

# Creating Social Value to Achieve Sustainability

Achieving sustainability

Create a society in which today's generation can enjoy economic prosperity and well-being, and pass it on to future generations

Creation of social value

New materiality

Environment

DE&/  
Human rights

Poverty &  
Inequality

Declining Birthrate  
& Aging Population

Japan's  
Regrowth

Expansion/worsening of  
social issues

Changes to the metrics for  
measuring corporate value

DNA

Sustainability efforts of Mitsui and Sumitomo over long years

# Message *from* Group CSuO

SMBC Group states that “we contribute to a sustainable society by addressing environmental and social issues” in its Mission. In the SMBC Group Statement on Sustainability, we commit to “creating a society in which today’s generation can enjoy economic prosperity and well-being, and passing it on to future generations” so that we can solve social issues and create a better society.

SMBC Group has also formulated the new Medium-Term Management Plan, the “Plan for Fulfilled Growth,” under which the creation of social value is identified as a pillar of management in light of the expansion/worsening of social issues and our impact on society being added as a factor for measuring corporate value. With the formulation of our new Medium-Term Management Plan, we revised the key issues (materiality) of SMBC Group for the first time in about a decade. Of the multitude of social issues facing the world, we have identified five issues to focus on in particular as our new materiality. These issues are the Environment, DE&I/Human rights, Poverty & Inequality, Declining Birthrate & Aging Population, and Japan’s Regrowth. We have also identified 10 goals for solving the five issues.

In order to achieve these goals, it is important to incorporate efforts for solving our new material issues in the daily activities of SMBC Group and steadily execute those efforts. This involves enhancing dialogue within the company via internal social media and town hall meetings, as well as incorporating the creation of social value in the items for evaluating business divisions and units, and individual employees. Looking ahead, we will formulate detailed action plans for each material issue and endeavor to set and disclose impact-based KPIs that measure our impact on society. If we can visualize a new metric for measuring our impact and our efforts for solving social issues create a flow of money, which in turn will bring value back to us, then our efforts for creating social value will spread throughout society. In order to achieve such a society, it is important for the various constituents of society, such as government, corporations, individuals, and universities, to work together across boundaries. We at SMBC Group will contribute to building the foundation and market for such cooperation as the point of connection between our customers in diverse regions and industries across the world.

SMBC Group aims to create social value in order to solve social issues while achieving economic growth, and make people living in such a society feel happy, or in other words, contribute to growth for happiness. As Group CSuO, I will make my best effort to provide leadership that enables the officers and employees of SMBC Group to work together to solve social issues in accordance with our new Medium-Term Management Plan and newly defined material issues.



**Masayuki Takanashi**

Executive Officer  
Group CSuO

## Creating Social Value to Achieve Sustainability

### Promoting Sustainability

#### Sustainability Promotion System

SMBC Group has established the Sustainability Committee and Corporate Sustainability Committee, responsible for supervising and executing, respectively, to continuously enhance our sustainability management.

In April 2022, we also established the Sustainability Division in charge of planning and promoting both

corporate and business efforts, under the oversight of the Group CSuO. This division gathers functions and knowledge from across the group.



### Efforts for Environment

#### Efforts Relating to Climate Change

SMBC Group earnestly strives to reduce greenhouse gas emissions in line with the goals of the Paris Agreement and support efforts for the transition and technical innovation of our customers, so that we can actively contribute to achieving net zero by 2050.

##### ● Governance

The promotion of sustainability management at SMBC Group is the responsibility of group CxOs including the CEO, supervised by the Board of Directors, and administered under a robust governance system. In addition to our Board of Directors, internal committees such as the Sustainability Committee supervise and debate measures for tackling climate change. Concrete business strategies for tackling climate change are executed upon being deliberated and decided on in meetings such as management committees. In June 2023, we revised our executive compensation system to incorporate new quantitative ESG indicators including reduction targets for our portfolio greenhouse gas emissions in the medium-term perfor-

mance-linked compensation. We are also strengthening our internal control in line with the movement for enhancing sustainability-related disclosure standards. We have already completed the installment of an internal control evaluation system for TCFD disclosure. In the future, we plan to expand it to include other non-financial information such as natural capital. As further enhanced efforts are required to achieve net zero, we will accelerate our commitment while strengthening our functions for supervising progress.

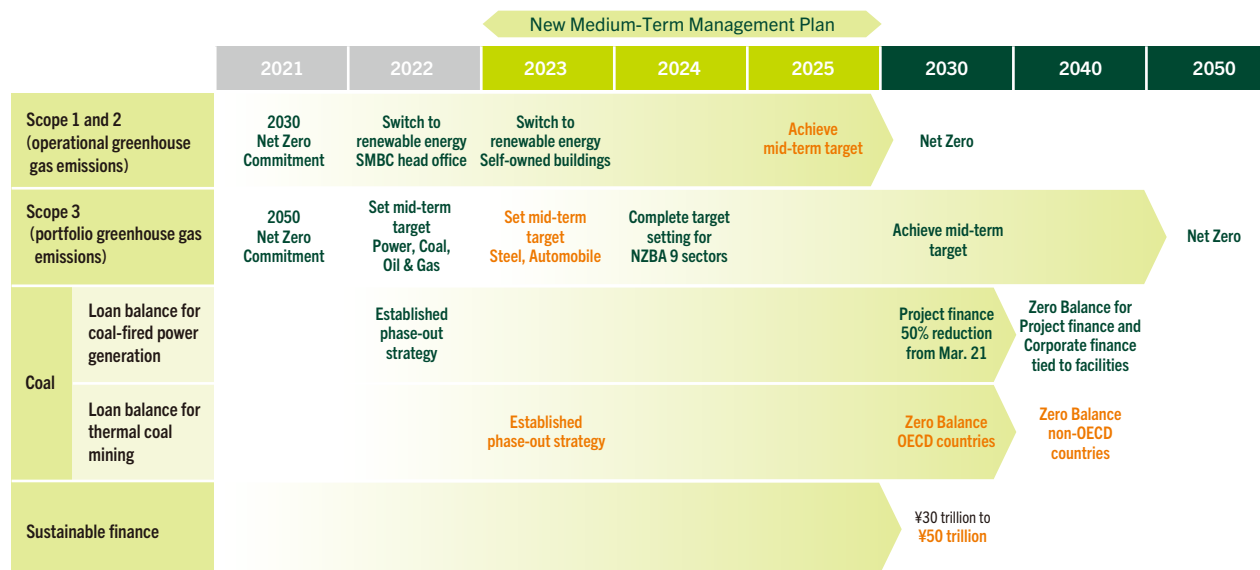


For information on our executive compensation system, see page 118.

##### ● Transition plan for achieving net zero by 2050

SMBC Group aims to achieve net zero for our own greenhouse gas emissions by 2030, and for our entire loan and investment portfolio by 2050. We have systemized the series of targets and actions in the transition plan.

## Transition Plan to Realize Net Zero by 2050



Orange: Published in May 2023

## ● Achieving Decarbonization via Support of Customer Transitions

### (1) Raised sustainable finance targets

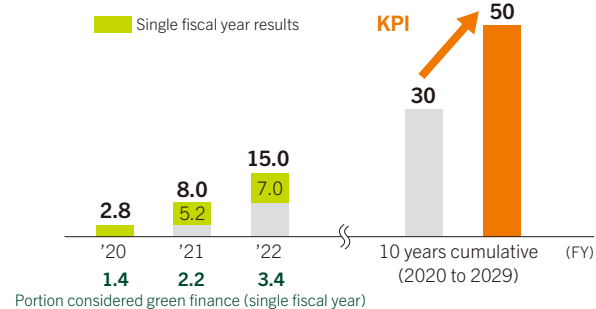
Large-scale capital investment and technical innovations for the medium to long-term reduction of greenhouse gas emissions will be essential to achieve a decarbonized society. As a financial institution, we recognize this as a business opportunity for providing new financial products and services. This is why SMBC Group has further enhanced our sustainable finance efforts, and revised our targets for FY2020 to FY2029 upwards from ¥30 trillion to ¥50 trillion. We strictly define sustainable finance in accordance with the green bond principles and social bond principles of the International Capital Market Association (ICMA).

### (2) Support via decarbonization solutions

We support decarbonization efforts of our customers via various solutions utilizing digital technologies. The Sustana cloud service developed by SMBC helps calculate and reduce greenhouse gas emissions by importing various types of data on the business of a customer. The service has a function for recommending reduction measures in addition to assisting disclosure, and since its launch in 2022, has been used by more than 1,000 companies. We will continue to contribute to the decarbonization of our customers by providing decarbonization support solutions that leverage the strengths of SMBC Group.

### Sustainable Finance (Total)

(JPY tn)



## Creating Social Value to Achieve Sustainability

### Efforts for Environment

#### ● Efforts for Scope 3

We will sincerely strive to reduce our greenhouse gas emissions in line with the targets of the Paris Agreement while supporting the efforts of our customers towards transition and technical innovation. We are committed to achieving net zero for our Scope 3 emissions (portfolio greenhouse gas emissions) by the year 2050. In FY2022, we set medium-term reduction targets for the power, oil & gas, and coal sectors for the year 2030, in order to draw a path to these reductions. We also plan to set reduction targets for the steel and transport (automobile) sectors in FY2023, thus completing the setting of medium-term targets for the nine sectors required by the NZBA (Net-Zero Banking Alliance), an international banking initiative for achieving net zero.

#### Phase out strategy for coal sector

In order to reduce our portfolio greenhouse gas emissions, we are proceeding with efforts to make our policy for financing the coal sector stricter and formulate a phase out strategy. More specifically, we have announced that we will not support projects for expanding or creating new coal-fired power plants or thermal coal extraction businesses, and set a goal of zero loan balance, as indicated in the graph on the right.

#### ● Efforts for Scope 1 and 2

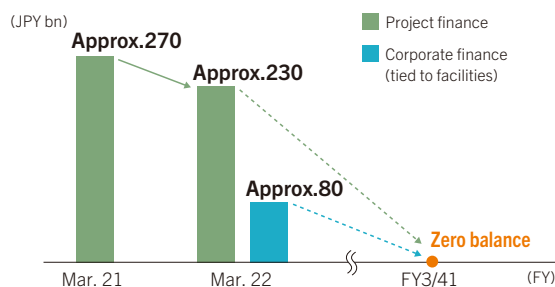
SMBC Group has set a target of achieving net zero Scope 1 and 2 emissions (our operational greenhouse gas emissions) by the year 2030. In May 2023, we set new medium-term targets of a 40% reduction by FY2025 and a 55% reduction by FY2026, compared to FY2021. Major reduction efforts include switching our power use to renewable energy. In April 2023, we completed our switch to renewable power at all our buildings in Japan and the head office buildings of our major group companies in Japan. In the future, we will further accelerate our global efforts for the entire group, including our overseas offices.

#### Path to Scope 3 Reduction

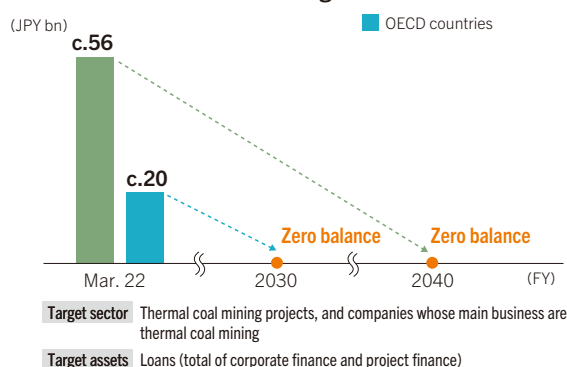
2021	Announced commitment to net zero by 2050
2022	Set mid-term- reduction targets for power, oil & gas, and coal sectors
2023	<b>Calculation of estimated sectoral emissions</b> <span style="float: right;">First half of FY2023</span> <b>Set medium-term targets for steel and automobiles sector</b> <span style="float: right;">During FY2023</span>
2024	Completion of mid-term target-setting in NZBA 9 sectors

Complete mid-term reduction target-setting in majority of Scope3

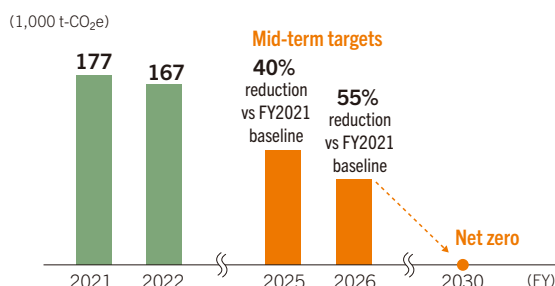
#### Loans for Coal-fired Power Generation



#### Loans for Thermal Coal Mining



#### Scope 1 and 2 results and targets



## ● Risk management

### (1) Risk Appetite Framework (RAF)

In order to achieve our net zero target, we manage our credit portfolio using the “Risk Appetite Framework” for risk management over the entire group. In April 2023, we added new climate related categories to the framework and added our portfolio greenhouse gas emissions as management indicators. We will manage our emissions by sector and business division in line with the 1.5°C scenario.



For information on the risk appetite framework, see page 126.

### (2) Risk management in financing

We have established a due diligence framework in order to appropriately manage the impact that our business has on the environment and society. When considering whether to invest in large-scale projects, we conduct environmental and social risk assessments based on the “Equator Principles” and utilize non-financial information such as the greenhouse emissions of the business operator and how it responds to climate related risks.

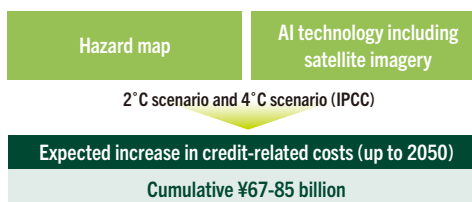
### Enhancement of Climate Related Risk Management

	Traditional metrics		New metrics
(1) Portfolio management	Risk-weighted assets		Portfolio greenhouse gas emissions
(2) Account planning	Credit risk, etc.	+	Climate-related risks Transition risk and others
(3) Data governance	Financial information		Non-financial information

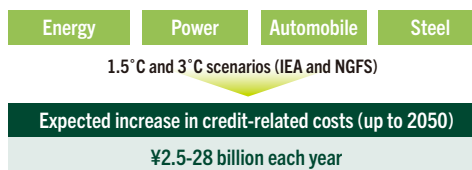
## ● Scenario analysis

In order to understand and manage the financial risks associated with climate change, we conduct scenario analyses of physical and transition risks. In regard to physical risks, water-related disasters are expected to account for a majority of natural disasters caused by climate change. We calculate expected water level rises and the likelihood of flooding in various climate change scenarios, and estimate additional credit related costs that will be incurred by SMBC lending to business enterprises. Regarding transition risks, we use the 1.5°C scenario to estimate additional credit related costs that will be incurred by lending to sectors which are expected to be highly impacted by the transition to a decarbonized society. Through enhancement of analysis methods and expansion of target sectors, we will identify the financial impacts of climate change in more detail and utilize this information to improve risk management across SMBC Group.

### Physical Risks



### Transition Risks



## Column

### Release of Transition Finance Playbook

To accelerate global decarbonization, it is essential to finance the transition of hard-to-abate sectors that have limited technical and economic alternatives for decarbonization and face challenges in the transition to a low-carbon economy. That is why in May 2023, SMBC Group released the Transition Finance Playbook, which defines criteria for supporting transition finance. This playbook was created in accordance with national/regional policies and regulations in addition to international guidelines for transition finance.



For details, refer to the SMBC Group website.

[https://www.smgf.co.jp/english/sustainability/materiality/environment/business/pdf/tfp\\_en.pdf](https://www.smgf.co.jp/english/sustainability/materiality/environment/business/pdf/tfp_en.pdf)



## Creating Social Value to Achieve Sustainability

### Efforts for Environment

#### Contribution to Conserving and Restoring Natural Capital

We believe that in order to conserve the global environment, it is essential to achieve “nature positive” results to halt and reverse the loss of natural capital, in addition to tackling climate change. To achieve this, we consider a framework for appropriately evaluating and disclosing risks and opportunities regarding natural capital, and promote various initiatives.

#### ● Release of TNFD Report

In April 2023, we released the SMBC Group 2023 TNFD Report, which details our concept of natural capital. This report follows the framework recommended by TNFD to analyze the relationship between our business and natural capital and areas that we should focus on in particular, and identifies risks and opportunities to indicate the direction of our efforts regarding natural capital.



For details, refer to the SMBC Group website.

[https://www.smfg.co.jp/english/sustainability/materiality/environment/naturalcapital/pdf/tnfd\\_report\\_e\\_2023.pdf](https://www.smfg.co.jp/english/sustainability/materiality/environment/naturalcapital/pdf/tnfd_report_e_2023.pdf)

#### ● Nature Positive Initiatives

##### FANPS\*



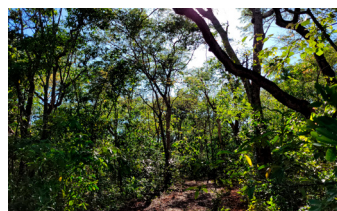
An Alliance to support companies' efforts to strengthen nature positive initiatives

##### Mirai Farm Akita



Putting a sustainable food and agricultural management model into practice

##### The Reforestation Fund



Investing in funds which focus on afforestation of South America

\* Finance Alliance for Nature Positive Solutions

## Column

### Furano Shizen Juku

**S**MBC Group has been supporting the activities of Furano Shizen Juku led by screenwriter Soh Kuramoto since it was established. Since 2006, the Furano Shizen Juku has been involved in reforesting a closed golf course in Furano, Hokkaido and conducting a field-based environmental education program to encourage people to think about the global environment. The SMBC Group actively assists these efforts by employees volunteering to help reforesting and sponsoring a university environmental program for young people who wish to become teachers.



For details, refer to the SMBC Group website.

<https://www.smfg.co.jp/furano/>



## Efforts for DE&I / Human Rights

### Promoting DE&I

More than 110,000 diverse employees work at SMBC Group in Japan and 38 other countries and regions. In order to enable employees with diverse backgrounds to flourish and build a virtuous cycle to create new social value, we have positioned DE&I/human rights as one of our materiality.

 For information regarding our employee DE&I, see page 096.

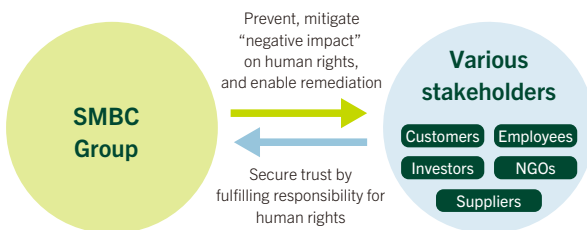
#### ● Pro-bono projects

As one measure for achieving diverse work styles, we promote pro-bono activities. This system allows some work time to be used for such activities, and our employees can utilize the specialized knowledge and skills that they gain during work to help solving social problems, via projects linked with NPOs and other organizations.

### Respect for Human Rights

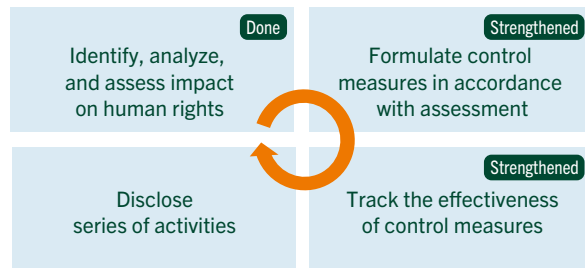
#### ● Basic concept of human rights

SMBC Group fulfills our responsibilities for respecting human rights of all stakeholders including our customers, suppliers, employees, in accordance with our “Statement on Human Rights.” We identify various negative impacts that may have on the rights of our stakeholders and strive to prevent, mitigate, and remedy them. Fulfilling our responsibilities for respecting human rights through these efforts will help us gain the trust of society, and ultimately improve our corporate value and contribute to creating positive impacts on society.



#### ● Enhancement of human rights due diligence

We conduct human rights due diligence in accordance with international standards such as the “United Nations Guiding Principles on Business and Human Rights”. In specific terms, we identify and evaluate negative impacts on human rights, incorporate measures for preventing and mitigating negative impacts in our internal procedures, track and verify the effect of measures, and disclose the series of efforts, as well as building governance to support our human rights due diligence and promoting awareness within the company.



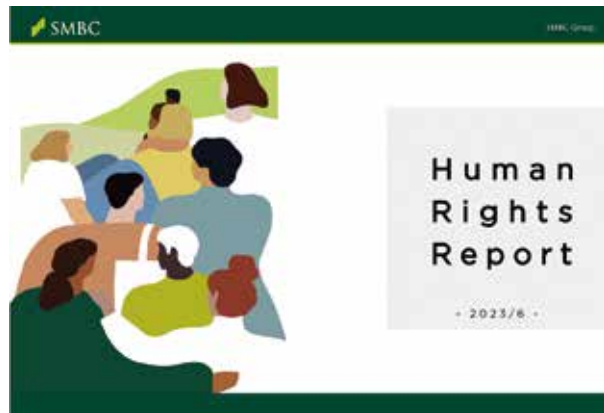
#### ● Disclosing information on human rights

In May 2023, we published a human rights report in order to disclose appropriate and highly transparent information on our efforts for respecting human rights. Based on this report, we will continue to engage in dialogue with our stakeholders, while striving to promote further activities and expand information disclosure.



For details, refer to the SMBC Group website.

[https://www.smfg.co.jp/english/sustainability/group\\_sustainability/forrights/Human\\_Rights\\_Report\\_e.pdf](https://www.smfg.co.jp/english/sustainability/group_sustainability/forrights/Human_Rights_Report_e.pdf)



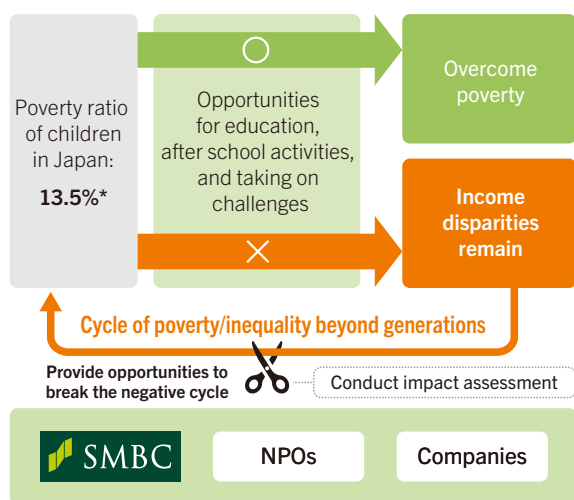


## Creating Social Value to Achieve Sustainability

### Efforts to tackle Poverty & Inequality

#### ● Efforts for the next generation of children

Poverty & inequality is one of the serious social issues in Japan. Children born to poor families have fewer opportunities for extracurricular learning and practical activities than other children and are unable to develop their innate talents. If these children cannot escape from poverty before they become adults, their children will also be born to poverty, in what is known as an intergenerational cycle of poverty. SMBC Group aims to break that cycle by collaborating with other companies and NPOs.



\*Source: Ministry of Health, Labour and Welfare

#### ● Efforts for financial inclusion

We are actively involved in promoting financial inclusion with a focus on developing countries by expanding the provision of financial products and services to individuals who lack bank accounts and businesses that have difficulty obtaining financial services. For example, we provide finance to small and medium-sized businesses, expand financial solicitation to individuals without bank accounts, promote financial services that do not require a bank branch, such as mobile banking, and provide financial literacy programs.

##### KPI

Number of microfinance borrowers

**+800 K people**

#### ● Efforts for financial literacy programs

SMBC Group implements SMBC Group Financial Literacy Programs in order to create a society where everyone has correct knowledge and capabilities for decision making regarding money and can live with security. In order to further popularize financial literacy programs in Japan, we collaborated in planning the financial literacy certificate of the Kinzai Institute for Financial Affairs, as well as the joint production of textbooks.

##### KPI

Financial literacy programs provided to

**1.5 million people**

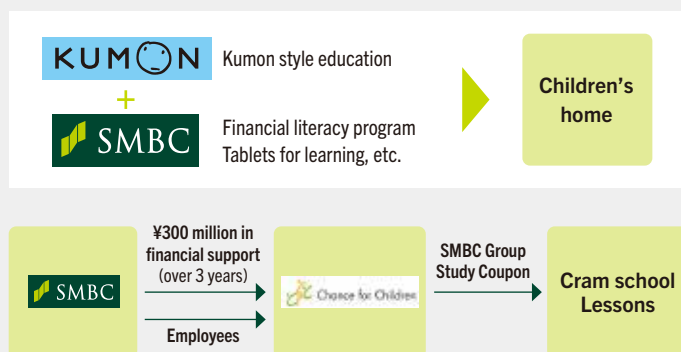
FY2020 to FY2029



## Column

### Learning support programs in cooperation with major educational institution and NPO

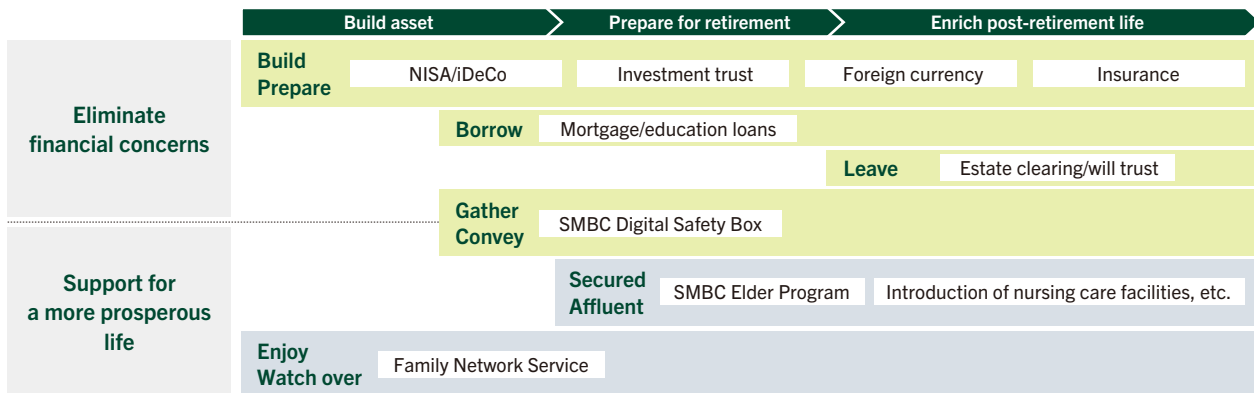
**S** MBC Group collaborates with the Kumon Institute Education to provide children in children's homes with Kumon style education, financial literacy education by volunteer employees, and tablets for learning. We also collaborate with Chance for Children to provide children from economically challenged families with coupons for a wide variety of extracurricular activities. In addition to financial support, SMBC Group plans to be involved in program planning and management via employee staffing and pro-bono activities at the organization.



## Efforts to tackle Declining Birthrate & Aging Population

In an age where people can live as long as 100 years, we provide customers with various types of support in addition to financial products and services, so that they can enjoy living a healthy and meaningful life. For example, we have support systems to meet the various needs of our customers, including non-financial needs. Some examples are the

SMBC Elder Program, which appoints dedicated concierges to individual elderly customers to provide both financial services such as banking and non-financial services of partner companies, as well as the Family Network Service, which enables customers to take care of elderly family members via a smartphone app.



## Efforts for Japan's Regrowth

We make full use of our financial functions to prompt customer business model changes via diverse risk taking and efforts such as support in DX, while also contributing to new industrial development and strongly encouraging the autonomous regrowth of Japan. In order to provide finance

solutions as a group in line with the growth stage of our customers, we have set a KPI for investment and loans of ¥135 billion in startups over three years. We also support the building of a startup ecosystem via entrepreneurial assistance and business matching.

