

Major Q&A at SMBC Group's Sustainability Initiatives

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Q1: How will the initiatives for climate change impact SMFG financially?

A1: Business opportunity for responding to climate change is very large. Over JPY 100 trillion of additional investment would be executed in the world between 2021 and 2023, mainly on the energy related sector. It is expected that about JPY 25 trillion would be invested in Japan on renewable energy power generation towards the achievement of the 2030 goals advocated by the government. We will seek to monetize these opportunities through providing various financial solutions on a group-basis. Especially, finance has the largest financial impact; we will enhance green finance and transition finance towards our 2030 target of JPY 30 trillion. Consultation for customers' ESG initiatives and M&A activities aimed at business shifts will also be our focus.

On the other hand, an increase of credit cost is expected as a negative impact as we move toward a decarbonized society. Anticipated credit costs of physical risks are approximately JPY 55 to 65 billion for the period from 2019 to 2050 in total and expected increase in credit costs of transition risks is approximately JPY 2 to 24 billion per fiscal year until 2050. We will strive to enhance our scenario analysis methods by expanding the target scope and to disclose downside risks.

Q2: SMBC Group is committed to achieving net zero greenhouse gas (GHG) emissions across its overall investment and loan portfolio by 2050 (Scope3). How do you plan to achieve the goal?

A2: In the Group CEO message of the TCFD Report 2021, we committed to achieving net zero emissions across our loan and investment portfolio by 2050 in line with the goals of the Paris Agreement. As Scope3 for financial institutions is very broad, it is important to set appropriate milestones. We plan to announce a reduction target of GHG emissions toward 2030 as a medium-term target. We will start calculating financed emissions and setting reduction target from sectors with large emissions (power and oil & gas) and gradually expand subject sectors.

To that end, it is essential to carry out careful engagements with customers, prepare roadmaps for their decarbonization, and support their initiatives financially. Therefore, we are currently developing teams and securing resources to deepen our engagement with customers.

Q3: As for the loan balance for coal-fired power plants, do you plan to set a target for corporate finance in addition to project finance?

A3: We announced to realize zero balance of project finance by 2040. Each power company is currently supplying electricity by renewable energy and LNG in addition to coal, thus, it may bring problems to the stable electricity supply and delay of innovation for decarbonization if financial institutions restrict corporate finance to power companies. However, we will review our policy necessarily considering revision of the government policy and international guidelines, and opinions of stakeholders.

Q4 : What do you think is the role of outside directors?

A4 : One of the outside directors' roles is contributing to the enhancement of corporate value. In the case of M&A, we not only discuss whether to execute the deal, but also discuss from a broad perspective. Sometimes we do not give approval unless we confirm the strategy behind the deal such as where and what kind of function SMBC Group needs to have. Having discussions on qualities and training methods of a leader is also one of the important roles. Outside directors are required to grasp the big picture and direct management from a mid- to long-term perspective.

Q5: What are the issues behind the reduction of strategic shareholdings from the outside director's viewpoint?

A5: We should continue to aim further acceleration of the reduction of strategic shareholdings. We exceeded the target in the previous plan to reduce JPY 500 billion in 5 years from 2015. In the current reduction plan, every stock we hold is reviewed in the board meeting. We would like to achieve the target as soon as possible.

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