

Major Q&A at SMBC Group's Sustainability Initiatives

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Q1. The carbon intensity used for the medium-term reduction target for greenhouse gas emissions from the power sector can be reduced by increasing loans for renewable energy. Are there any framework to control the profitability?

A1. As pointed out, the carbon intensity will decrease if we engage in financing for renewable energy. However, we lay emphasis on ensuring total profitability rather than accumulating low-profit projects. In terms of carbon intensity, capacity will be created for new loans when we finance renewable energy. Therefore, we will first focus on transition finance. In addition, we will also engage in cross-selling to improve total profitability, such as M&A advisory, calculation of greenhouse gas emissions, and providing support for energy conversion to improve total profitability. We are also considering taking into account the funding side such as green deposits and green bonds into our profitability management framework.

Q2. What is the Group's policy for corporate finance to coal-fired power generation that is not tied to facilities?

A2. We believe it is important first to control the outstanding balance of corporate finance not tied to facilities. We need to support corporate customers' efforts toward carbon neutrality, considering that they are responsible for stable supply of electricity including renewable energy power generation as well as R&D for technological innovation. The scope of reduction target for greenhouse gas emissions from the power sector also includes corporate finance for coal-fired power generation and we will control greenhouse gas emissions from this sector.

Q3. What kind of opinions does the Sustainability Committee deliver, and how does the Group utilize them for future management?

A3. A wide range of views are shared within the Sustainability Committee as there are various members like one who participated in COP26 and one who is acquainted with international situations. For example, they insisted that SMBC Group should actively participate in "private" discussions given that the initiative on climate change has already shifted from "public" to "private." That is why we participated in NZBA and GFANZ and promptly expressed its endorsement of GX League. We also received advice that we should stick to our targets (2050 net zero and 2030 medium-term targets) while flexibly responding to international movements under the situation in Russia and Ukraine. In addition, there was a comment that insisted SMBC Group should constantly check its position among its peers.

Q4. What initiatives in SMBC Group are ahead of its peers in responding to climate change?

A4. I think there are three points. First is that we were quick to build a governance system to address sustainability. In 2021, Group CSuO was appointed on the executive side by the Nomination Committee, and Sustainability Committee was established on the supervisory side as an internal committee of the Board of Directors. Sustainability Division was also established in April 2022 and more than 100 employees were gathered on a group basis, further strengthening the execution capability. Second is that the planning side and the business side are combined to work together on sustainability. Sustainability Division is unique because the corporate planning side which formulates greenhouse gas emission reduction targets, etc., and the business side which provides solutions to customers are integrated in the same division. While customers' needs and thoughts are clearly delivered to the planning side, discussions on the planning side are also promptly shared to the business side. We have also gathered personnel from group companies and are prepared to provide variety of solutions on a group basis. Third is that we have established advanced risk management framework. For example, in FY3/2020, we became the first global financial institution to disclose climate change scenario analysis on physical risks. In FY3/2023, the Environmental and Social Risk Management Office was established under the Group CRO, and we intend to further upgrade our risk management framework.

Q5. Would the introduction of carbon pricing be a business opportunity for SMBC Group?

A5. In May 2022, we announced the investment in "Carbonplace", an international payment platform for carbon crediting transactions, assuming that carbon pricing could become a business opportunity. As a financial institution, we believe there are possibilities of building a platform through emissions trading and carbon pricing as pricing of CO2 and greenhouse gas accelerates the trend toward carbon neutrality.

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