



Round-Table Discussion with Outside Directors

The Role Financial Institutions Should Play in Supporting the Resolution of Climate Change

Group CSuO Fumihiko Ito asked Masaharu Kohno and Eriko Sakurai, both outside directors of Sumitomo Mitsui Financial Group, for their thoughts regarding SMBC Group's sustainability initiatives.

Ito Thank you for taking part in today's round-table discussion. Given the rapid pace in which global awareness regarding climate change is increasing, I would like to first ask you about the roles you see SMBC Group and other global financial institutions playing in supporting the transition to a carbon-neutral society. Ms. Sakurai, would you be kind enough to kick things off?

Sakurai For many years I have been involved in the development of environmentally friendly products in my career at a global manufacturing firm, but lately my sense that financial institutions will play a critical role in the resolution of climate change has grown even stronger. The framework financial institutions apply when determining the recipient of a loan or investment can act as a guide for customers as

they transform their business models as part of efforts to realize a carbon-neutral society. As such, I believe that one of the roles financial institutions should play is to establish frameworks that pay sufficient consideration to sustainability. Furthermore, the realization of a carbon-neutral society is an objective that can be accomplished only if all members of a supply chain strive to accomplish it. Even if a single firm were to accomplish its sustainability goals, sustainability in the true sense would not have been accomplished if the actions of the said firm resulted in the sustainability efforts of other companies in the supply chain facing an additional burden. From a neutral standpoint financial institutions can demonstrate a common vision that overcomes the boundaries separating individual corporations and impacts the activities of an entire supply chain. As you can see, the role financial institutions play



in fighting climate change will only become more important.

Kohno I agree with Ms. Sakurai in that the global community is paying close attention to the logic financial institutions are adopting in determining the types of loans and investments that are made available to customers operating in differing business sectors, and I believe that this is actually the role required of financial institutions. If we look back at global trends in sustainability, we can see that approximately 15 years ago as the concept of ESG was becoming more mainstream the issue of climate change became a major discussion topic in the international community. This in turn led to the emergence of the SDGs which expanded on the existing concept of ESG. I believe that today's global movement toward the realization of a carbon-neutral society is the result of such trends impacting multiple aspects of society and our lives. My career gave me the opportunity to participate in international society as a diplomat, and international institutions, industrialized democracies, and international NGOs played a leading role in building the movement of fighting global warming we have seen in the past 20 years. However, the involvement of the private sector is essential for this trend to produce the desired results. In efforts to address global issues such as climate change financial institutions, given they are a key source of loans and investments, are faced with a larger role and heavier responsibility than other players in the private sector.



Masaharu Kohno

Outside Director,
Sumitomo Mitsui
Financial Group

Ito I believe that financial institutions will play an important role in pushing forward ESG in society by no longer limiting the criteria for determining a loan or investment to cash flow and other financial elements and by accurately reflecting customers' ESG initiatives and other non-financial elements in their considerations. SMBC Group will continue to discuss how we can best measure non-financial elements and reflect them in our decision-making process. Next, could you please share with us how you view the Roadmap Addressing Climate Change and Action Plan that SMBC Group announced in May 2020?

Sakurai I felt SMBC Group's strong intent to clarify its goals and communicate its future plan of action. Although specific details must still be determined, I was very impressed with the fact SMBC Group adopted a long-term perspective in the roadmap and action plan. Another item I thought stood out was that SMBC Group did not attempt a simultaneous launch of its initiatives. Rather SMBC adopted a framework in which SMBC Group first selected a number of high impact initiatives to commence work on after which they would leverage

the experience they had obtained to move on to the next stage of the roadmap. This is a highly effective method and reflects SMBC Group's intent to improve its sustainability initiatives over the course of their actual execution. I also agree with SMBC Group announcing that it would engage with customers so that it can work with those customers to realize a carbon-neutral society. More and more employees want to work at companies that have a large, positive impact on society, and customers also increasingly desire to build relationships with those companies. Involving these stakeholders in its sustainability efforts is a wonderful approach and reflects SMBC Group's character.

Kohno I agree that it was very important for SMBC Group to reveal the Roadmap Addressing Climate Change and Action Plan at its current stage to both internal and external parties. On the other hand, specific details are still yet to be determined. This is a matter which the entire SMBC Group must work together to address, and the Group CSuO is responsible for driving forward SMBC Group's sustainability efforts. The duties of the Group CSuO differ from

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those of traditional banking roles but there is no doubt of the position's importance. I will continue to support efforts to deepen discussions and further improve SMBC Group's sustainability initiatives.

Ito In my role as Group CSuO I will ensure to engage in quality internal communication with SMBC Group employees, which is something I believe ties in with both of your views. The first step is for me to proactively create opportunities to communicate sustainability-related information to our employees and work together to resolve the various issues that we face. The third point of today's discussion is that in order to successfully carry out our initiatives aimed at reducing greenhouse gas emissions, it is necessary to reduce greenhouse gas emissions generated by our customers (Scope 3). As such, I expect to face situations that require careful navigation. From the perspective of an outside director, do you have any advice on how we can smoothly engage with such customers?

Sakurai In the process of working with customers to implement sustainability initiatives, there will be times when customers' business models will need to undergo substantial change. So, I believe that at times difficult discussions will need to take place. At the companies where I play a key leadership role, we engage in repeated discussions with customers in order to compare and adjust our respective visions while making sure that we keep in mind the timeframe of customers' efforts

Eriko Sakurai

Outside Director,
Sumitomo Mitsui
Financial Group



to complete their transformation. I have experienced firsthand the importance of engaging in consistent communications like what I just mentioned, and I believe this also applies to financial institutions. In order to transform a business from a sustainability perspective, it is necessary to engage in discussions that employ a long-term, future-oriented perspective in a more persistent manner. When engaging in such discussions both parties must view the transformation in question as increasing their value and leading to the realization of long-term growth. By utilizing this mindset, it is possible to develop a relationship in which both parties, at the end of the day, are happy that they worked with each other to carry out the sustainability initiative in question.

Ito In order for this to be possible, all employees of SMBC Group must share a common mindset such as the ones you shared with us, and I will make sure to spread this message through internal communication.

Sakurai Until about 10 or so years ago sustainability was viewed as "Nice to have" and only certain members

of a company's management team would be involved. Now, the attitude is "Sustainability is business" and sustainability is viewed more and more as a matter that needs to be addressed by the entire firm. As such, it is necessary for each SMBC Group employee to view sustainability as being part of their responsibilities, and not solely of the Group CSuO.

Kohno First, all members of SMBC Group's management team must be able to engage in head-on discussions regarding climate change and other sustainability-related issues. It is vital for the individuals responsible for leading SMBC Group to be able to express their views regarding these issues in their own words. This in turn will help spread the common mindset regarding sustainability that the two of you talked about earlier. Second, each and every SMBC Group's employee must properly convey the Group's awareness of issues to customers as a member of SMBC Group. We directors engaged in repeated discussions regarding customer-oriented business conduct, and I believe that new added value can be created if common issues are shared with customers and

both parties arrive at a mutual understanding. You can say that this is customer-oriented business conduct in its truest sense.

Third, SMBC Group must be an organization that can present and implement a new lifestyle. The entire SMBC Group must share a sense of crisis that if it cannot act with speed and urgency, it will be left behind with no opportunity to catch-up in the future. At the same time, SMBC Group must realize that it is already standing at the entrance of this new phase.

Ito To bring today's discussion to a close, can you please share with us the roles you see yourselves playing as outside directors in SMBC Group's efforts to enhance its non-financial value and corporate sustainability capabilities?

Sakurai In a way this is an extension of what we have already discussed. SMBC Group must realize the substantial impact it has on international society and play a leadership role in the pursuit of sustainability. As I mentioned at the start of today's discussion, SMBC Group's ability to connect various industries allows it to develop sustainability friendly frameworks and other initiatives whose impact transcends industrial boundaries. I believe that such endeavors will allow SMBC Group to access new customer segments and contribute to the enhancement of the Group's corporate value. The role I am expected to play as an outside director is to support such efforts while at the same time ensuring

they receive adequate supervision. Referring to my previous comments, "Sustainability is business" and I do not expect my role in regard to SMBC Group's sustainability initiatives to differ from the role I play in the Group's business strategies.

Kohno I believe my responsibility is to provide advice and views from a global perspective given my background as a diplomat. In April 2021, the Biden Administration held a virtual world leaders' summit on climate change. What surprised me was that the Secretary of Defense participated in the sessions. In other words, the U.S. views climate change as being directly connected to national security. We need to pay close attention to these new global trends.

Next, although addressing the issue of climate change is a future-oriented initiative, we should not cut it off from past actions. Let's take a developing country that had built coal-fired power plants using overseas loans and investments. The financial institutions that had provided those loans and investments would not be fulfilling their responsibility if they just stopped providing support to

those plants due to the global move toward the realization of a carbon-neutral society. SMBC Group needs to tirelessly think about how it can continue to support clients, albeit in a different manner, as many customers have not yet made a concrete description in terms of how they would adapt to the new phase. Finally, Europe has consistently led climate change efforts over the past 10 or so years. SMBC Group must consistently pay close attention to Europe so that it is able to accurately grasp the state of world affairs which is changing daily. Climate change is a global issue that affects the entire human race, so we need to make sure that our attention is turned to the world as we engage in discussions.

Ito Thank you very much for sharing your valuable opinions with us today. I look forward to receiving your continued advice which reflects a variety of standpoints.



**Fumihiko
Ito**

Group CSuO,
Sumitomo Mitsui
Financial Group