

Second Philippines-Japan Environment Week

January 14, 2025

Sumitomo Mitsui Banking Corporation (SMBC)
Sustainable Solutions Dept.



SUMITOMO MITSUI
BANKING CORPORATION

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Overview of Sustainability at SMBC



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Corporate Overview

SMBC Group companies provide a wide range of financial and financial related services including commercial banking, leasing, securities, consumer finance, system development, and data processing. SMBC is a top-tier Japanese bank which maintains relationships with approximately 80,000 companies in Japan.

Sumitomo Mitsui Financial Group Profile

Chairman of the Board	Takeshi Kunibe
President	Toru Nakashima
Capital	¥2,345.9 billion ^{*1}
Number of Employees	109,434 ^{*2}
Stock Exchange Listings	Tokyo Stock Exchange (Prime Market) Nagoya Stock Exchange (Premier Market) <i>Note: American Depositary Receipts (ADRs) are listed on the New York Stock Exchange.</i>

Sumitomo Mitsui Banking Corporation Profile

Head Office	1-2, Marunouchi 1-chome, Chiyoda-ku, Tokyo, Japan
President and CEO	Akihiro Fukutome
Capital	¥1,770.9 billion ^{*1}
Number of Offices	Japan : 455 ^{*1} / Overseas : 20 ^{*1}
Number of Employees	28,191 ^{*1}

SMBC Group Head Office / Tokyo




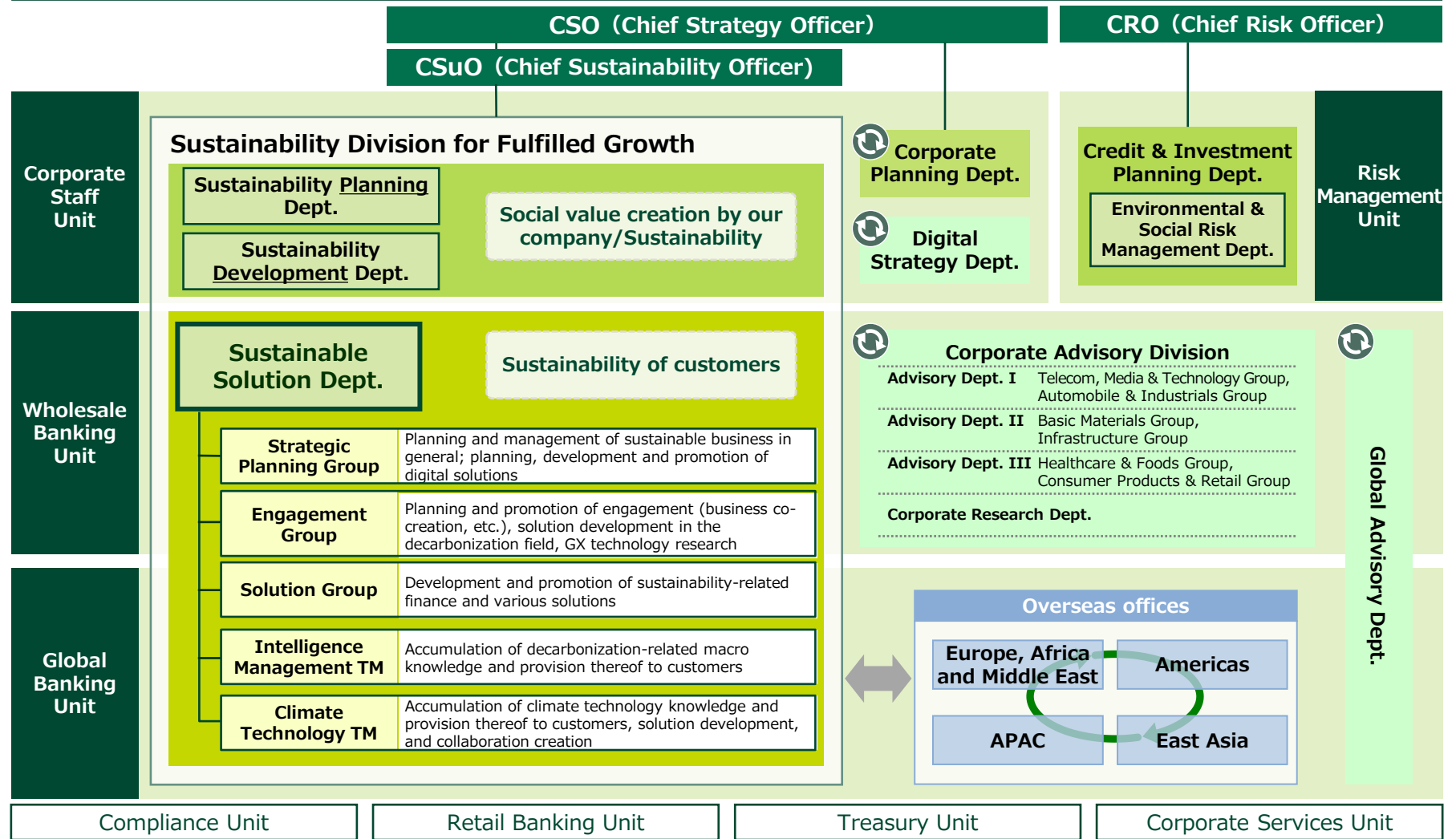
*1 As of September 30th 2024

*2 As of March 30th 2024

Introducing the Sustainable Solution Dept.

In April 2024, in order to further promote social value creation through the promotion of sustainability management and efforts to address materiality, the Sustainability Division was reorganized into the Sustainability Division for Fulfilled Growth.

Sumitomo Mitsui Banking Corporation organizational chart (partial excerpts)  : Works closely with the Sustainable Solution Dept.



Our achievements in APAC



1st as Japanese bank

We are proud to be the first Japanese bank to issue a TNFD report, emphasizing its dedication to both climate action and biodiversity.



SMBC Group was awarded **Sustainable Markets Initiative 2023 Terra Carta Seal**, which recognizes global companies that are demonstrating their commitment to, and momentum towards, the **realization of sustainable society**.

SMBC as contributor, partner and sponsor of key sustainability forums

NUS Sustainable Finance and Green Finance Institute (SGFIN); NUS Centre for Nature-Based Climate Solutions to **foster the education** of the **next generation**

Ecosperity Week 2023; Joint Committee on Climate Change 2023; Singapore Fintech Festival 2023 to **shape discussions** on **sustainability** with **relevant market players**

Support the development of Social Financing Framework for VP Bank (Vietnam) and Northern Arc Capital (India); ESG Deposit Framework for BTPN to **integrate sustainability** into their offerings



APLMA Green and Sustainable Finance Committee; Singapore Green Finance Centre (SGFC); WWF Sustainable Banking Assessment (SUSBA) to **shape best practices** for **sustainable finance**

SMBC Transition Finance Roundtable 2024; Lendlease Conference 2023; Bloomberg: Women in Climate Roundtable & Jakarta Forum; S&P Global APAC Financial Institutions Conference 2023 to **exchange valuable insights** with **fellow industry leaders**.

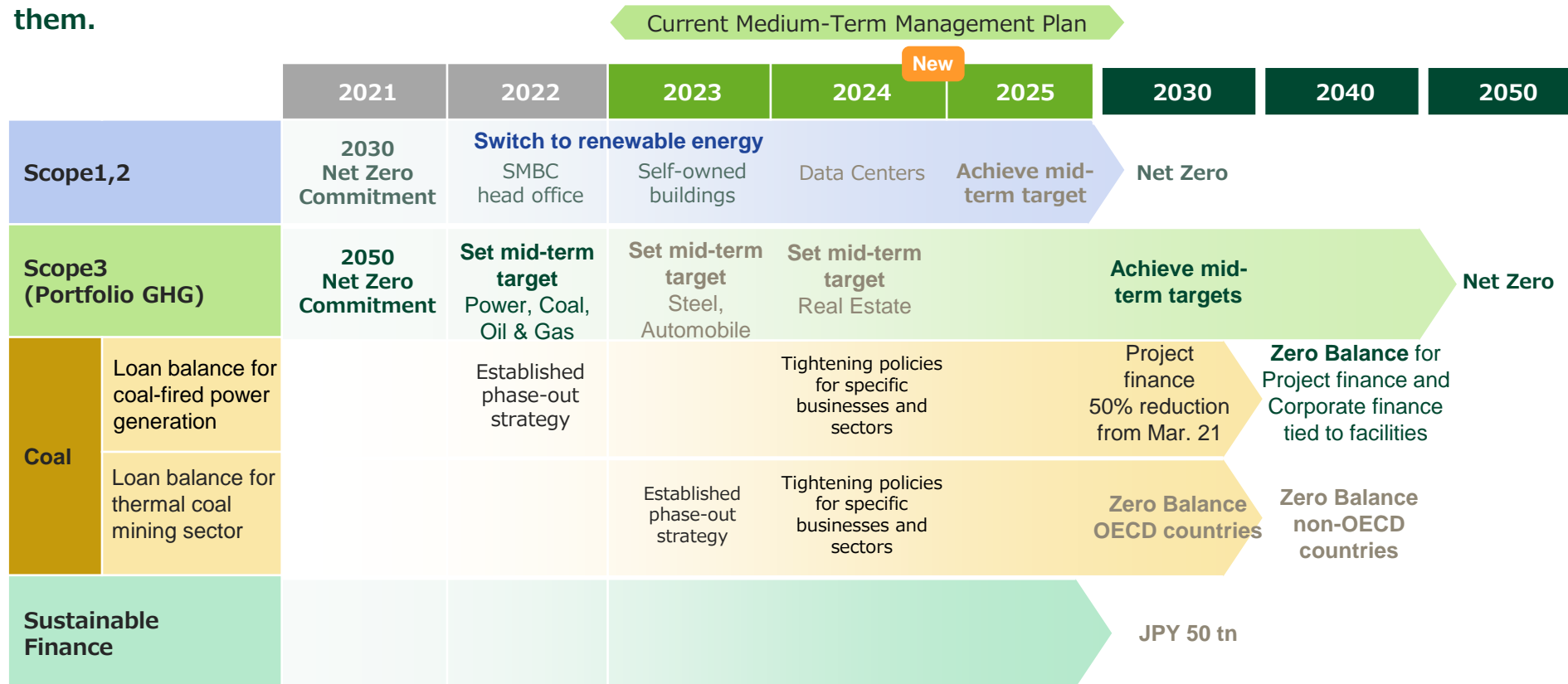
APAC wide training for SMBC business leaders; Asia Sustainability Academy for all SMBC APAC staff; Sustainable Finance Bulletin for all staff to ensure **strong internal foundations, policies** and **knowledge** to advance our sustainable finance strategy.

Support for BTPN and SMBC Malaysia to organize and contribute to sustainability seminars and workshops to **exchange knowledge** with **local leaders**

Source: Sustainable Market Initiative

Transition Plan to Realize Net Zero (Overview)

Transition Plan is series of goals and actions for SMBC Group to realize net zero. We will continue to enhance them.



Governance	Metrics and targets	Implementation strategy	Engagement strategy
<ul style="list-style-type: none"> Strengthen governance system ✓ Revise executive compensation system Establish internal control Strengthen capabilities of directors and employees 	<ul style="list-style-type: none"> Scope 1,2 reduction targets Scope 3 reduction targets Sustainable finance KPI Transition KPI 	<ul style="list-style-type: none"> Strengthen risk management ✓ Climate-related RAF Promote decarbonization business ✓ Transition Finance Playbook 	<ul style="list-style-type: none"> Approach to customers ✓ Customers' transition strategies assessment Engage with other stakeholders

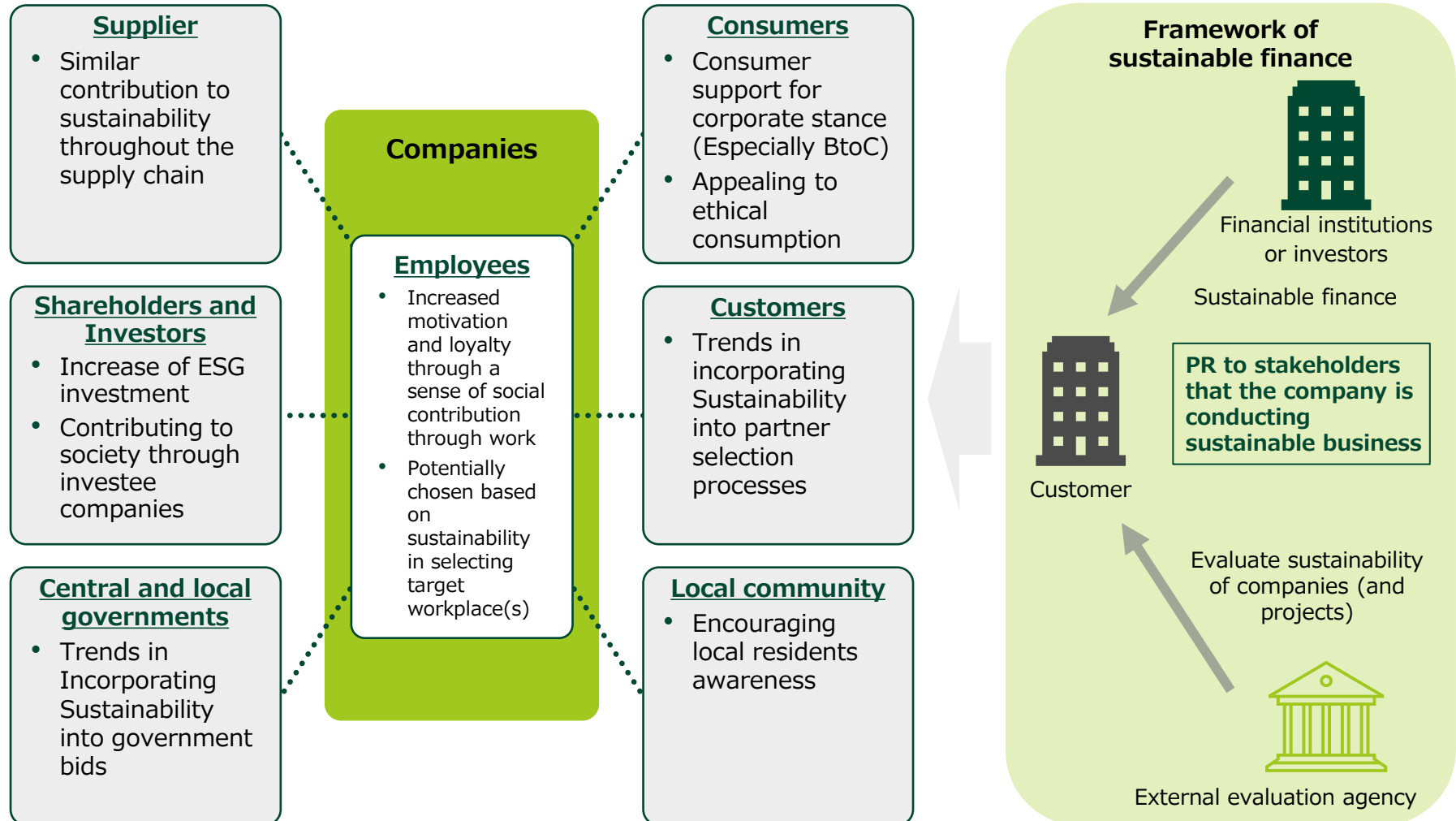
Overview of Sustainable Finance



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Increasing Stakeholder Pressure on Sustainability

Shareholders and investors, who traditionally focused on a company's financial conditions and profitability, are now adopting ESG investment methods that incorporate a sustainability perspective.



Overview of Sustainable Finance

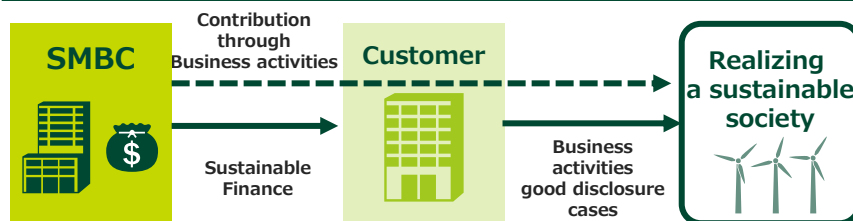
Sustainable finance refers to "methods and activities that encourage addressing environmental and social issues through financial means."

About sustainable finance

- Aims at addressing global issues, such as environmental issues like climate change, and social issues like human rights issues and poverty.
- General term for financial services that covers not only ESG investment but also a wide range of financial services including sustainable loans and bonds
- **Sustainable finance is expected to play an important role in achieving the Sustainable Development Goals (SDGs) by 2030**

The benefits of engaging in sustainable finance

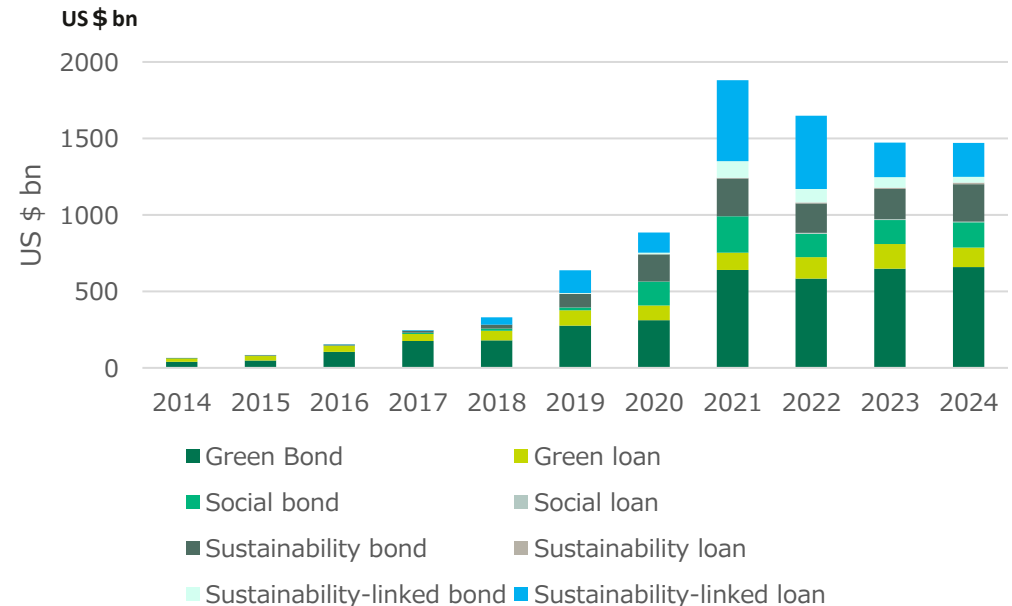
- **Efficiently communicate to major stakeholders, including investors, business partners, and employees.**
- **Increase enterprise value in the medium to long term.**



Some of the products and services described in this document may not be available from SMBC. If you wish, we can introduce you to a relevant Group company/companies.

Trends in the global sustainable finance market

- The size of the sustainable finance market has been declining for two consecutive years due to factors such as rising interest rates from 2022 onwards and stricter management requirements for sustainability-linked loans/bonds. On the other hand, **green loans/bonds turned around to an upward trend in 2023 compared to the previous year.**



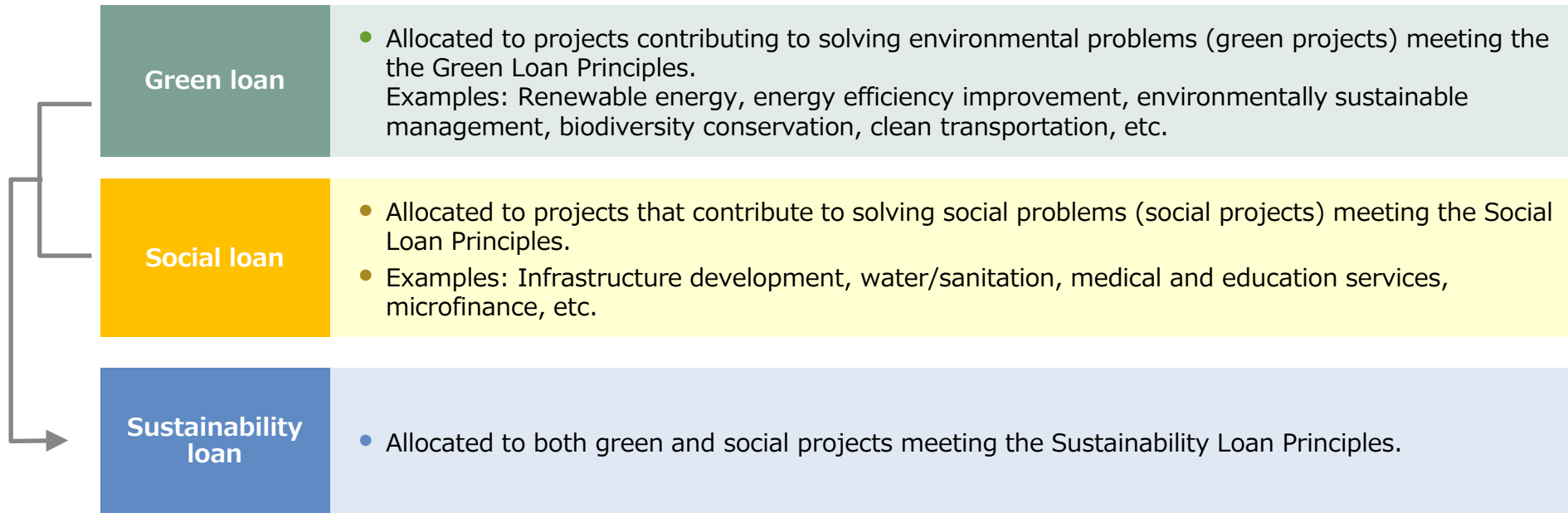
(*As of November 2024)

Source: Compiled by SMBC from Bloomberg NEF

Overview of Sustainable Finance products

	Use of Proceeds		Sustainability-linked
Type	Green Loans	Social Loans	Sustainability-linked Loans
Approach	<ul style="list-style-type: none"> Financing or refinancing with defined use of proceeds for green projects / social initiatives 		<ul style="list-style-type: none"> General corporate financing with margin linked to sustainability targets
Core Components	<ul style="list-style-type: none"> Use of proceeds; Project evaluation / selection; Management of proceeds; Progress reporting 		<ul style="list-style-type: none"> Material & ambitious KPIs Benchmarking Progress reporting Periodic verification
Benefits	<ul style="list-style-type: none"> Specific financing for green and social, ESG aligned projects Tap on growing investor demand for ESG loans Demonstrates capex invested in sustainable outcomes Demonstrates credibility of corporate sustainability goals, transition plans 		<ul style="list-style-type: none"> Improve sustainability profile Financial incentive to meet targets

Green/Social/Sustainability Loan



Examples

TEPCO Renewable Power	Green loan	<ul style="list-style-type: none"> Projects for development, construction, operation and renovation of renewable energy (hydroelectric, wind, solar and geothermal)
Healthcare & medical investment corporation	Social loan	<ul style="list-style-type: none"> Integrated healthcare facilities where the functions of a paid nursing home for the elderly with nursing carers, a hospital, and a paid nursing home for the elderly, are integrated

Main features

- 1** Transparency is ensured **through assured tracing and management, as Use of proceed is restricted.**
- 2** **Formulation of a loan framework** and obtain evaluation from an external evaluation agency
- 3** After the loan extension, implement an annual **reporting** on the status of impact manifestation

Sustainability-Linked Loan (SLL)

Sustainability-Linked loan

- This loan product sets ambitious sustainability performance targets (SPTs) that are aligned with the obligor sustainability strategy, and in accordance with the achievement status, incentives or disincentives will arise.

Description

- Setting ambitious SPTs material to the business. There are two setting patterns as follows:
 - Borrower and arranger **set individual goals** (GHG reduction goals, etc.).
 - Use scores given by external evaluation agencies** (overall scores and individual item scores).
- There are two setting patterns for incentives and disincentives as follows:
 - Interest rate-linked method:** Interest rates will go up and down depending on the level of achievement. Generally, the linkage range is some basis points.
 - Donation method:** When a goal is not reached, the customer donates a predetermined amount to an organization of their choice.
- In principle, **acquisition of an external evaluation** on compliance with the SLL principles is required (with exceptions).

Main features

- Can be used for operating capital and other annual expenses as **there are no restrictions on Use of proceed.**
- Incentives to achieve SPTs.**
- Annual **reporting** on the achievement status of SPTs.

Case examples

Kyushu Railway Company	<ul style="list-style-type: none"> Reduce Scope 1 and 2 CO2 emissions by 50% in FY2030 (vs. the reference year of FY2013).
Nomura Real Estate Holdings	<ul style="list-style-type: none"> SPT-1: Reduce the total GHG emissions of Scope 1 and Scope 2 across the entire group by 35% by FY2030 vs. FY2019. SPT-2: Reduce the group's Scope 3 (Category 1 and 11) GHG emissions by 35% by FY2030 vs. FY2019.

Source: Compiled by SMBC from publicly available materials

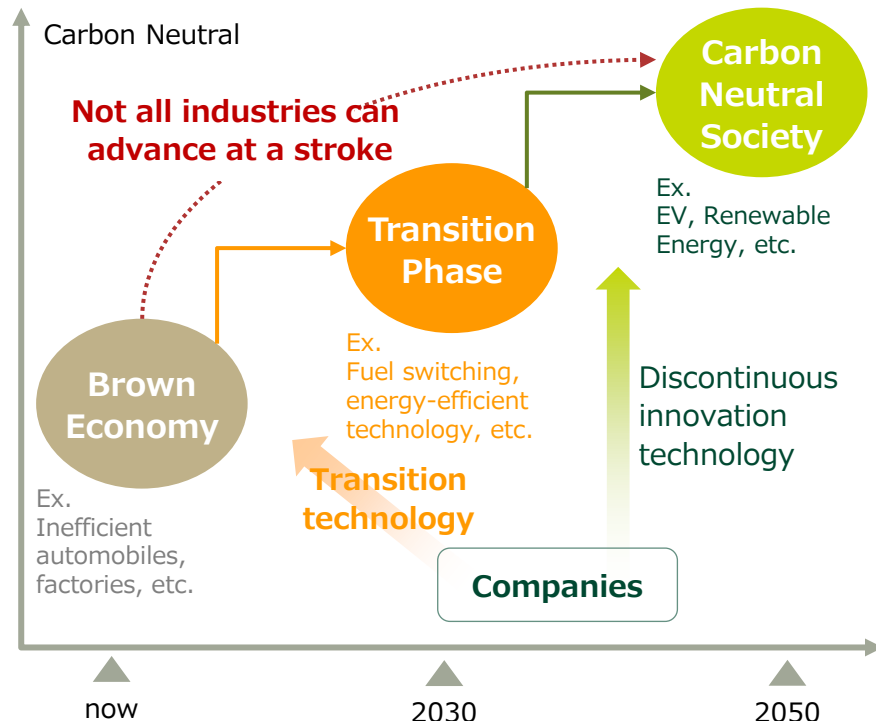
Concept of Transition Finance

Transition finance is a financing method aimed at supporting companies that are making steady efforts to reduce GHG emissions in accordance with long-term strategies to achieve a decarbonized society.

Pathway to carbon neutral society

Point

- The pathways to decarbonization are expected to be diverse, considering the characteristics of each country and industry.
- There are many technological and cost-related challenges in decarbonizing society, and it cannot be achieved in one leap.



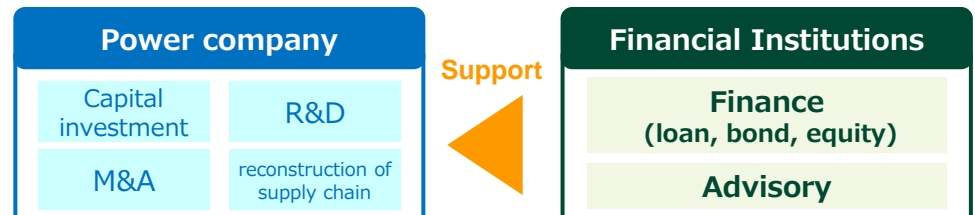
Source : Ministry of Economy, Trade and Industry (METI) HP "Transition Finance"

Example of transition (power sector)

Point

- The transition to a decarbonized society requires business restructuring and large-scale investment.
- It is important financial institutions support companies working towards the transition to a carbon neutral society.

Decarbonization levers	metric	Target for net zero		
		2020	2030	2050
CCUS	CO2 captured : Mt CO2e	40	x42 1,670	x4.5 7,600
Renewable energy	Renewable energy ratio in generation : %	29	x2.1 61	x1.4 88
Ammonia generation	Consumption of ammonia fuel: Mt	0	8	x1.6 13
Hydrogen generation	Consumption of hydrogen fuel: Mt	0	43	x2 88



Source : IEA "Net Zero by 2050"

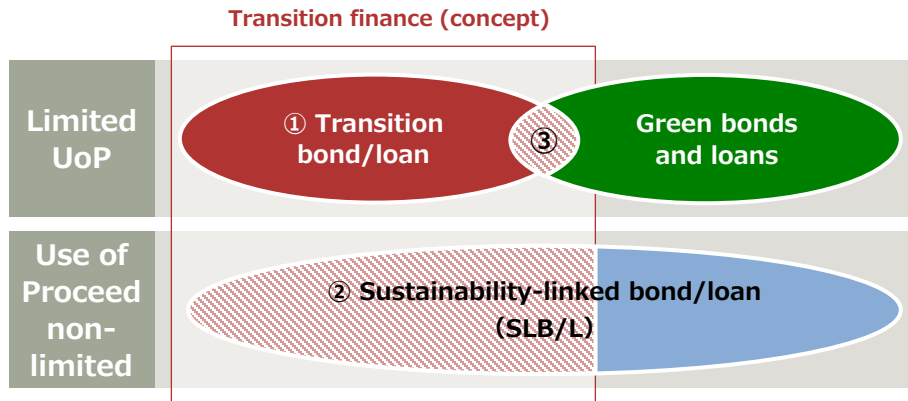
Transition Loan

Transition loan

- Finance to support initiatives implemented by industries with high GHG emissions in accordance with long-term strategies aimed at realizing a decarbonized society
- Enables **financing for decarbonization** in industrial sectors where emissions reductions are particularly difficult.

Description

- Both **limited Use of Proceed** and **non-limited Use of Proceed**.
- It is required to be consistent with the International Capital Market Association's "**Climate Transition Finance Handbook**" and the "**Basic Guidelines for Climate Transition Finance**" of METI, MOE, and FSA.
- It is necessary to satisfy the **four elements of transition: strategy and governance, materiality, scientific foundation, and transparency.**



Source: Compiled by SMBC from METI website

Main features

- 1 Support **customers' transition efforts towards decarbonization that cannot be supported through green initiatives.**
- 2 Must meet common transition finance **requirements** and **framework requirements depending**
- 3 Annual **reporting.**

Case introduction

Kirin Holdings	Linked loan type	GHG emission reduction rates in Scope 1 and Scope 2 (Reference FY: FY2019) *Multiple SPTs are set during the loan tenor.
Mazda	Use of Proceed are restricted	Development and manufacturing of battery EVs and plug-in hybrid vehicles, as well as CN of globally-owned factories, etc.

Source: Compiled by SMBC from publicly available materials

Importance of disclosures



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SMBC's Transition Finance Playbook – Context

SMBC's Commitment

SMBC Group, as a responsible financial institution, will support our customers' transition and efforts to develop new technologies, to maximize our contributions in realizing a decarbonized society.

We are committed to achieving net zero emissions in our overall loan and investment portfolio by 2050.

Achieving net zero

To achieve net zero, it is important to provide financing to activities and sectors which immediately contribute to decarbonization (i.e., green financing)

Requires reducing our Financed Emissions (FE), but also

To achieve our commitment of net-zero by 2050, we need to also reduce our financing to high emitters on the long-term.

Requires transition finance

Sectors and activities hard to decarbonize should also be supported to manage their transition to decarbonization, which would contribute to the emission reduction of the real economy. Thus, these should receive "Transition Finance"

Increasing FE

However, these sectors and activities would likely increase SMBC's financed emissions.

Accountability and Engagement

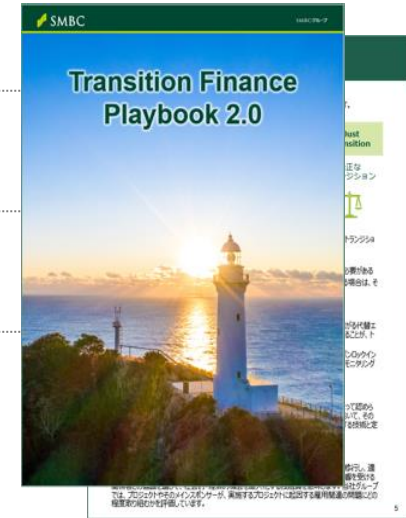
Transition Finance playbook should help to:

1. Better manage our FE
2. Increase our lending and investment into transition activities
3. Enhance our engagement with our clients on transition and decarbonization strategies

Transition Finance Playbook

In 2023, SMBC published the Transition Finance Playbook, disclosing our definition of transition finance.

Transition Finance	Purpose	Financing to bridge the gap to a decarbonized economy			
	Our definition	Financial services aiming to support clients align their operations with pathways in line with the objectives of the Paris Agreement.			
	Principles	Do No Significant Harm	No carbon lock-in	Best available technology	Just transition
Objectives of the Playbook	<ol style="list-style-type: none"> Develop objective criteria to define Transition Finance Ensure accountability towards stakeholders Leverage the Playbook for customer engagement 				
Targeted sectors	Power	Oil and Gas	Steel New	Automobile New	
A year of implementation in figures <small>*as of September 2024</small>	We labeled 36 transactions		We engaged with More than 100 clients		
Feedback from our stakeholders	<p>“The Playbook is a practical tool to support transition” (Foreign authorities)</p> <p>“The Playbook is a realistic initiative, designed in detail according to technological trends and local context” (Investor/Rating agency)</p> <p>“We understand we need to explain the story towards decarbonization” (Heavy industry manufacturer)</p>				



The decision process framework in a nutshell

Project Finance, Use of Proceeds

Financing Assets

- Assets are assessed based on SMBC's Internal Taxonomy
- The Internal Taxonomy has been developed according to best practice, regional differences and pathways and technological information. To the extent possible, it takes into account alignment with national transition plans / pathways.

Transition Strategies

- Assess the project's main sponsor's* or the borrower's transition strategy
- *Refer to the General Corporate Finance table for the detailed criteria
*The main sponsor is defined as the sponsor with the most influence on the project's decision making process

General Corporate Finance

Main Criteria

- Participation in sectoral / national initiatives to address climate change, or has pledged to address climate change with international initiatives such as RE100 and SBTi
- Commitment for net zero by 2050
- Disclosure of GHG emissions
- Reduction targets for GHG emissions
- Concrete transition strategies to achieve the targets
 - ✓ The borrower has a science-based climate transition strategy which includes credible targets and pathways, aligned with the 1.5°C pathway
 - ✓ The borrower's climate transition strategy is operationalized by an investment plan
- Clear governance oversights to implement the transition strategy
- Appropriate KPIs

Disclaimer

- This document describes SMBC's own observations.
- This document is aimed at providing our customers with information and encouraging them to have discussions with us, and is not intended to solicit the purchase or sale of, or engagement in, any of our products and services.
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