to the Poseidon Principles—established for the purpose of supporting decarbonization efforts in the marine transportation industry from a financial perspective. As a signatory financial institution to the Poseidon Principles, SuMi TRUST Bank will quantitatively assess global shipping GHG emission reduction efforts in its own ship finance portfolio in line with the GHG emission reduction targets of the International Maritime Organization (IMO)*1 and publish the results in an annual portfolio climate alignment report starting with fiscal 2021.

SMTB's portfolio climate alignment: -0.8%
(as of end-Dec 2020)

By becoming a signatory to the Poseidon Principles, and as a member of the maritime cluster of Japan, we will continue to support the business activities of 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.

Overview of the Poseidon Principles

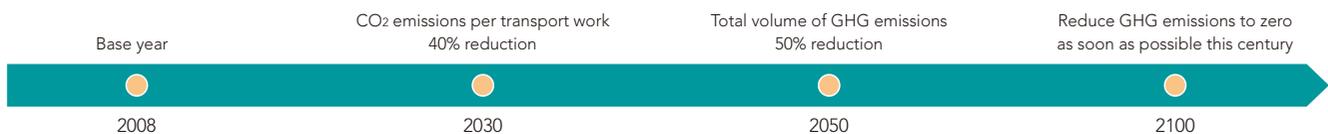
As an initiative spearheaded by private financial institutions to align with the greenhouse gas (GHG) reduction targets adopted by the IMO for global shipping, as well as the IMO's comprehensive GHG reduction strategy*2, the Poseidon Principles were established in June 2019 by 11 major global banks that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

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

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

IMO's GHG reduction strategy

International shipping accounts for around 2% of global CO₂ emissions



Portfolio climate alignment

In the Poseidon Principles, trajectory values of annual CO₂ emission efficiency (per transport work, referred to as carbon intensity) are prescribed for each ship type and size class based on the IMO's stated aim (adopted in April 2018) of

reducing total annual GHG emissions from global shipping by at least 50% by 2050 compared to 2008. SuMi TRUST Bank compares the annual carbon intensity (actual value) of each ship subject to calculation under the Poseidon Principles with the trajectory value in order to calculate the degree

of divergence, which is referred to as the vessel climate alignment. It then calculates portfolio climate alignment as required under the Poseidon Principles as a weighted average of the vessel climate alignment deltas using debt outstanding for each ship in the Bank's ship finance portfolio. The portfolio climate alignment represents the degree of

contribution the Bank is making towards the CO₂ emission reduction target in its own ship finance portfolio. A negative or zero alignment score means the portfolio is aligned with the decarbonization trajectory of the Poseidon Principles, whereas a positive score means the portfolio is misaligned.

Financial institutions publish climate alignment of ship finance portfolios

- Every year, signatory financial institutions calculate CO₂ emissions for vessels in their portfolio.
- 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.
- SMTB publishes climate alignment calculation results from fiscal 2021.

Scope of the Poseidon Principles

1	Vessels with at least 5,000 gross tonnage
2	Vessels that trade on international voyages
3	Vessels secured with a loan

Vessels that satisfy the three conditions above are included in the scope of the Poseidon Principles

Example of disclosure

Total loan balance of ship finance	\$1,000m
Climate alignment	-1%

Note: Actual format of disclosure may differ

Climate alignment

- 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).
- 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.
- 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.

Along with the Poseidon Principles, SuMi TRUST Bank signed the Call to Action for Shipping Decarbonization that was announced by the Getting to Zero Coalition (GZC) in an effort to encourage decarbonization in the maritime shipping industry. All the signatories are committed to achieving net-zero GHG emissions from international shipping by 2050 and urge governments to take action on formulating policies with the aim of deploying commercially viable zero-emission ships by 2030.

Transition finance for LNG-fueled vessels

In March 2021, SuMi TRUST Bank signed a syndicated loan agreement with Kawasaki Kisen Kaisha, Ltd. for Japan's first transition loan subject to evaluation in line with the Climate Transition Finance Handbook published by the International Capital Markets Association (ICMA). Kawasaki Kisen used the loan funds to acquire a next-generation environmentally friendly LNG-fueled car carrier vessel. LNG fuel emits 25%–30% less CO₂ than conventional heavy fuel oil used by ships and is therefore a more environmentally friendly source of energy. The acquisition of LNG-fueled ships is a recognized decarbonization transition initiative in the marine transportation industry.

Furthermore, in September 2021 SuMi TRUST Bank, in collaboration with the Development Bank of Japan, arranged a syndicated transition loan for Mitsui O.S.K. Lines (MOL) with the participation of 10 regional banks and other financial institutions. A transition loan was provided to MOL and one of its group companies, Ferry Sunflower Limited, to finance the introduction of Japan's first two LNG-fueled ferries scheduled to operate between Osaka and Beppu.

SMTB entrusted with impact evaluation of ship investment fund

In February 2021, SuMi TRUST Bank was entrusted with the task of carrying out impact evaluation and monitoring of the ¥600 billion impact investment fund (Anchor No. 5 Ship Investment Fund) launched by ship investment fund manager Anchor Ship Partners Co., Ltd. (ASP). The fund is the first of its kind in Japan to invest in real assets. By conducting evaluations and monitoring with reference to the IMO's decarbonization strategy and other global benchmarks, the Bank will support this fund's objective of contributing to carbon-neutrality efforts in the marine shipping industry (see pages 52–53).

Sustainable Loan Initiatives

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.

Category	Type	Examples of sustainable finance
Sustainable finance	Environmental (green) fields	Green finance ✓ Businesses that adapt to, or mitigate, climate change. For example, renewable energy, energy efficiency improvement, and green buildings.
	Other environmental fields	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.

Positive impact finance (PIF)

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. Ever since, the Bank has steadily increased its number of PIF loan transactions. Moreover, SuMi TRUST Bank keeps tabs on the targets and KPIs that were set at the time a PIF loan agreement was concluded and discloses the results on its website. If deemed necessary, the Bank also undertakes a process of engagement with the client.



PIF x SuMi TRUST

Example of Climate Change-Related KPIs in Positive Impact Finance

Client	Theme	Content	KPI metrics and goals
Kawasaki Heavy Industries, Ltd.	<ul style="list-style-type: none"> Realization of a carbon-free society with energy and environmental solutions 	<ul style="list-style-type: none"> Stable volume supply and more widespread use of clean energy in the form of hydrogen and realizing a low-carbon society 	<p>(a) Transportation amount of hydrogen Target: Transportation of 225,000 tons per year of hydrogen by Kawasaki hydrogen supply chain by 2030 *Japan's installed hydrogen capacity target is 3 million tons per year KPI: Transportation amount of hydrogen by Kawasaki hydrogen supply chain</p> <p>(b) Amount of CO₂ reduction utilizing hydrogen energy generated by Kawasaki hydrogen supply chain (theoretical value) Target: 1.6 million tons of CO₂ reduction utilizing hydrogen energy generated by Kawasaki hydrogen supply chain by 2030 KPI: Amount of CO₂ reduction utilizing hydrogen energy generated by Kawasaki hydrogen supply chain</p> <p>(c) Reduction of CO₂ emissions Target: Zero CO₂ emissions in business activities of the Kawasaki Group in 2050 (Scopes 1 and 2) KPI: CO₂ emissions from business activities of the Kawasaki Group (Scopes 1 and 2)</p>
Meidensha Corporation	<ul style="list-style-type: none"> Climate change countermeasures (minimizing environmental impacts through business activities) Climate change countermeasures (minimizing environmental impacts through products) 	<ul style="list-style-type: none"> Curbing GHG emissions by adopting climate change measures Minimizing impacts on the environment by providing products 	<p>Target: 30% reduction (vs. FY2019) in Scope 1 and 2 emissions from business activities by 2030 KPI: GHG emissions (Scopes 1 and 2; kt of CO₂)</p> <p>(a) Reduction of GHG emissions at the product use stage Target: 15% reduction (vs. FY2019) in Scope 3 Category 11 emissions at the product use stage by 2030 KPI: Volume (kt of CO₂) of GHG emission reductions from products</p> <p>(b) Reduction of GHG emissions (Scope 3 Category 11) through the provision of EV products Target: Reduce GHG emissions by 1,700,000 t-CO₂ in FY2024 and by 8,700,000 t-CO₂ in FY2030 (on the basis of substituting gasoline vehicles with equivalent grade EVs) KPI: Volume (kt of CO₂) of GHG emission reductions</p> <p>(c) Reduction in SF₆ use by providing SF₆-free products Target: Reduce amount of SF₆ used in society by expanding range of SF₆-free products KPI: Amount (kg) of reduction in SF₆ use</p>

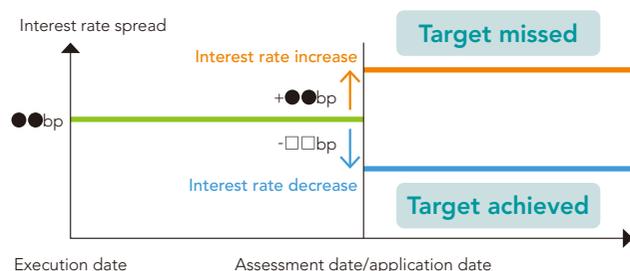
Client	Theme	Content	KPI metrics and goals
Sumitomo Metal Mining Co., Ltd.	• Climate change	<ul style="list-style-type: none"> • Promotion of copper mining projects, promotion of nickel mining projects and improvement in productivity • Recovery and stable supply of nonferrous metals through the development of technologies to separate, fix, and transform impurities extracted from the mines and produced in the smelting processes into useful materials • Demonstration and commercialization of recycling technology for automotive secondary batteries • Creation of new products and businesses that contribute to society by utilizing the company's strengths • Aim for zero greenhouse gas (GHG) emissions (Scope 1, 2) 	<ul style="list-style-type: none"> • Aim for early achievement of 300,000 tons/year of copper and 150,000 tons/year of nickel production as a world leader in non-ferrous metals • Commercialize recycling technology for automotive lithium-ion batteries by 2022 • R&D and commercialization of new functional materials in the energy, automotive, and information and communications fields, commercialization of NiO for fuel cells, and maintain leading global market share in the expanding cathode electrode materials market • (KPI for the anticipated impact of achieving the above KPIs) GHG reduction contribution from low-carbon footprint products by 2030: over 600 kilotons-CO₂ • Formulate a plan for achieving zero emissions in the second half of this century by 2030 • Total GHG emissions in 2030 ≤ Total GHG emissions in FY2013 • Reduce GHG emissions per unit of production by over 26% in 2030 (compared to FY2013)
Nippon Paper Industries Co., Ltd.	• Initiatives to address climate change	<ul style="list-style-type: none"> • Transition to non-fossil fuels • Promote energy conservation in manufacturing and distribution processes • CO₂ absorption and stabilization through appropriate management of company-owned forests 	<ul style="list-style-type: none"> • 10% reduction in greenhouse gas emissions by FY2020 (compared to FY2013) • Long-term targets are under consideration and are expected to be disclosed by May 2021
Subaru Corporation	• Mitigation of climate change	<ul style="list-style-type: none"> • Reduce Scope 1 and 2 greenhouse gas emissions resulting from company activities • Improve fuel efficiency, incorporate electric technology and switch to electric and hybrid vehicles, and reduce CO₂ emissions from vehicles manufactured and sold 	<p>Based on the Environmental Action Plan, consider and implement all possible measures from a company-wide perspective, including energy conservation and the introduction of renewable energy sources, while taking into account external factors such as technological innovation, markets, and regulations</p> <ul style="list-style-type: none"> • 30% reduction of CO₂ emissions in FY2030 (compared to FY2016) • Raise electric and hybrid vehicle sales to over 40% of global sales by 2030
Sumitomo Forestry Co., Ltd.	• Sustainability and biodiversity-conscious sourcing	<ul style="list-style-type: none"> • Forest management that balances global warming countermeasures and biodiversity conservation • Expand the use of sustainable forest resources and create a biodiversity-conscious environment 	<ul style="list-style-type: none"> • Raise domestic and overseas forest certified area to 221,467 ha by FY2021 • Reach company-made tree sapling planted area of 7,920 ha and supplied volume of 7.26 million trees by FY2021 • Achieve chips and pellets for main fuel use handling volume of 1,363,930 tons by FY2021 • Raise percentage of sustainable timber and timber products handled to 100% by FY2021 • Achieve company-made seedling unit sales of 500,000 in FY2021
Toyo Aluminum K. K.	• Climate change	<ul style="list-style-type: none"> • Reduce CO₂ emissions across the entire Group by developing initiatives such as energy visualization and rolling it out horizontally in a way that meets the requirements of each facility 	<p>Reduction of CO₂ emissions from business activities</p> <ul style="list-style-type: none"> • 30% reduction in CO₂ emissions in FY2031 (compared to FY2013)
Sumitomo Rubber Industries, Ltd.	<ul style="list-style-type: none"> • Greening • Mitigation of climate change 	<ul style="list-style-type: none"> • Global warming prevention and biodiversity conservation • Development of environmentally friendly products 	<ul style="list-style-type: none"> • Establish a method for calculating the amount of CO₂ absorbed by tree planting as a KPI, then set a target • Reduce global lifecycle CO₂ emissions per tire by at least 14% in FY2022 compared to FY2005
Mitsui Chemical, Inc.	• Realization of a symbiotic society in harmony with the environment	<ul style="list-style-type: none"> • Reduction of greenhouse gas emissions and conservation of energy and resources through the use of natural energy and non-fossil raw materials, and by making products lighter and more durable • Reduction of greenhouse gas emissions and chemical emissions through promotion of energy conservation, fuel conversion, and creation of innovative process technologies 	<ul style="list-style-type: none"> • Raise sales ratio of Blue Value® products to at least 30% in FY2025 • Number of Blue Value® Rose Value® products newly certified • Blue Value® product-related investment, R&D expenses • Greenhouse gas emissions reduction rate by FY2030: at least 25.4% (compared to FY2005) • Energy consumption rate reduction target: Maintain a five-year average reduction rate of at least 1%
Toray Industries, Inc.	• Acceleration of climate change measures	<ul style="list-style-type: none"> • Realization of a world where global greenhouse gas emissions and absorption are equal 	<ul style="list-style-type: none"> • Increase CO₂ emissions reduction contribution to the value chain by 8 times by FY2030 (compared to FY2013) through expanding the supply of Green Innovation products • Reduce GHG emissions per unit of operating revenue by 30% by FY2030 (compared to FY2013)
DIC Corporation	• Climate change response	<ul style="list-style-type: none"> • Achieve CO₂ emission reduction targets through production activities by promoting energy conservation and low carbon emissions (Scope 1, 2) 	<ul style="list-style-type: none"> • 30% reduction in CO₂ emissions in FY2030 (compared to FY2013)
Rengo Co., Ltd.	• Climate change	<ul style="list-style-type: none"> • Promote the Green New Deal to save energy and utilize new energy sources to reduce CO₂ emissions • Expand the use of renewable energies by proactively introducing solar power generation, biomass boilers, and other equipment to diversify energy sources, effectively use resources, and prevent global warming 	<ul style="list-style-type: none"> • 26% reduction in CO₂ emissions (Scope 1 & 2) by FY2030 (compared to FY2013) • Increase the ratio of renewable energy sources to 25% by FY2030

Considering the Environmental and Social Impacts of Corporate Clients

Client	Theme	Content	KPI metrics and goals
Ricoh Leasing Company, Ltd.	<ul style="list-style-type: none"> Mitigation of climate change 	<ul style="list-style-type: none"> Curb global warming by reducing CO₂ emissions from business activities Reduce environmental impact by expanding environment-related business areas 	<ul style="list-style-type: none"> Reduce CO₂ emissions from business activities (Scope 1 & 2) to 774 t-CO₂ in FY2022 (30% reduction from FY2015), 410 t-CO₂ in FY2030 (63% reduction from FY2015), and zero in 2050 Realize a decarbonized society through promoting energy creation and energy conservation
Sumitomo Dainippon Pharma Co., Ltd.	<ul style="list-style-type: none"> Environmental initiatives 	<ul style="list-style-type: none"> Reduce greenhouse gas emissions 	<ul style="list-style-type: none"> 35% reduction in greenhouse gas (GHG) emissions (Scope 1 & 2) by FY2030 (compared to FY2017)
Sapporo Holdings Limited	<ul style="list-style-type: none"> Environmental protection 	<ul style="list-style-type: none"> Taking steps to protect the environment at each stage of business so future generations can inherit the blessings of nature with every employee taking it upon themselves to promote environmental activities 	<p>Fighting global warming Target: Zero CO₂ emissions at company locations by 2050 KPI: CO₂ reduction volume</p>
Furukawa Electric Co., Ltd.	<ul style="list-style-type: none"> Contribution to a carbon-free society 	<ul style="list-style-type: none"> Undertaking business activities mindful of climate change 	<p>(i) Target: At least 26% reduction in GHG emissions from business activities by FY2030 versus FY2017 KPI: GHG emissions (Scopes 1 and 2) (ii) Target: 3% improvement in renewable energy ratio by FY2025 versus FY2017 KPI: Renewable energy ratio</p>
Tokyu Fudosan Holdings Corporation	<ul style="list-style-type: none"> Minimizing environmental footprint 	<ul style="list-style-type: none"> Undertaking urban development in harmony with the environment 	<p>(a) CO₂ reduction initiatives Targets: <ul style="list-style-type: none"> Quickly establish long-term CO₂ emission reduction goals for the year 2050 and obtain SBTi certification Achieve the long-term goals established above KPIs: <ul style="list-style-type: none"> Establishment of long-term CO₂ emission reduction goals as soon as possible and acquisition of SBTi certification CO₂ emissions (Scopes 1, 2, and 3) </p> <p>(b) Increased use of renewable energy Target: Adopt renewable energy sources for all power used in business activities by 2050. Aim to achieve milestone goals of 60% by 2030 and 90% by 2040. KPI: Weighting of renewable energy sources as a percentage of power used in business activities.</p> <p>(c) Acquisition of environmentally-friendly property certification Target: 100% environmentally-friendly property certification rate for newly built large office buildings and commercial facilities (CASBEE: A or higher; DBJ: 4 stars of higher; BELS: 4 stars or higher) KPI: Rate of acquisition of environmentally-friendly property certifications</p> <p>(d) Appropriate management and use of water resources Target: Quickly establish long-term water consumption reduction targets KPIs: <ul style="list-style-type: none"> Quick establishment of long-term water consumption reduction targets Water consumption per total floor space of business sites and portfolio properties </p> <p>(e) Reduction of waste generated Target: Quickly establish long-term targets for reducing the amount of waste generated KPIs: <ul style="list-style-type: none"> Quick establishment of long-term targets for reducing the amount of waste generated Waste generated per total floor space of business sites and portfolio properties </p>
Fuji Oil Holdings Inc.	<ul style="list-style-type: none"> Employment, Climate, Biodiversity and Ecosystem Services, and Inclusive and Healthy Economy Climate change 	<ul style="list-style-type: none"> Supply chain improvement activities and RSPO initiatives aimed at NDPE (No Deforestation, No Peatland development, No Exploitation) in the sourcing process Energy used and CO₂ emitted in the manufacturing process 	<ul style="list-style-type: none"> Traceability scores for palm oil all the way back to the oil extraction plant (target: 100%) Number of incidents registered in the grievance mechanism <p>Environmental Vision 2030 (reviewed CO₂ emission reduction targets in April 2020)</p> <ul style="list-style-type: none"> Scope 1 & 2: 40% reduction by 2030 (compared to 2016) Scope 3 (Category 1): 18% reduction by 2030 (compared to 2016)
J.Front Retailing Co., Ltd.	<ul style="list-style-type: none"> Climate change 	<ul style="list-style-type: none"> Reduce Scope 1 & 2 greenhouse gas emissions resulting from company activities Reduce Scope 3 emissions by promoting the Supplier Code of Conduct 	<ul style="list-style-type: none"> 40% reduction in CO₂ emissions by 2030 (compared to 2017) Zero CO₂ emissions by 2050 (compared to 2017) 100% adoption of Supplier Code of Conduct by 2030 40% reduction in Scope 3 emissions by 2030 compared to FY2017

Sustainability Linked Loan

SuMi TRUST Bank is also working on sustainability linked loans, which are not based on comprehensive KPIs like Positive Impact Finance, but rather on a mechanism that enables SuMi TRUST Bank to set ambitious Sustainability Performance Targets (SPTs) on specific themes with the borrower company, and to vary the interest rate depending on the achievement of the targets. The SPTs are selected after thorough consultation with clients from the following categories: energy efficiency (energy conservation and renewable energy), water consumption, sustainable procurement, circular economy (recycling rate), biodiversity, and global ESG evaluation. Then, a third-party organization such as a rating agency evaluates the appropriateness of the established SPTs in light of the overall corporate CSR strategies of the borrower company.



Green bonds

SuMi TRUST Bank issued its first green bond (€500 million) in September 2018 in overseas markets and then its second (\$500 million) in March 2021 for mainly ESG investors and asset managers overseas. The proceeds raised from the issuance of these green bonds have been used to fund 10 renewable energy (solar) power generation projects in Japan, thus contributing to an annual CO₂ reduction of 102,008 tons*¹ (as of March 31, 2021). Information about the allocation of green bond proceeds and how they are helping to enhance the improvement is disclosed on our website*² and subjected to a third-party review.

*1 Figure calculated by multiplying the CO₂ reduction effects of the projects by SuMi TRUST Bank's loan ratio

*2 For details, please follow the following link.
https://www.smth.jp/english/sustainability/Initiatives_achievements/esgi/greenbond

Sustainability-linked derivatives

In August 2021, SuMi TRUST Bank concluded a forward foreign exchange contract (ESG foreign exchange contract) with ASICS Corporation that is aligned with the Sustainability-Linked Loan Principles developed by the Loan Market Association and other institutions. SuMi TRUST Bank believes this is the first time a Japanese financial institution has concluded such a contract with a listed company in Japan. By setting sustainability performance targets (SPTs) that align with the sustainability goals of Asics and linking the terms and conditions of the forward exchange contract to ASICS' performance against the SPT, Asics will be motivated to achieve it. Accordingly, this sustainability-linked derivative financial instrument aims to accelerate and support sustainable economic activity and growth that benefits the environment and society. Should ASICS fail to achieve the SPT, it can still generate a positive impact for society by making a donation through SuMi TRUST bank to an organization that suits the objectives of its sustainability vision.

Green deposits

In May 2021, SuMi TRUST Bank launched its first Green Deposit for corporate clients. Green Deposit is a foreign currency time deposit, the proceeds of which are used to fund green projects that help improve the environment, including renewable energy such as solar and wind power generation, or the acquisition or construction of environmentally friendly property. This service was also rolled out to individual clients beginning in June 2021.

Selected in the BoJ's climate change response operations

In December 2021, SuMi TRUST Bank was selected to receive financing under the Bank of Japan's funds-supplying operations to support financing for climate change responses. Based on this, the Bank established a ¥100 billion "green operations" framework for corporate finance in order to make best use of the BoJ's operations and provide stronger financial support to clients tackling climate change.

Environmental Improvement Impact of Projects Financed with Proceeds from the Green Bond Issuance

Category	Subcategory	Country	Number of projects	Annual power output (MWh)	Annual CO ₂ reduction (metric tons)	
						Company contribution
Renewable energy	Solar power generation	Japan	10	438,155	192,711	102,008

Towards the creation of positive impacts



Press conference for the Japan Impact-driven Financing Initiative (November 29, 2021)

Launch of Japan Impact-driven Financing Initiative

On November 29, 2021, a group of 21 private sector financial institutions, as founding signatories, announced the Japan Impact-driven Financing Initiative. The aim of the initiative is to have signatories proactively participate in impact creation and further the implementation of impact-driven investment and lending.

SuMi TRUST Holdings served as chair of the initiative's Joint Drafting Committee. Going forward, we intend to work closely with the other signatories and take a leading role in the expansion of impact finance in Japan.

Why positive impacts are required

The Principles for Positive Impact Finance of the United Nations Environment Programme Finance Initiative (UNEP FI) define positive impact as "that which serves to deliver a positive contribution to one or more of the three pillars of sustainable development (economic, environmental, and social), once any potential negative impacts to any of the pillars have been duly identified and mitigated."

The concept of ESG that was spelled out in the Principles for Responsible Investment in 2006 quickly gained momentum in no time at all and went mainstream in the finance

industry. Now in the industry, ESG initiatives need to be not just assessed, but also put into practice. In other words, in order to make society more sustainable, we must play an independent and active role in the creation of positive impacts.

Initiatives of the SuMi TRUST Group

The first instance of the Group's initiatives was in March 2019 when SuMi TRUST Bank executed the world's first positive impact finance loan agreement (whereby the use of loaned funds is unspecified) (see page 54). We have since expanded our initiatives to equity investments, real assets (ships), and venture capital and we have come to holistically consider positive impacts as part of our value creation process by focusing on impacts on a management level as we do business in various asset classes.

Also, in October 2021, SuMi TRUST Bank set up an Impact Business Development Office within the ESG Strategy and Solution Department. The role of finance in shaping a sustainable society is now greater than ever before. The policy of the Group going forward will be to uncover potential positive impacts by deeply analyzing not only our clients, but also their value chains, and actively working out how to best manifest such impacts.

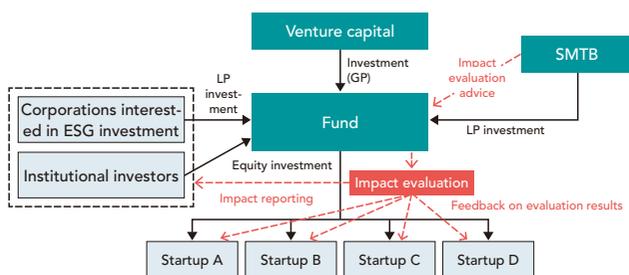
Expanding into various asset classes

Investments and loans	Equity investments	Real assets	Venture capital
<p>March 2019</p> <p>SuMi TRUST Bank concluded the world's first positive impact finance agreement with Fuji Oil Group Inc. whereby the use of loaned funds is unspecified</p>	<p>October 2019</p> <p>Sumitomo Mitsui Trust Asset Management launched and started managing the Japan Equity Impact Investment Fund (global equity fund also launched in January 2021)</p>	<p>February 2021</p> <p>SuMi TRUST Bank started providing ship investment fund impact analysis services to Anchor Ship Partners</p>	<p>April 2021</p> <p>SuMi TRUST Bank started providing scientifically-based impact analysis services to the investment targets of a venture capital fund managed by Real Tech Holdings</p>

Impact evaluations based on scientific knowledge

In April 2021, the SuMi TRUST Group established the Technology-based Finance (TBF) Team that brings together a group of experts within the Sustainability Management Department (see page 17). By leveraging impact evaluations based on the scientific knowledge of the TBF Team, the Group can raise impact measurement and management (IMM) to an extremely high level. Impact evaluation advisory services for venture capital firms is one classic example.

Impact evaluation services for VC



Impact management process

- Quantitative and qualitative evaluations are carried out following an identification of the impacts of the investee's activities, products, and services on society and the environment.
- Targets and KPIs for maximizing the positive impacts and minimizing the negative ones are established and then the attainment of KPIs over the investment period are monitored. The results are delivered as feedback to the investee company to improve management practices and enhance corporate value.

Recognition of initiatives

The SuMi TRUST Group's progressive initiatives on impact finance have been highly rated. In particular, in recognition of its positive impact finance solutions, SuMi TRUST Bank was awarded the gold prize in the financing category of the Ministry of the Environment's inaugural ESG Finance Awards Japan in 2020.

The Bank's positive impact finance solutions were also gonged with the Chairman's Award in the 17th LCA Society of Japan Awards. The practice of using the life cycle



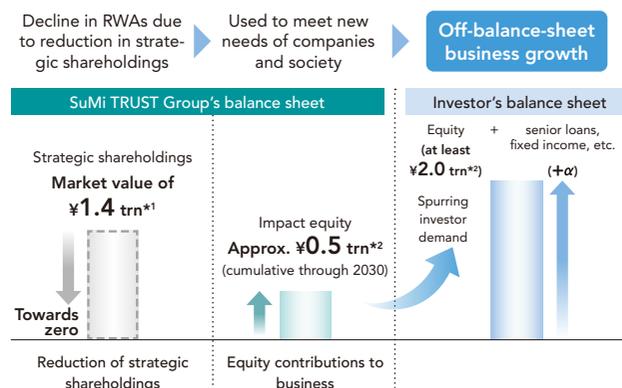
assessment (LCA) thought process and methodology in the decision-making process for financing was recognized as a meaningful practice, and it is for this reason that SuMi TRUST Bank became the first financial institution to be recognized in the LCA Society of Japan Awards.



Awards ceremony of the 17th LCA Society of Japan Awards

Launch of impact equity fund

We are currently using surplus capital generated from our ongoing reduction of strategic shareholdings to invest up to ¥500 billion in impact equity to meet demand for capital for mainly climate change and decarbonization measures. We hope this will have a pump-priming effect and stimulate demand for more than ¥2.0 trillion in capital from investors in an effort to generate social and economic value and forge new commitments with corporations.



*1 As of September 2021

*2 Estimated amounts generated from the Group's initiatives on the assumption that roughly ¥50 trillion will be required in Japan through to 2030 for investments in climate change measures, decarbonization, and infrastructure



2. Initiatives in the Asset Management Business

Initiatives of Sumitomo Mitsui Trust Asset Management

Approach to ESG

ESG issues reside in non-financial domains and do not manifest themselves in financial reporting, but they can have a considerable impact on corporate financial value over time. Based on this thinking, SMTAM considers the actions taken to address such issues to be integral to stewardship activities, alongside engagement and the exercise of voting rights. Through these activities, SMTAM aims to maximize returns for its clients and contribute to the achievement of the SDGs by actively fulfilling its role as an asset manager in the investment chain.

Specific ESG initiatives

(1) Initiatives for engagement

There are three approach methods: (1) top-down approach; (2) market cap approach; and (3) risk approach. In the top-down approach, SMTAM identifies companies for engagement based on the 12 topics formulated in accordance with the ESG materiality of SuMi TRUST Holdings. In the market cap approach, it selects companies in light of the importance of management issues and their market capitalization. In the risk approach, SMTAM identifies companies mainly by focusing on those against which it cast dissenting votes in the exercise of voting rights (low ROE, etc.) or companies where misconduct has occurred. With these three approaches, SMTAM seeks to carry out efficient and exhaustive engagement activities.

Total assets under management

¥85.7 trillion
(as of end-September 2021)

ESG initiative asset balance

¥30.9 trillion
(as of end-September 2021)

(2) Initiatives for the exercise of voting rights

SMTAM views the exercise of voting rights as an opportunity to call for the minimum standard of governance and considers it one method for expressing its views on governance. SMTAM emphasizes three key points: (1) high-quality governance that respects shareholder interests; (2) efficient utilization of shareholders' equity for sustainable growth; and (3) appropriate action in the event an incident occurs that damages corporate value. It has published detailed guidelines for the exercise of voting rights. SMTAM has also established criteria pertaining to ESG issues and it makes decisions on shareholder proposals in the same way as company proposals from the perspective of whether or not they will help maximize shareholder value over the medium to long term.

ESG guideline

As a signatory to the PRI, SMTAM engages investee companies to help resolve ESG issues and enhance their corporate value over the medium to long term based on the values expressed in the UN Global Compact and the SDGs, while at the same time focusing on ESG investment activities. In carrying out these activities, SMTAM has established 12 materialities to systematize the evaluation items. In addition, for in-house managed active products, fixed-income passive products, and individually designated passive products, SMTAM will suspend new and additional purchases of securities issued by companies involved in the manufacture of inhumane weapons, as listed below, and may sell existing holdings depending on the results of engagement.

*Inhumane weapons: Cluster bombs, anti-personnel landmines, biological weapons, chemical weapons

ESG engagement policy

SMTAM will engage in dialogue and express opinions that will contribute to the enhancement of corporate value over the medium to long term through the resolution of ESG issues of investee companies, positioning it as an opportunity to call for best practices from companies. It has designated 12 key topics, including climate change and improvements in corporate governance, through which it will conduct top-down engagement activities. At the same time, SMTAM will also employ a bottom-up approach linking these key topics to the business strategies of each corporation. On top of SMTAM's own engagement activities, the company will also participate in and collaborate with global initiatives for agendas related to greenhouse gases, palm oil, forest conservation, healthcare access, and diversity (promotion of women).



Initiatives of Nikko Asset Management

Approach to ESG

As an asset management company, Nikko AM's mission is to always act in the best interests of its clients. For that reason, it places utmost importance on fiduciary and ESG principles in its corporate philosophy and corporate activities. Guided by the belief that reflecting ESG in investment practices enhances the long-term value of corporations and contributes to sustainable economic growth, Nikko AM strives to incorporate ESG principles into all investment decision-making processes so that it can fulfill its fiduciary duties.

Specific ESG initiatives

(1) ESG Global Steering Committee

Formed in November 2016, Nikko AM's ESG Global Steering Committee is chaired by the Global Head of Investment. Its members include investment managers from Japan and overseas, as well as a large number of observers. The Committee is tasked with promoting and discussing the incorporation of ESG investment, methods for implementation, and new approaches. It also reports on its activities to the Board of Directors and is incorporated into Nikko AM's governance structure.



(2) ESG investment strategy

Nikko AM believes that appropriately incorporating ESG into investment processes is key to achieving excess returns over the medium to long term. Its active Japan equity investment strategies incorporate Creating Shared Value (CSV) evaluations, which take ESG factors into consideration. The evaluation score is based on the application of the CSV theory and assesses how companies balance their engagement of ESG issues, the pursuit of market competitiveness, and financials, as well as their creation of shareholder value by solving social issues. Through continuous engagement with companies, Nikko AM's research analysts actively evaluate how proactive they are in addressing ESG issues.

ESG guideline

- Principle 1:** Nikko AM will incorporate ESG issues into investment analysis and decision-making processes.
- Principle 2:** Nikko AM will be active owners and incorporate ESG issues into ownership policies and practices.
- Principle 3:** Nikko AM will seek appropriate disclosures on ESG issues by the entities in which it invests.

- Principle 4:** Nikko AM will promote acceptance and implementation of the Principles within the asset management industry.
- Principle 5:** Nikko AM will work together to enhance effectiveness in implementing the Principles.
- Principle 6:** Nikko AM will report on activities and progress towards implementing the Principles.

ESG engagement

Nikko AM's engagement involves exchanging opinions not only on the business continuity and financial strategies of investee companies, but also on management policies, business strategies, shareholder returns, ESG issues, and other matters referred to in publicly disclosed non-financial information, from a long-term perspective and in line with the company's growth phase. Nikko AM's engagement activities cover a wide range of stakeholders, from senior management to finance, corporate planning, and business managers. In addition, for companies that are particularly reluctant to provide information, Nikko AM proposes meetings with senior management to increase the effectiveness of engagement. Nikko AM is working to achieve closer engagement with investee companies, with the aim of sharing the company's situation from a third-person perspective and supporting the creation of corporate value over the medium to long term.

3. Consulting Business Initiatives

Consulting to support the adoption of sustainable management practices

There is no shortage of economic, social, and environmental problems that affect us, such as the spread of COVID-19, the escalation of climate change, and the widening disparity of wealth. As such, there is a growing call for companies, which play a leading role in the economy, to incorporate sustainability-conscious management and play a proactive role in solving issues.

SuMi TRUST Bank's approach to sustainable management is to establish a process that creates value for stakeholders as well as for itself from the three angles of economy, society,

and environment and then fully incorporate it into management. The Bank offers consulting services to support the introduction of sustainable management by drawing on its strengths of bringing together the perspectives of ESG institutional investors accumulated over many years in investment management with the perspectives of forward-thinking sustainable management practitioners. More specifically, we have assembled a project team of highly experienced, expert consultants to accommodate the needs of clients and provide convincing advice.

Factors that hamper the implementation of sustainable management

- Insufficient understanding of global trends (assuming sustainability does not suit Japanese culture).
- Sustainability being viewed as “corporate social responsibility” and not integrated into core strategic issues.
- Incomplete instructions and information sharing with employees caused by vague motives for promotion of sustainability. Lack of a sense of conviction among employees preventing the progress of initiatives in the field.
- Insufficient involvement of the board of directors and lack of awareness among management. Department in charge not given enough authority to promote sustainability.
- Lack of balanced dialogue with a variety of stakeholders, including NGOs (inadequate response to negative external criticism).

Sustainable Management Implementation Support

The Sustainable Management Implementation Support service is designed to support clients in creating a roadmap for accelerating sustainable management based on the existing implementation system, status of initiatives, and information disclosure, as well as solidifying the internal mindset.

Sustainable Management Promotion Support

The Sustainable Management Promotion Support service helps clients develop their value creation process and enhance their impact management and materiality management, which are an essential part of promoting sustainable management.

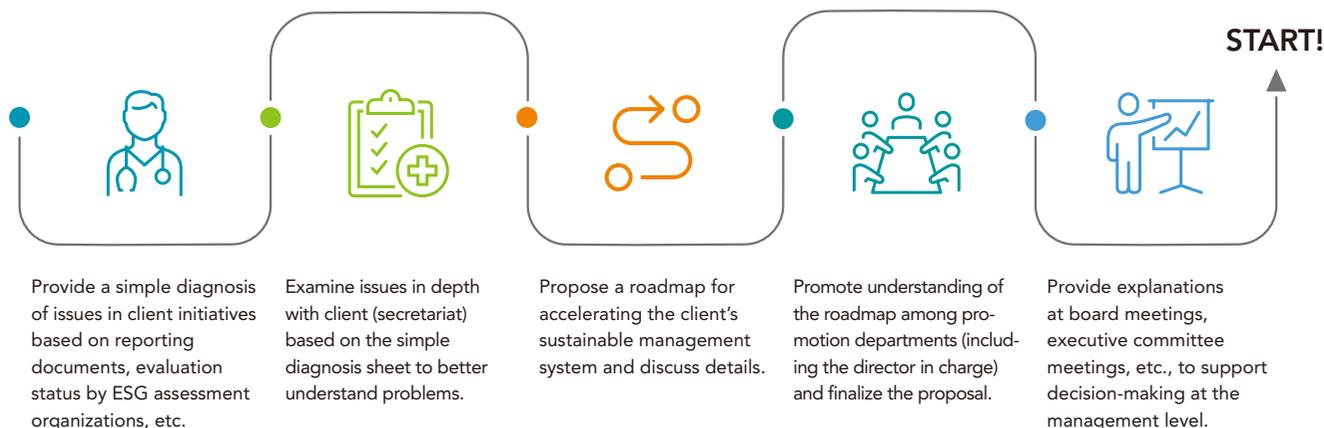
Sustainable Management Disclosure Support

The Sustainable Management Disclosure Support service aids clients in improving information disclosure with a focus on integrated reports as a means of communicating sustainable management to stakeholders in an easy-to-understand and concrete manner.

Sustainable Management Dialogue Support

The Sustainable Management Dialogue Support service assists clients in enhancing dialogue with investors, who have become increasingly interested in sustainable management and are beginning to incorporate ESG factors into their engagement and exercise of voting rights.

Process for supporting the introduction of sustainable management



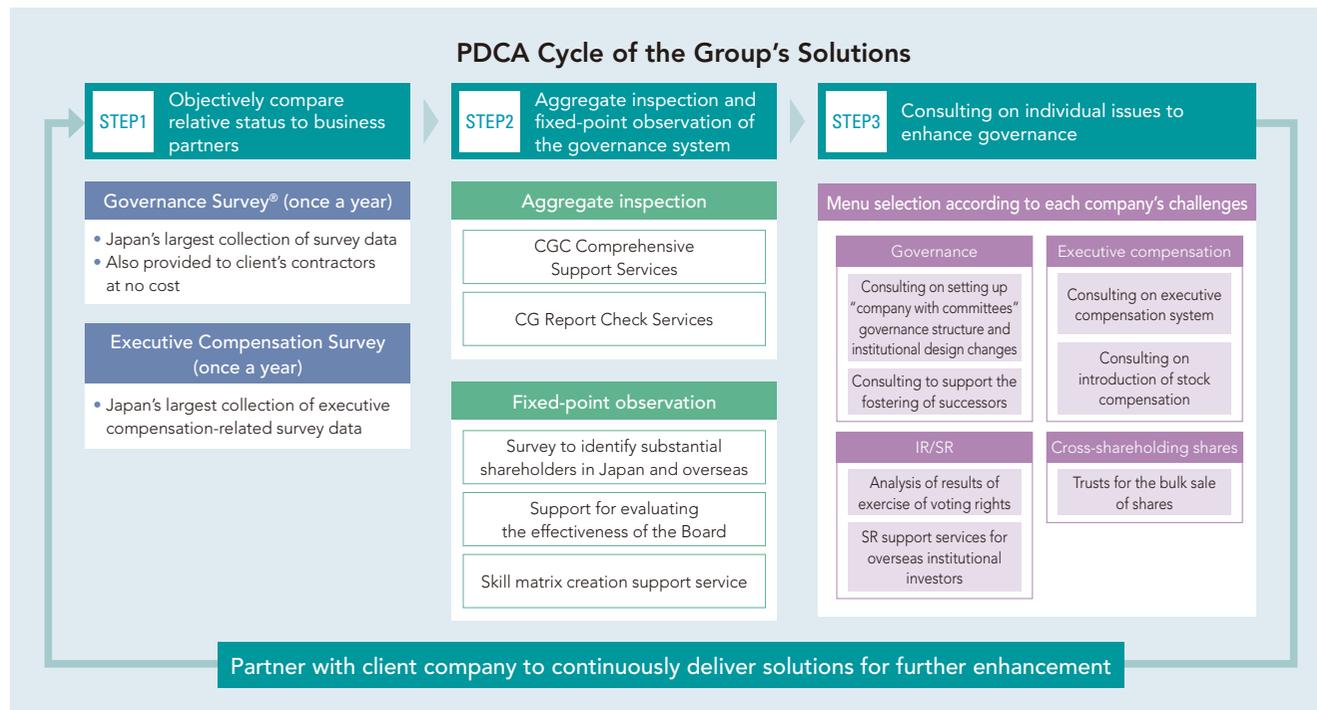
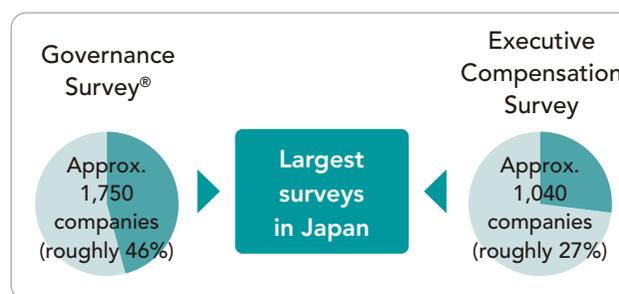
Governance Consulting

Corporate governance reforms in Japan have strengthened governance on the part of both companies and investors through the introduction and revision of the Stewardship Code and the Corporate Governance Code. Based on the revised codes and various guidelines/guidance, companies are now expected to implement more sophisticated initiatives to strengthen governance. The Group's Stock Transfer Agency Services Business supports the corporate governance initiatives of Japanese companies with our Governance Survey[®] and Executive Compensation Survey, which leverage the industry's leading client base*.

Now in its fifth year, the Governance Survey[®] attracted the participation of some 1,750 companies, making it the largest such survey in Japan. Nearly 50% of all listed companies in Japan took part and the distribution of those companies is quite similar to that of Japan's stock markets. The survey is supervised by Professor Kunio Ito and is characterized by providing governance index data (indexed to substantive progress) along with results compared alongside benchmark companies. The Executive Compensation Survey, conducted in collaboration with Deloitte Tohmatsu Consulting, is also in its fifth year and is also the largest in Japan in terms

of company participation, with approximately 19,600 executive compensation data points from some 1,040 companies broken down by company attribute. In addition to compensation levels, the survey intensively reviews compensation decision policies and the practical operation of compensation systems and compensation committees. Building on the data in the Governance Survey and the Executive Compensation Survey, the Group is able to partner with client companies to identify their specific challenges, deliver optimal solutions, and provide continuous and multifaceted support aimed at enhancing governance.

*As of the end of September 2021, 1,656 listed companies under management for a market share of 42.4%, the highest in the industry



The Group views governance consulting as an opportunity for close communication and interaction with the management of client companies, and thus continues active dialogues with them. This enables us to capture a wide range of management challenges that go beyond the governance challenges facing the management team and

provide further solutions.

Examples of the kinds of total solutions that benefit from Group strengths include sustainable finance, M&A advisory services, real estate brokerage and effective utilization, support for introducing and changing corporate pension schemes, and wealth management.