

SMBC Group

TNFD Report 2023

May 2023

TNFD Taskforce on Nature-related Financial Disclosures

Group CEO Message

In anticipation of 2050, which is the year the world is set to achieve an environmental milestone, SMBC Group will make collective efforts to address climate change and to conserve and restore natural capital.



Last year, the world experienced a wide range of natural disasters. Massive floods in Pakistan have left one-third of the nation underwater, Western nations were hit by record heatwaves, and African nations experienced devastating droughts. “Unexpected” catastrophic disasters that are supposed to occur “once in a century” are now occurring almost every year.

These climate change issues are increasingly gaining attention globally, and countries around the world are working to keep the global temperature increase below 1.5 degrees Celsius and to achieve net-zero emissions by 2050.

However, in order to protect the green environment of the Earth, there is another factor we need to consider besides measures against climate change. That is conservation and restoration of “natural capital,” such as the plants and animals, air, water, and soil that exist around us.

Let’s assume that we were able to stop global warming. If it was achieved by cutting down trees and covering bare mountains with solar panels, or by destroying ecosystems to build huge structures, we can hardly say that we have protected the environment. I believe that mitigating climate change and conserving natural capital are two wheels of the same cart that must move together in order to solve environmental issues.

Throughout its 400-year history, SMBC Group has continuously upheld the spirit of sustainability. For example, in the Meiji era, we carried out a large-scale reforestation project in our Besshi Copper Mines and restored abundant greenery. Based on this spirit, SMBC Group has been supporting Furano Shizen Juku (Furano Nature School) led by Japanese playwright, Sou Kuramoto, since its establishment. Through this project, we have planted 80 thousand trees over the years on the vast site of a former golf course, and the forest is now regaining its original shape.

A stone monument in Shizen Juku bears the inscription “We are borrowing the Earth from our children.” The monument tells us that we must not pollute the Earth because we are borrowing it from our children, and if we pollute it, we must fix it before we return it to our children. It may sound obvious, but this is the sincere attitude we as humankind need to have toward natural capital.

SMBC Group has positioned the “environment” as one of the materiality in its business management strategy, and in order to address climate change and natural capital, which work as two wheels of the same cart in solving environmental issues, SMBC Group strives to realize a decarbonized society by supporting customers’ transition, and to conserve and restore natural capital. In terms of natural capital, we are putting sustainable agriculture business into practice through an agricultural corporation we established in Akita prefecture. We also invest in a forest fund that focuses on reforestation in South America.

In addition to these group-wide efforts, we also have an important role of supporting our customers as a node that connects us to various regions and industries. The Group provides a variety of solutions to achieve nature positive outcomes, for example, Sumitomo Mitsui Banking Corporation and SMBC Nikko Securities Inc. provide financing for infrastructure projects and underwrite green bonds; Sumitomo Mitsui Finance and Leasing Company, Limited provides leasing solutions that contribute to the realization of a circular economy; and The Japan Research Institute, Limited provides consultation services.

In Part 2 of COP15 held last year, global goals were set to achieve a nature positive world by 2030, and to achieve the vision of living in harmony with nature by 2050. Also, regarding mitigation of climate change, which is one of the key areas for environmental protection, the world is moving forward to achieve net-zero emissions by 2050. In anticipation of 2050, which is the year the world is set to achieve an environmental milestone, SMBC Group will make collective efforts to address climate change and to conserve and restore natural capital, so that we can hand the green environment of the Earth to our children.

Sumitomo Mitsui Financial Group
Director President and Group CEO



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1. Our Approach to Natural Capital

(1) Our basic approach to natural capital

Natural capital refers to natural resources such as plants, animals, the atmosphere, water and soil. Damage to natural capital has a major impact on people's lives throughout the supply chain. The stability of natural capital is supported by biodiversity, and any loss in biodiversity has a wide-reaching impact on the environment, economy and society. A study by the Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services (IPBES)¹ found that the drivers of natural change are accelerating and having a large impact on a global scale, but also that making collaborative efforts to promote societal change, we can potentially achieve the goals related to natural preservation to be attained.

SMBC Group believes that the loss of natural capital, including biodiversity, may have potential impacts on a wide range of business activities it conducts as a financial group, such as increased risk and loss of value of financial assets held. On the other hand, we believe that the proper conservation and restoration of natural capital will serve to enrich people's lives and improve their health, as it will strengthen the foundations of society.

Given this backdrop, we will be disclosing a broad range of nature-related information through our participation in the TNFD Forum, a stakeholder organization that supports the Taskforce on Nature-related Financial Disclosures (TNFD), which is an international initiative that is building a framework for appropriately assessing and disclosing risks and opportunities related to natural capital.

(2) Group Mission, SMBC Group Statement on Sustainability, and the Group Environmental Policy

Concerning the urgency to act on global environmental and social issues, the following statement is included in our Group Mission: "We contribute to a sustainable society by addressing environmental and social issues." This signals our commitment to making an even greater contribution to the sustainable development of society.

We also established SMBC Group Statement on Sustainability, which lays out the

¹ Global Assessment Report on Biodiversity and Ecosystem Services (Published in 2019)

basic principles of how the Group will drive its efforts to actualize sustainability. Within the Statement, we define sustainability as “creating a society in which today’s generation can enjoy economic prosperity and well-being, and pass it on to future generations.” Based on this idea, we strive to conserve and restore natural capital so that humanity will be able to enjoy the benefits of ecosystem services sustainably and stably over many generations.

Furthermore, we formulated the “Group Environmental Policy” to recognize that realizing a sustainable society is an important mission shared by all of humanity, and to facilitate ongoing efforts to protect the earth’s environment, prevent pollution, and achieve harmony with corporate activities. The Policy states that the Group will make efforts to achieve nature-positive (halt the decline of natural capital and restore it) while recognizing interactions between its business and nature.

SMBC Group will proactively contribute to the realization of a sustainable society by promoting information disclosure in line with the TNFD Framework and by complying with the Group Mission, “SMBC Group Statement on Sustainability”, and “Group Environmental Policy”.

Figure 1-1 Group Mission, Vision, and Values

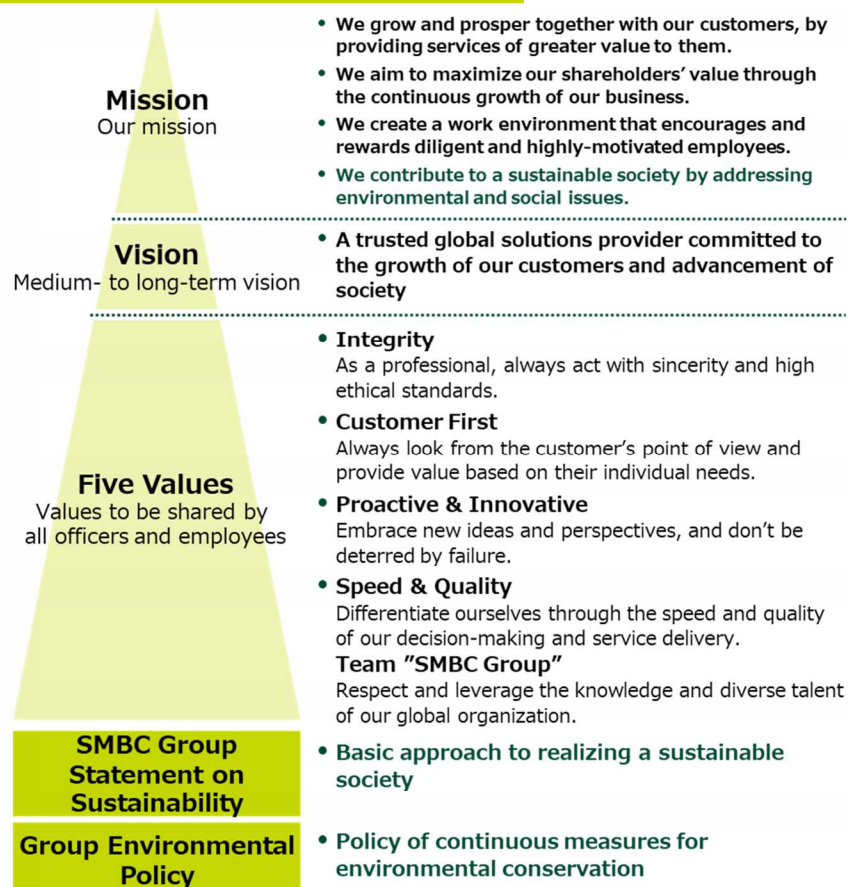


Figure 1-2 SMBC Group Statement on Sustainability

Throughout its 400-year history, the SMBC Group has continuously upheld its commitment to sustainability. We hereby declare that we will drive forward our efforts to make sustainability a reality.

■ Definition of Sustainability

SMBC Group defines sustainability as “creating a society in which today’s generation can enjoy economic prosperity and well-being and pass it on to future generations.”

■ Understanding of the Present Situation and Our Role

As a financial institution, we will engage and act together with customers and other stakeholders to contribute to the global transformation into a better society.

Figure 1-3 Group Environmental Policy

- ◆ Based on this policy, SMBC Group strives to resolve environmental issues and contribute to the realization of a sustainable society.
- ◆ This policy is established to make continuous efforts toward the environment, recognizing it as one of the materiality of SMBC Group. This policy is approved by the Board of Directors
- ◆ We offer financial products, information and solutions which contribute to the maintenance and improvement of both the global and local environment, as well as technological innovation, to support our clients deal with environmental issues.
- ◆ We properly assess environmental risks to reduce that risks posed by our own activities and the society.
- ◆ We strive to reduce negative environmental impact through the conservation of resources and energy, and the reduction of waste.
- ◆ We strictly comply with environment-related laws and regulations.
- ◆ We actively and effectively implement this policy by setting goals and targets for every fiscal year. We monitor and evaluate the status of their implementation and make continuous efforts to improve our system.
- ◆ We regularly report to the Board of Directors and the Sustainability Committee on the status of environmental initiatives.
- ◆ We place high priority on thoroughly educating our executives and staff about our environmental principles to ensure that they conform to these principles in the performance of their work.
- ◆ We strive to implement this policy by disclosing the Group's environmental activities and communicating with our staff as well as the third parties.
- ◆ We create a financial flow consistent with the Paris Agreement and contribute to an orderly and just transition to a decarbonized society, while strengthening climate actions and striving to reduce greenhouse gas emissions.
- ◆ We make decisions recognizing the interplay between SMBC Group and nature, promote the conservation and restoration of natural capital, and strive to realize nature positive initiatives.
- ◆ This Policy is disclosed on the Group's website, and the printed version is available upon request.

(3) Relationship between natural capital and climate change

Natural capital and climate change are not independent concepts of each other, but are considered to be closely connected and interdependent on each other. While changes in natural capital such as the atmosphere and forests have an impact on climate, increasing precipitation or changes in the frequency of natural disasters caused by climate change in turn have an impact on natural capital.

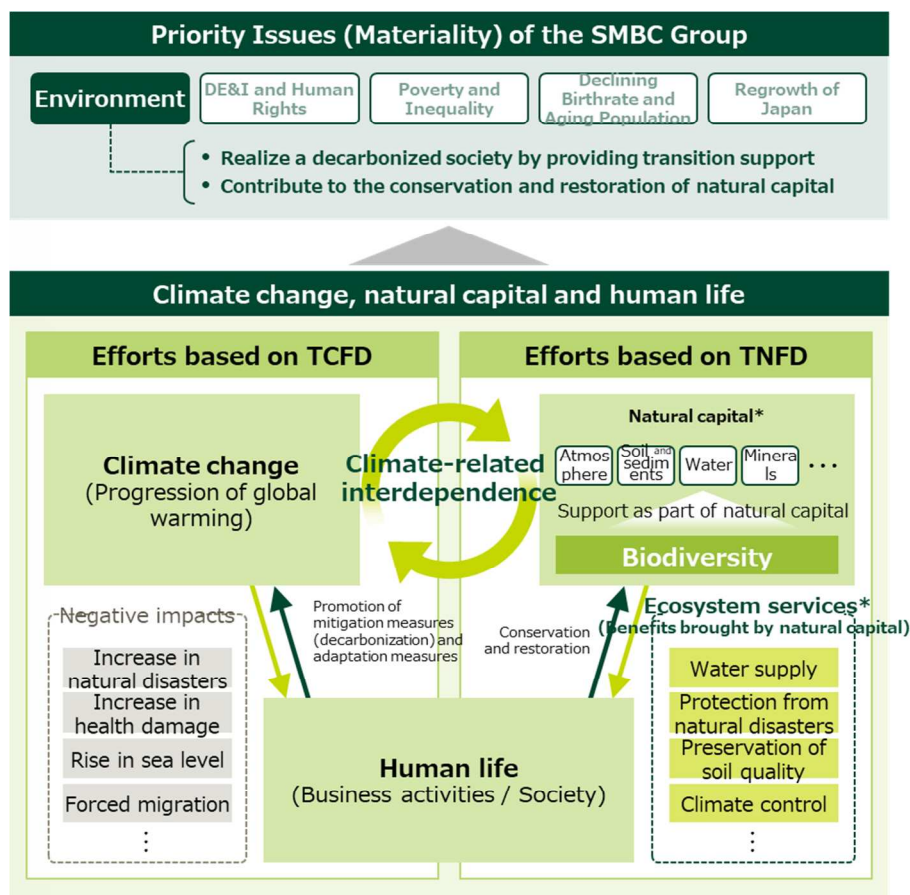
Human life directly interfaces with the phenomenon of climate change and with natural capital. Businesses and society are addressing the negative impacts of climate change from both the mitigation perspective (i.e., reducing and absorbing GHG emissions that cause climate change) and the adaptation perspective (i.e., taking measures to prevent and mitigate the effects of rising temperatures), and are making efforts to conserve and restore natural capital in order to enjoy the benefits of the ecosystem services they bring. By taking appropriate actions based on an understanding of interdependence between climate change and natural capital, we will be able to control climate change and maximize the benefits of ecosystem services, thereby achieving a high quality of life for people.

In December 2017, SMBC Group announced its support for the Task Force on Climate-related Financial Disclosures (TCFD), and we continue to enhance our efforts to address climate change. As part of such efforts, we conducted scenario analyses on physical risks, and recognized that natural disasters caused by climate change are a risk factor for our business. However, we believe that only addressing a climate change issue will not be sufficient to comprehensively address various issues related to the environment that arise from the interdependence with natural capital, which means we will not be able to pass on a blissful society to future generations.

Against this backdrop, SMBC Group announced its participation in the TNFD Forum in January 2022, and expressed its intention to work on conserving and restoring natural capital. In addition, we are not only advancing to our efforts against climate change, but also working on conserving and restoring natural capital, setting “Environment” as its priority issue (materiality).

Going forward, SMBC Group will disclose information related to natural capital in accordance with the TNFD Framework, based on the understanding that addressing climate change and natural capital will work as 'two wheels of a same cart' to solve environmental issues, and that efforts to decarbonization and adaptation to climate change are also deeply connected to the conservation and restoration of natural capital.

Figure 1-4 Consideration of the relationship between natural capital and climate change



* For definitions related to natural capital and ecosystem services, please refer to Appendix 1.

(4) Status of actions in response to the TNFD Framework

As described in the following tables, we have established efforts for each of the basic disclosure items proposed in the TNFD Framework (Governance, Strategy, Risk Management, and Metrics and Targets). We have identified our priority areas by sorting out the relationship between the Group's business and natural capital, and by creating heatmaps with consideration of LEAP approach² proposed in the Framework.

Going forward, we will comprehensively disclose environment-related information by utilizing the TNFD Framework along with the TCFD Framework, while advancing our analysis on nature-related risks and opportunities.

² It is a process to systematically assess risks and opportunities related to nature. It is comprised of the following four phases: Locate the organization's interfaces with nature, Evaluate dependencies and impacts, Assess risks and opportunities, and Prepare to respond to address nature-related risks and opportunities and report to investors.

Figure 1-5 Our history of sustainability-related measures

1998	<ul style="list-style-type: none"> Established the Group Environmental Policy
2002	<ul style="list-style-type: none"> Announced support for the Finance Initiative of the UN Environment Programme
2006	<ul style="list-style-type: none"> Adopted the Equator Principles
2007	<ul style="list-style-type: none"> Announced support for the UN Global Compact
2018	<ul style="list-style-type: none"> Announced policies on palm oil plantation development and projects involving deforestation Established the Corporate Sustainability Committee
2019	<ul style="list-style-type: none"> Signed the Principles for Responsible Banking
2020	<ul style="list-style-type: none"> Revised the Group Mission (Added "We contribute to a sustainable society by addressing environmental and social issues") Announced the SMBC Group Statement on Sustainability Released a statement on the "Consideration of ESG risks" (Expanded the policies on individual businesses and sectors)
2021	<ul style="list-style-type: none"> Newly introduced the Group CSuO (Chief Sustainability Officer) position Newly established the "Sustainability Committee" as a committee within the Board of Directors
2022	<ul style="list-style-type: none"> Joined the Taskforce on Nature-related Financial Disclosures (TNFD) Forum
2023	<ul style="list-style-type: none"> Established "Finance Alliance for Nature Positive Solutions", which is alliance of alliance of financial institutions to support nature positive Revised the Group Environmental Policy (Clarified the Group's stance on efforts regarding natural capital)

Figure 1-6 Status of actions in response to the basic disclosure items proposed in the TNFD Framework

Governance	<ul style="list-style-type: none"> Established a supervisory and execution framework for efforts related to natural capital <p>[Supervision] Supervision and deliberation of efforts related to natural capital by the Board of Directors and the Sustainability Committee</p> <p>[Execution] Reporting by the Group CSuO to the Board of Directors and the Sustainability Committee, as well as deliberation and discussion by the Management Committee</p>
Strategy	<ul style="list-style-type: none"> Sorted out the relationship between natural capital and business activities Sorted out how to address risks and opportunities related to natural capital Created heatmaps showing the extent of dependence and impact of each sector
Risk management	<ul style="list-style-type: none"> Extracted items related to natural capital as Top Risks Implemented due diligence (understanding of customers' non-financial information and qualitative utilization of such information in credit management; assessment of environmental and social risks for each deal) Established policies for sectors that have an impact on natural capital
Metrics and targets	<ul style="list-style-type: none"> Execution amount of sustainable finance (Cumulative amount of JPY 30 trillion in 2030, of which JPY 20 trillion is green finance)

2. Governance

(1) Status of governance regarding efforts related to natural capital

Measures for the realization of sustainability, including efforts related to natural capital, are supervised and executed by the Board of Directors as well as by the Sustainability Committee. In the FY2022 Board of Directors meetings and Sustainability Committee meetings, the Group Chief Sustainability Officer (CSuO), who oversees and promotes our overall sustainability initiatives, reported on the progress of efforts related to natural capital.


SMBC Group also places the Group Management Committee as the highest decision-making body for business execution and corporate management for the entire Group. Measures for the realization of Group-wide sustainability are discussed by the Group Management Committee. In addition, the specifics of measures are deliberated and determined also by the Corporate Sustainability Committee. Efforts related to natural capital are reflected in SMBC Group's strategy based on decisions made by the Group Management Committee and the Corporate Sustainability Committee.

Figure 2-1 Matters related to natural capital that are reported and deliberated in each committee

Committee in charge		Matters related to natural capital that were reported and deliberated in the past (Examples)
Supervision	Board of Directors	<ul style="list-style-type: none"> Progress of efforts related to natural capital Review of priority issues (positioning "environment," including natural capital, as a priority issue)
	Sustainability Committee	<ul style="list-style-type: none"> Progress of efforts related to natural capital Review of priority issues
Execution	Management Committee	<ul style="list-style-type: none"> Reporting on participation in the TNFD Forum Direction of efforts related to natural capital
	Corporate Sustainability Committee	<ul style="list-style-type: none"> Global trends of natural capital

(2) Supervisory and execution framework

In SMBC Group, efforts related to natural capital are supervised under a governance system that is identical to one for the climate change response, and specific business strategies are implemented based on deliberations and decisions made by the



Management Committee and the Corporate Sustainability Committee. Furthermore, ESG performance indicators are included in both the quantitative and qualitative assessment items in the executive compensation system.

Looking forward, we will holistically address environmental issues while paying attention to the dependency between climate change and natural capital. With the Sustainability Division established under the Group CSuO playing a central role, we will address issues related to natural capital as well as climate change, and regularly report the progress to the Sustainability Committee.

For details regarding the roles and internal structure of the supervisory and execution body as well as the executive compensation system, please refer to the “Governance” section of the “SMBC Group TCFD Report.”

3. Strategy

To understand the relationship between its own business and natural capital, SMBC Group sorts out interactions between natural capital and business activities/society, based on the Natural Capital Protocol³ and the beta version of the TNFD Framework.

For companies, and for societies composed of individual or group actions, each activity is dependent on the ecosystem services provided by natural capital directly or indirectly, and such activities have impacts on the natural capital surrounding companies and individuals. One of key features of the TNFD Framework is its approach of assessing risks and opportunities for companies by taking into account the interaction between natural capital and business activities/society from the two perspectives of “dependencies” and “impact” on natural capitals⁴.

While efforts made in consideration of natural capital can be a cost factor for a companies or society, they are also a source of benefits in the form of ecosystem services. We believe that financial institutions will have a stronger relationship with natural capital through transactions with companies and individuals rather than their own business activities. Consequently, when a financial institution assesses its risks and opportunities related to nature, it is important to analyze how customers’ activities interface with natural capital, and what costs and benefits customers will incur or gain through such interface.

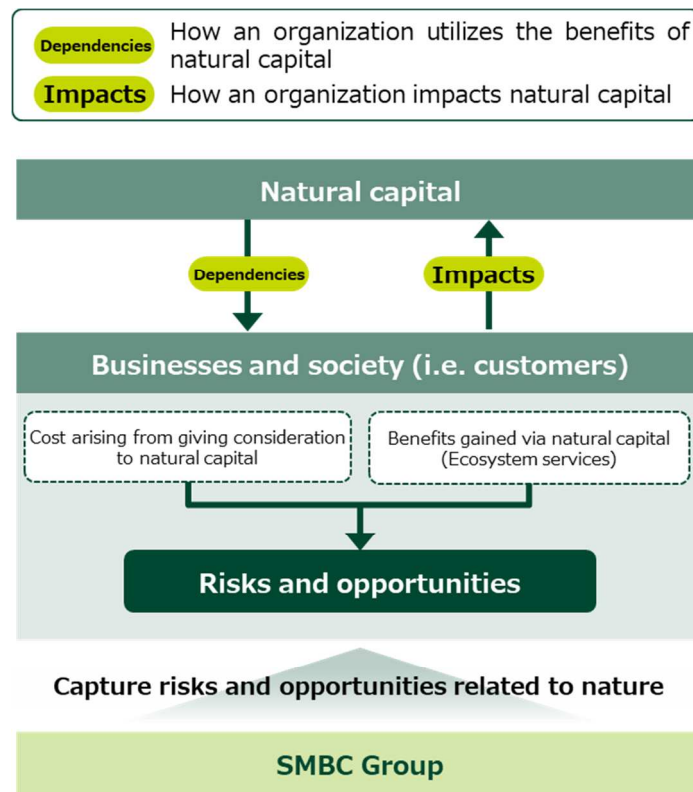
³ A framework created by the Natural Capital Coalition that enables companies to identify, measure and value their direct and indirect impacts and dependencies on natural capital.

⁴ Definitions by SBTN are as follows:

Dependencies: refers to the state in which people and organizations use the ecosystem services generated by natural capital for their activities

Impacts: a positive or negative influence on the state of nature by the activities of a person or organization

Figure 3-1 Conceptual diagram of dependencies and impacts on natural capital



Based on this understanding, SMBC Group gives priority to analyzing the relationship between the activities of its corporate customers than that of individual customers, and natural capital from the perspectives of dependencies and impacts, and recognizes risks and opportunities based on such analysis. The Group then considers ways to address the nature-related risks and opportunities, such as advancing its risk management framework and supporting nature-positive efforts made by customers. We also create heatmaps (written in p.26 [Column]) by analyzing the degree of customers' dependencies and impacts on natural capital by sector, with consideration of LEAP approach. Going forward, we will review the heatmaps on an ongoing basis.

As natural capital covers broad aspects of nature and provides diverse benefits, to what extent a company's risks and opportunities related to nature will materialize and how long it will take will vary greatly depending on the sector in which the companies operate as well as the region in which the companies conduct its business. SMBC Group will make finely-tuned efforts, recognizing such complexity and regionality of risks and opportunities related to nature.

Figure 3-2 Flow of considering how to respond to risks and opportunities

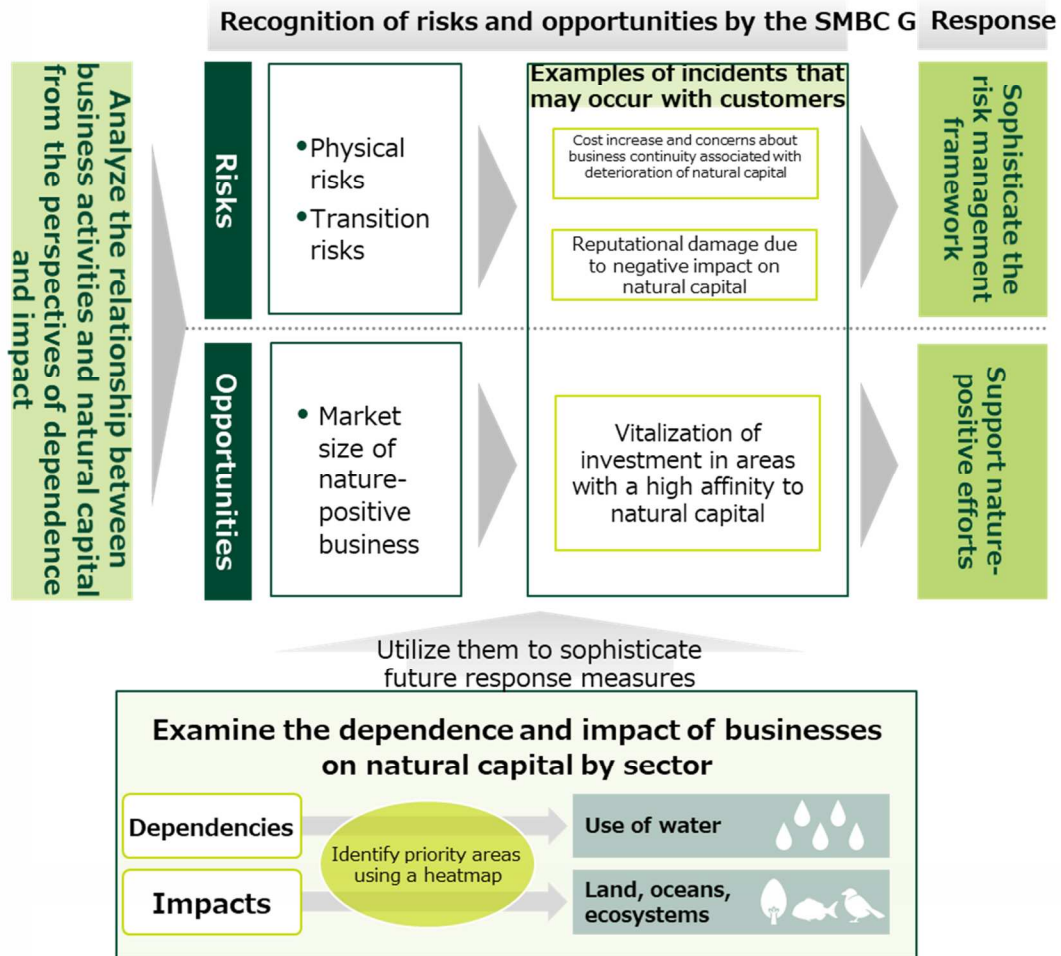


Figure 3-3 Assessment process for risks and opportunities related to nature using the LEAP approach

Locate (Locate)	Evaluate (Evaluate)	Assess (Assess)	Prepare (Prepare)
<ul style="list-style-type: none"> • Identify the organization's assets, operation processes and value chains • Identify points of contact with nature • Identify priority locations • Identify sectors 	<ul style="list-style-type: none"> • Identify relevant environmental assets and ecosystem services • Identify dependencies and impacts • Analyze dependencies • Analyze impacts 	<ul style="list-style-type: none"> • Identify risks and opportunities • Assess the materiality of risks and opportunities • Mitigate and manage existing risks • Mitigate and manage additional risks 	<ul style="list-style-type: none"> • Allocate strategy and resources • Measure performance • Report and publish

* Prepared by SMBC based on "The TNFD Nature-related Risk and Opportunity Management and Disclosure Framework Beta v0.3"

(1) Relationship between business activities and natural capital

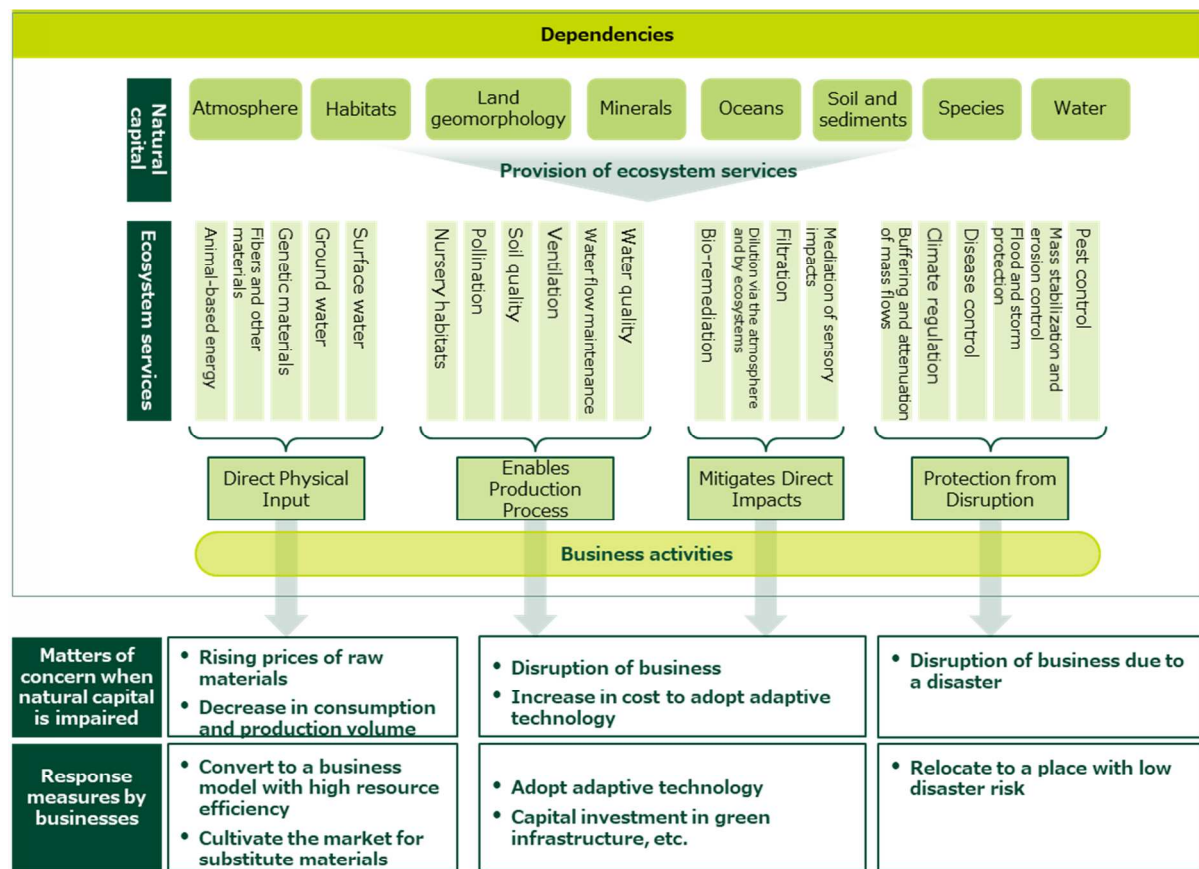
To understand the relationship between our business and natural capital, SMBC Group analyzes how business activities interface with ecosystem services provided by natural capital from the perspectives of dependencies and impacts by using “ENCORE⁵,” a tool, which is recommended in the TNFD Framework, for analyzing risks related to nature. In the analysis, it sorts out matters of concern that could arise in a companies and corresponding response measures by assuming cases where the value of natural capital is impaired.

Dependencies of business activities on natural capital

Companies benefit from ecosystem services generated by natural capital. Based on our analysis using ENCORE, businesses enjoy the benefits of ecosystem services through four channels, i.e., “Direct Physical Input”, “Enables Production Process”, “Mitigate Indirect Impacts” and “Protection from Disruption”.

⁵ A risk analysis tool for nature-related risks developed by the Natural Capital Finance Alliance (NCFA), a global alliance of financial institutions in the field of natural capital, in partnership with UNEP-WCMC, which is a subsidiary body of the United Nations Environment Programme. It sorts out and aggregates the business activities of 157 sectors and the degree of their dependencies and impacts on natural capital and ecosystem services.

Figure 3-4 Relationship between business activities and natural capital/ecosystem services (Perspective of dependencies)



* Prepared by SMBC based on a nature-related risk analysis tool called "ENCORE"

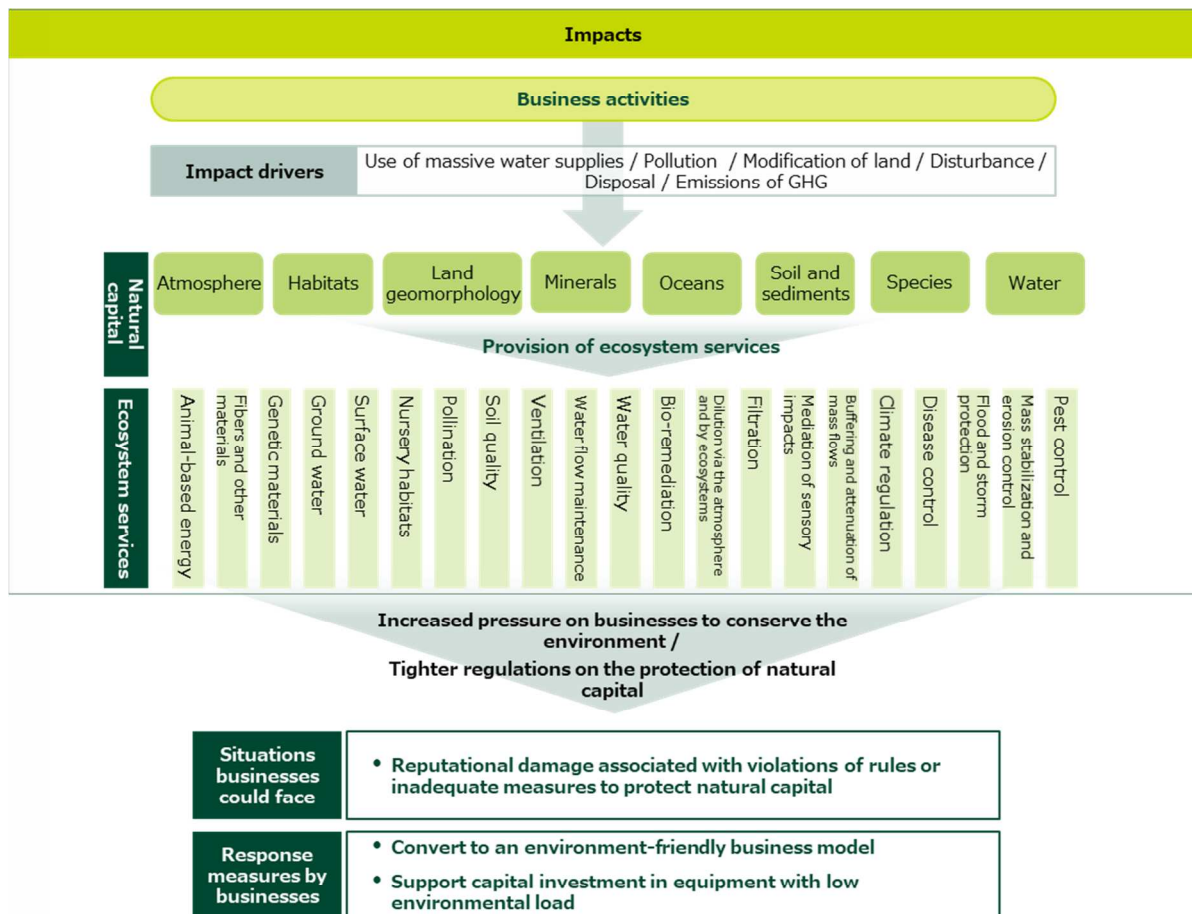
Direct Physical Input	... Direct and physical dependence on ecosystem services, such as using ecosystem services as raw materials
Enables Production Process	... Indirect dependence on ecosystem services, such as the pollination function in production areas
Mitigates Direct impact	... Functions that mitigate negative impact on business activities, such as filtering pollutants from rivers
Protection from Disruption	... Functions that serve as protection from disasters, such as the flood protection function of forests

If the value of certain types of natural capital becomes impaired due to a natural disaster caused by climate change or human activities, resulting in suspension of ecosystem services, companies that depend on such natural capital/ecosystem services may, through the above-mentioned four channels, incur additional cost for adopting adaptive technology to respond to the changes in natural capital or to the increases of raw materials, or face concerns over their business continuity due to contamination of soil and/or water. At the same time, companies may address such concerns by converting their business models or by making capital investment.

Impacts of business activities on natural capital

Companies can have negative impacts on natural capital by using massive amounts of water, contaminating water, soil and the atmosphere, modifying the form or nature of land, and emitting GHG. Such corporate activities impair the value of natural capital and reduce the benefits of ecosystem services. Under such circumstances, if regulations on the protection of natural capital are tightened, or the pressure to protect the environment increases, companies may incur additional cost or suffer reputational damage due to insufficient protection efforts and on the other hand, companies may change their business models and make capital investments.

Figure 3-5 Relationship between business activities and natural capital (Perspective of impacts)



* Prepared by SMBC based on a nature-related risk analysis tool called "ENCORE"

(2) Recognition of nature-related risks

Based on the relationship between business activities and natural capital identified through the above analysis, SMBC Group sorts out risks and opportunities that are generally assumed for customers from the perspective of dependencies and impacts.

Risks from the perspective of dependencies

Certain types of natural capital may become impaired as a result of climate change, and/or changes in the ways of using natural capital or excessive use of natural capital in business and social activities.

- Physical risks

If natural capital such as water and plants become depleted and their value deteriorates, customers who rely on the ecosystem services created by them to develop their businesses will see their business performance worsen through increased procurement costs for raw materials and increased severity and frequency of natural disasters.

- Transition risks

Deterioration of natural capital prompts customers to change their production processes. As a result of such change in the circumstance, customers may incur additional cost to adopt new technology, or experience a disruption of their business.

Risks from the perspective of impact

As the movement to protect natural capital accelerates, laws, regulations and policies may change in ways that are unfavorable for companies that negatively impact natural capital. Also, as international guidelines for sustainability disclosure are being formulated, demands from stakeholders to disclose nature-related information may further increase in the future.

- Physical risks

If natural capital becomes impaired due to negative impacts caused by operations of companies, it could damage the reputation of the SMBC Group.

- Transition risks

If businesses are required to incur the cost of reducing environmental load as a result of tighter regulations and changes in policies set by governments to protect natural

capital, some of our customers may incur increased cost to meet such requirements. In addition, if customers' efforts and considerations for natural capital conservation are insufficient, or if customers are making efforts to conserve natural capital but such efforts are considered insufficient by their stakeholders because they are not reflected in the disclosure items, it could damage the reputation of SMBC Group.

Figure 3-6 Examples of risk events related to natural capital by key risk category

	Physical risks (Risks associated with impairment of natural capital)	Transition risks (Risks associated with changes in laws and regulations, and insufficient measures to protect natural capital)
Dependencies on natural capital	Credit risk <ul style="list-style-type: none"> Risks associated with deterioration of customers' business performance due to the cost burden of procuring raw materials resulting from value deterioration of natural capital 	Credit risk <ul style="list-style-type: none"> Risks associated with deterioration of customers' business performance due to the cost burden of adopting new technology to lessen the dependencies on certain natural capital
	Credit risk <ul style="list-style-type: none"> Risks associated with deterioration of customers' business performance due to exacerbation of natural disasters resulting from value deterioration of natural capital 	
Impacts on natural capital	Reputational risk <ul style="list-style-type: none"> Risks of reputational damage for the SMBC Group if natural capital is impaired due to negative impacts, thereby impeding customers' business activities 	Credit risk <ul style="list-style-type: none"> Risks associated with increased cost burden of responding to changes in laws, regulations and policies to conserve and restore natural capital
		Reputational risk <ul style="list-style-type: none"> Risks of reputational damage for the SMBC Group if customers' efforts to conserve natural capital are inadequate

Please note that the recognition of risks sorted out above is on a preliminary basis based on the current analysis. We will advance our risk recognition in the future by better understanding the relationships of dependencies and impacts between our customers and natural capital, and by identifying expected risk events for SMBC Group more accurately.

(3) Addressing nature-related risks

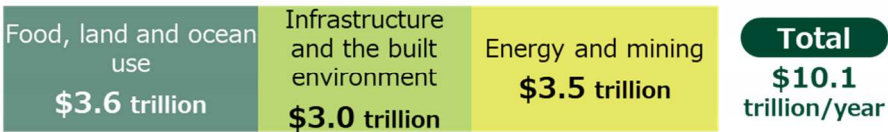
Customers of SMBC Group depend on a wide range of natural capital that varies by sector and supply chain, and conduct their business while impacting natural capital in a variety of ways. Based on our recognition of risks, we will further enhance our systems while identifying priority areas through the use of heatmaps. Please refer 「4. Risk Management」 for more detail.

(4) Recognition of nature-related opportunities

In the fifteenth meeting of the Conference of the Parties to the UN Convention on

Biological Diversity (COP15) Part Two held in 2022, the “Kunming-Montreal Global Biodiversity Framework” was adopted as a global goal, which set the mission of halting and reversing biodiversity loss to put nature on a path to recovery (achieve nature-positive) by 2030, and achieve the vision of living in harmony with nature by 2050. Conservation and restoration of natural capital and biodiversity will require a certain amount of investment in building socioeconomic systems through which people can live in harmony with nature. A report published by the World Economic Forum in 2020⁶ states that in order to address the nature crisis, we need to transform three socioeconomic systems (food, land and ocean use; infrastructure and the built environment; and energy and mining) into nature-positive business models. Moreover, based on this report, annual nature-positive opportunities created across the globe are estimated to reach US\$10.1 trillion (approximately JPY 1,300 trillion) by 2030. Given this backdrop, we expect to see revitalized investment in areas with high affinity to natural capital, such as food/agriculture including the use of land/water and forest management, nature-friendly urban infrastructure, renewable energy, and the circular economy.

Figure 3-7 Size of nature-positive markets around the world in 2030



Financial institutions are expected to provide financing to meet such investment demand. In fact, financial flows for the restoration of biodiversity were incorporated into the COP15’s targets for achieving nature-positive by 2030, which aim to mobilize at least US\$200 billion per year, and raise financial flows to developing countries to US\$20 billion per year by 2025 and to at least US\$30 billion per year by 2030. In addition to providing financing, financial institutions will have opportunities to provide services to fulfil various customer needs, such as supporting alliances and responses to sophisticated risks. The SMBC Group will support customers in their efforts to achieve nature-positive through multifaceted solutions that organically integrate our know-how in our business domains.

⁶ World Economic Forum (2020) “New Nature Economy Report II: The Future of Nature and Business”

⁷ In addition to 3R (reduce, reuse and recycle) initiatives, economic activities that generate added value through services, etc., while effectively utilizing stock while reducing resource input and consumption.

(5) Capturing business opportunities by supporting nature-positive actions

SMBC Group strives to create financial flows that have positive impacts on natural capital that is supported by ecosystems and biodiversity, by supporting customers' business activities through our financial services. Furthermore, as we accelerate this effort, the value of natural capital will be preserved, and its sustainability will be ensured. As a result, customers who have a business structure that is highly dependent on certain types of natural capital will be able to steadily enjoy the benefits of such natural capital and enhance their business continuity. As such, nature-positive actions through finance will affect both the dependencies and impacts of businesses on natural capital, creating a positive effect.

Based on the priority areas for both dependencies and impacts in the heatmaps listed in the "Addendum" on page 27, and by focusing on areas that are expected to offer nature-positive opportunities as mentioned in "Recognition of nature-related opportunities" on page 19, SMBC Group will strive to achieve nature-positive by supporting customers in their efforts to conserve and restore natural capital.

Sophistication of food, land and ocean use

While food, land and oceans are essential for maintaining human life, GHG emissions and deforestation associated with agriculture and land use, excessive intake of water resources and overexploitation of fishery resources have heavy impacts on natural capital and ecosystem services provided through natural capital.

Under such circumstances, the SMBC Group will work on enhancing ecosystem services through the reduction of GHG emissions associated with agricultural production as well as the improvement of soil and water management, while supporting innovation through the use of digital technology, in order to balance enhanced production and sustainability in the food and agriculture sectors. We will create sustainable food and agriculture value chains with consideration for natural capital.

SMBC Group will also advance its efforts on the reduction of paper resources and afforestation to preserve forests and build forest ecosystems by supporting customers in their efforts to achieve sustainable forest management.

Such efforts that lead to the conservation of land and forests contribute to the maintenance of water resources. We will contribute to increasing the value of water by promoting nature-positive efforts to avoid and reduce water stress for customers who

are highly dependent on water.

Creation of social infrastructure that is in harmony with nature

As the world's population concentrates in urban areas at an accelerated pace, more and more social infrastructures are being built; however, hasty and disorderly infrastructure development could destroy natural capital, degrading the quality of people's lives. Also, such loss of natural capital could decrease the function of disaster prevention in urban areas, resulting in urban structures that are vulnerable to natural disasters caused by climate change, such as floods.

SMBC Group will contribute to building social infrastructure that is in harmony with nature by conserving and restoring natural capital. We will support customers in their efforts to build infrastructures that provide clean air and water, and that are resilient against natural disasters and supported by rich biodiversity. Through these efforts, we will also enhance our measures against climate change and address the negative impacts of rising temperature on economic and social activities.

Decarbonization in the energy and mining sectors

SMBC Group is committed to achieving net zero GHG emissions across its investment and loan portfolios by 2050. To achieve this goal, we have established the "Net Zero Transition Plan" and systemized a series of goals and actions. Furthermore, we have set a goal to execute "JPY 30 trillion in sustainable finance" in 10 years between FY2020 and FY2029 in line with the Transition Plan. We are taking measures against climate change by promoting finance that contributes to decarbonization, including renewable energy projects. These efforts to mitigate climate change through reducing GHG emissions will not only contribute to the conservation of natural capital that is vulnerable to climate change, but will also play a key role in protecting forests, which absorb CO₂, and biodiversity, which supports forests.

Please note that if the adoption of renewable energy involves deforestation, promotion of such introduction may potentially have negative impacts on natural capital and biodiversity related to the installation location of power generation facilities. SMBC Group will strive to avoid such negative impacts through means such as assessment of environmental and social risks, and maintain the balance between its efforts against climate change and the conservation of natural capital.

In addition, to mitigate the negative impacts of mineral resources mining on natural capital, we need to create a society where the value of resources is preserved over a

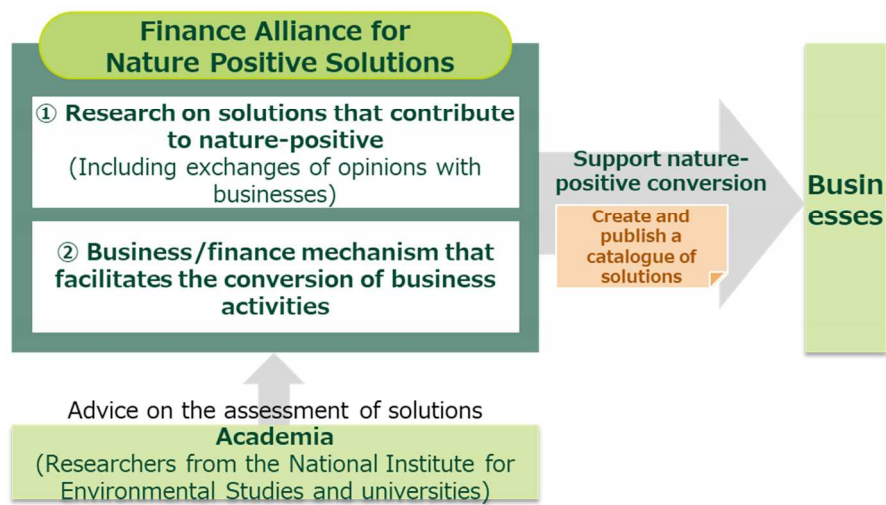
long period of time under a resource-efficient production/consumption process. To achieve this, SMBC Group will make efforts in circular economy business, implement circular use of resources at various stages of the product life cycle for reducing the impacts on natural capital and creating wide range of businesses.

Figure 3-8 Examples of the SMBC Group's initiatives to promote nature-positive business

Business domain	Examples of the Group's initiatives
Sophistication of food, land and ocean use	<p><Putting smart agriculture into practice through the establishment of an agricultural corporation></p> <ul style="list-style-type: none"> An agricultural corporation called "Mirai Kyosou Farm Akita," which is funded by companies including Sumitomo Mitsui Banking Corporation and Sumitomo Mitsui Finance and Leasing Company, Limited, works in collaboration with businesses in a demonstration project to suppress methane generation in paddy fields.
	<p><Investing in a forestry fund></p> <ul style="list-style-type: none"> Sumitomo Mitsui Banking Corporation invests in the "Reforestation Fund," which focuses on reforestation in South America. The fund manages forests sustainably by obtaining global certification for forestry preservation.
Creation of social infrastructure that is in harmony with nature	<p><Supporting green infrastructure that contributes to the conservation of natural capital></p> <ul style="list-style-type: none"> SMBC Nikko Securities Inc. became an underwriter for a green bond which invests in infrastructure projects that contribute to the conservation of natural capital and biodiversity.
Decarbonization in the energy and mining sectors	<p><Contributing to the reduction of CO2 emissions through renewable energy projects></p> <ul style="list-style-type: none"> Sumitomo Mitsui Banking Corporation contributed to a reduction in annual CO2 emissions totaling approximately 15 million tons through renewable energy projects it handled in FY2021. We engage in projects while managing the impacts on natural capital in each project through environmental and social risk assessment.
	<p><Efforts to reduce the load on natural capital through the construction of a battery recycling model></p> <ul style="list-style-type: none"> The Japan Research Institute is working to build a circular economy based on the BACE Consortium to circulate the value of EV batteries and to achieve decarbonization.

To support above-mentioned efforts to protect natural capital, SMBC Group has established the "Finance Alliance for Nature-Positive Solutions (FANPS)" in collaboration with MS&AD Insurance Group Holdings, Inc., the Development Bank of Japan, and the Norinchukin Bank, with the aim of strengthening support for nature-positive efforts by businesses. FANPS will strengthen collaboration among four financial institutions to halt the loss of natural capital, including biodiversity, and lead it to the path of recovery through business activities. We also signed a joint research agreement with the National Institute for Environmental Studies to receive advice from a scientific point of view on the investigation of nature-positive solutions. SMBC Group will utilize knowledge gained through FANPS to analyze nature-related risks and consider financing to support the implementation of technology to restore nature capital.

Figure 3-9 Activities of FANPS

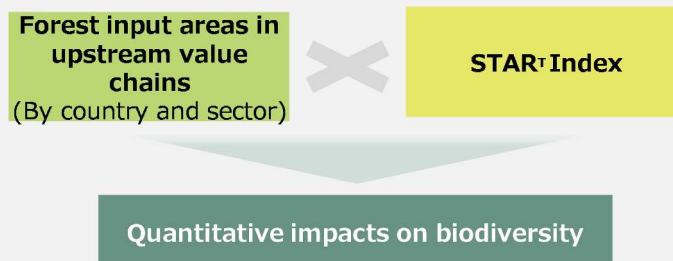


[Column] Trial analysis on the impact of the lending operations on forests and biodiversity

In 2022, SMBC Group participated in a pilot program organized by the United Nations Environment Programme Finance Initiative (UNEP-FI), jointly with MS&AD Insurance Group Holdings, Inc. The objective of this program is to extract issues that financial institutions will face when working on TNFD Framework, by practicing quantifying the impact of lending operations on forests and biodiversity and assessing and analyzing the impact on a trial basis in accordance with the LEAP approach.

In this program, we quantitatively analyze the impact of loans on natural capital by using a multi-regional input-output model called “Eora”^{*1} and/or the “STAR_T Index”^{*2}, which indicates the abundance of biodiversity, in order to identify areas of forest input in the upstream value chains of customers of our Group by country and sector, and convert such figures into quantitative impact on biodiversity. The results of this analysis suggest that the impacts on biodiversity is expected to be relatively large in Japan as well as Southeast Asian countries such as Indonesia and the Philippines.

Going forward, we will strive to enhance our disclosure in line with the TNFD Framework while using the insights gained through this program to sophisticate our nature-related risk analysis.



*1 A type of multi-regional input-output table that quantifies the impact of an entire supply chain on the environment per sales unit by sector, by using metrics such as “GHG emissions” and “areas of forest input.”

*2 It is an index extracted from the Integrated Biodiversity Assessment Tool (IBAT) developed by the UNEP FI, which indicates the rarity and abundance of biodiversity in each region of the world.

Addendum: “Dependencies” and “impacts” heatmaps

SMBC Group strives to identify natural capital, ecosystem services and sectors to which we should pay particular attention, by creating heatmaps using “ENCORE” and sorting out the extent of dependencies and impacts of sectors that are considered to be highly related to natural capital. Although the analysis currently covers only the priority sectors specified in the TNFD Framework, we plan to expand the coverage to other sectors and review them on an ongoing basis to determine the degree of importance more precisely.

■ “Dependencies” heatmap

SMBC Group has created a heatmap based on dependencies on ecosystem services for the priority sectors specified in the TNFD Framework. The heatmap organizes the extent of dependencies of each sector on ecosystem services into the four ranks of “Very High,” “High,” “Middle,” and “Low, Very Low, N/A,” based on a scoring method using “ENCORE.”

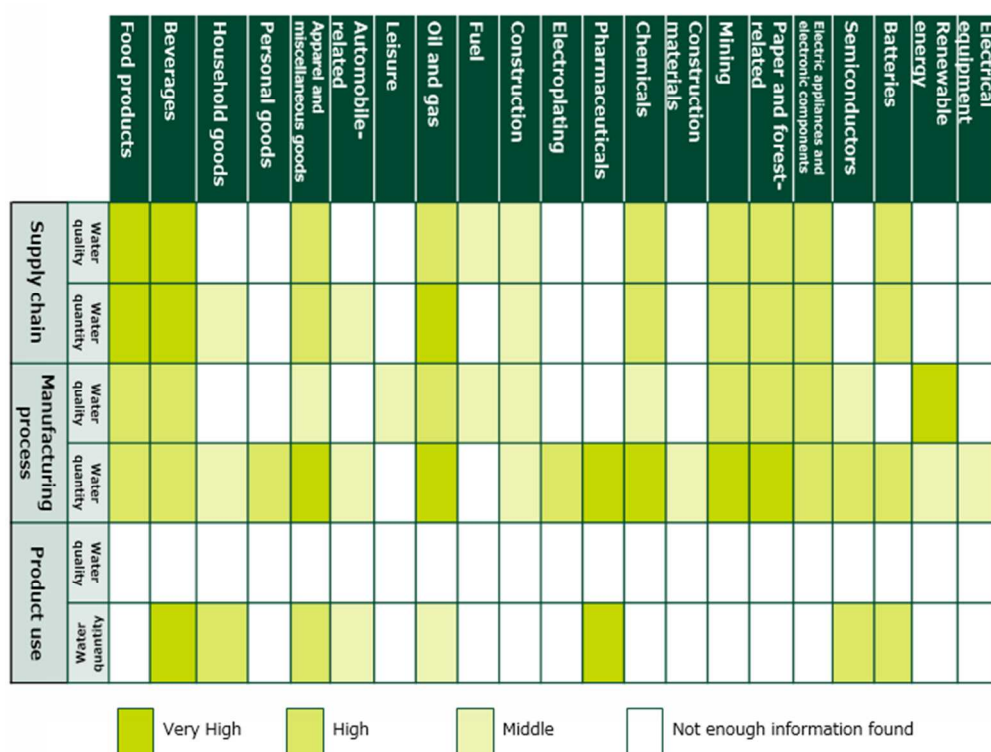
Based on this heatmap, many sectors are highly dependent on surface water and ground water; and water, which provides these ecosystem services, is considered to be highly important natural capital.

Figure 3-10 Dependencies heatmap

	Non-alcoholic drinks	Alcoholic drinks	Processed food	Agricultural produce	Forest products	Paper and pulp	Water services	Construction and engineering	Electric power	Construction materials	Mining	Oil and gas	Pharmaceuticals and biotechnology	Synthetic chemistry	Specialty chemistry	Textiles	Apparel and	Sea transport
Animal-based energy																		
Fibers and other materials																		
Genetic materials																		
Surface water																		
Ground water																		
Habitat preservation																		
Pollination																		
Soil quality																		
Ventilation																		
Water flow maintenance																		
Water quality																		
Bio-remediation																		
Dilution via the atmosphere and by ecosystems																		
Mediation of impacts on visual sensory																		
Filtration																		
Buffering and attenuation of mass flows																		
Climate regulation																		
Disease control																		
Flood and storm protection																		
Mass stabilization and erosion control																		
Pest control																		

In order to compare sectors that are highly dependent on water and extract particularly important sectors, we conducted an analysis on water stress by referring to a water risk calculation tool called the “Investor Water Toolkit,” which was created by “Ceres,” a U.S.-based NGO that promotes investment. In this analysis, we assessed the level of water stress by sector based on the quality and quantity of water used in the flow from the supply chain to the direct manufacturing process and product use. Based on this analysis, we believe water stress is particularly high in the beverage sector. Going forward, we will consider providing appropriate mitigation solutions to customers who are highly dependent on water and for whom water stress is expected to become a potential risk factor.

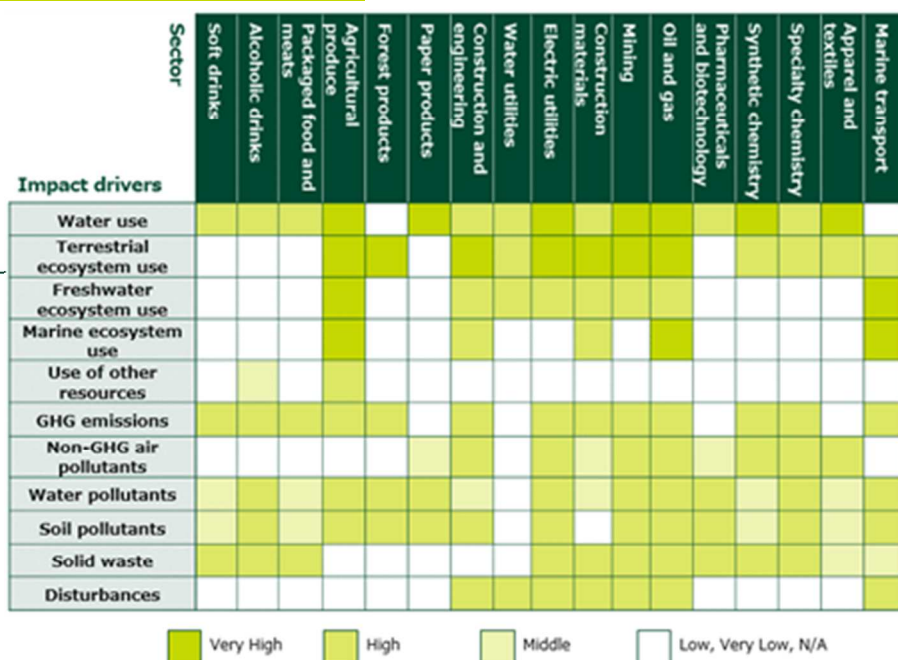
Figure 3-11 Water stress analysis using “Ceres”



■ “Impacts” heatmap

Also, in the impacts heatmap on natural capital, the priority sectors specified in the TNFD Framework are scored the extent of impact drivers (drivers that cause business activities to have an impact on natural capital) into the four ranks. The heatmap shows that impact drivers such as “water use” and “use of terrestrial, freshwater and marine ecosystems” are increasing in a number of sectors and that those drivers should be paid particular attention.

Figure 3-12 Impacts heatmap



* For definitions related to impact drivers, please see Appendix 1.

[Column] Internal study session on natural capital in collaboration with WWF Japan

Sumitomo Mitsui Banking Corporation conducts study sessions on environmental issues for its employees as part of its stakeholder engagement, in collaboration with WWF Japan, which is an environment conservation organization.

In these study sessions, WWF Japan provides lectures on global issues related to natural capital for employees of Sumitomo Mitsui Banking Corporation who work in the fields of sustainability, corporate research, and risk management. Through this study sessions, the bank aims to familiarize its employees with the roles that financial institutions are expected to play in conserving natural capital, while fostering their knowledge on environmental issues and natural capital and raising awareness of these issues.

<Examples of themes covered in the study session>

- Deforestation risks and commodities
- Decrease in marine biodiversity
- Business and water risks
- Sustainable promotion of a circular economy

[Column] CSR activities to conserve natural capital

■ Supporting the Furano Shizen Juku

Having started at the site of a former golf course in the spring of 2006, Furano Field, led by So Kuramoto (book author) comprises two categories of activities: the “nature restoration project,” which involves reconstruction of an original forest through tree planting; and the “educational program on the environment,” in which the field at the site itself is used as a classroom. SMBC supports these activities as the “SMBC Environmental Program: NPO C.C.C. Furano Field” based on a deep compassion for Mr. Kuramoto's thoughts and vision.



■ SMBC Green Project / Growing SMBC Card Forests

Sumitomo Mitsui Banking Corporation is working on the reduction of paper resources and tree-planting projects under “SMBC Green Project”. We are promoting projects that enable individual customers to contribute to the conservation of forests, such as the “SMBC Forest” (in the Dorogawa District of Tenkawa Village, Nara Prefecture), which supports tree planting by using the funds saved by switching from paper to Web passbooks, and the “SMBC Green Program,” in which in response to retail customers’ purchases of JGB, SMBC in turn implements certain measures to reduce GHG emissions such as purchasing emission credits and making donations to tree-planting projects.

In addition, Sumitomo Mitsui Card conducts forest thinning and tree planting in “SMBC Card Forests” across the country by allocating part of its profits gained through promoting online card statements to nurturing forests. In this project, which enables both our customers’ cooperation in achieving digitalization and nurturing forests, our goal is to create diverse forests in a near natural environment.

4. Risk Management

(1) Process for identifying and assessing nature-related risks

SMBC Group recognizes that nature-related risks are risks that have significant impacts on corporate management; therefore, we identify such risks as one of the Top Risks from the perspectives of dependencies and impacts on natural capital.

Top Risks

SMBC Group identifies risks that threaten to significantly impact management as Top Risks. The selection of Top Risks involves comprehensive screening of risk factors, evaluation of each risk scenario's possibility of occurrence and potential impact on management, and active discussion by the Group Management Committee. In addition, the Board of Directors and the Risk Committee (an internal committee) verify the adequacy, etc. of the Top Risks.

SMBC Group identifies the deterioration of its reputation caused by inadequate handling of natural capital and the adverse impacts caused by impairment of natural capital as Top Risks.

Figure 4-1 Top Risks

Top Risks	Scenario
World economic stagnation	Global economic recession due to factors such as credit cycle turnover and economic stagnation in China
Highly volatile commodity price and financial / foreign exchange markets	Capital outflows from emerging countries and actualization of a global financial crisis due to monetary tightening in major countries
Sudden deterioration of the foreign currency funding conditions	Sudden deterioration of the foreign currency funding condition due to market disruption
Japanese economic stagnation	Deterioration of the economy accompanied by debt adjustments due to the shift from monetary easing, and decline in potential growth due to a decline in the labor force
Japanese fiscal instability	Emergence of Japan sell-off due to increased interest payments on government debt and deteriorating public finances due to rising defense spending
The U.S. - China struggle for supremacy	Deterioration of the business environment due to growing concerns over the U.S-China political conflict and the security environment
Growing intensification of Russia-Ukraine conflict	Negative impacts of unstable energy supplies on economies; unstable international situations
Unstable situations in the Middle East and Asia	Occurrence of emergency incidents due to heightened tensions in the Korean Peninsula; opposition from neighboring countries in connection with Japan's policies
Political turmoil and social instability	Social turmoil surrounding the next presidential election in the U.S.; opaque policy management due to changes in China's leadership
Outbreak of serious infectious disease	Occurrence of a pandemic due to the emergence of a virus or bacterium that is highly infectious to humans
Disasters such as large-scale earthquakes, storms, and floods	Negative impact caused by the occurrence of large-scale earthquakes and volcanic eruptions, increased frequency of extreme weather events and natural disasters, and impairment of natural capital
Lack of preparedness against cyber attacks and financial crimes	Increase in national-level cyber attacks and damage to critical infrastructure, and diversification of attack methods
Changes in industrial structure due to technological innovation	Decrease in our competitiveness due to the rapid digitalization of financial services (fintech, digital currencies, etc.)
Inadequate responses to climate change risk and environmental issues	Deterioration of reputation and occurrence of stranded assets due to inadequate efforts to reduce GHG emissions and to conserve natural capital
Inadequate responses to human rights issues	Deterioration of reputation due to inadequate response to forced labor, racial discrimination, etc.
Improper labor management	Deterioration of reputation due to inadequate responses to gender issues and work-style reform
Misconduct such as an employee's inappropriate behavior	Administrative disposition or reputational damage due to inadequate actions or serious breaches of regulations by employees
Inadequate improvement in the operational resilience system	Significant negative impact on customers and reputational damage due to data breaches and system failures
Inadequate preparedness for heightened regulatory and supervisory scrutiny	Administrative disposition and reputational damage due to inadequate AML/CFT controls
Difficulty in securing human resources	Restriction on business operations and decreased competitiveness due to a lack of headcount and specialized human resources

(Note) The above items are only some of the risks recognized by the SMBC Group. Certain risks other than those stated above could also have particularly adverse effects on our corporate management.

Classification of nature-related risks

SMBC Group organizes event examples for physical risks and transition risks by dependence and impact. For details, refer to the "Examples of risk events related to natural capital by key risk category" in "Section 3. Strategy" on page 12.

(2) Process for managing nature-related risks

SMBC Group currently manages nature-related risks by focusing on how to respond to the impact that customers have on natural capital. To date, we have identified the impact our customers have on natural capital as well as the environment and society including climate change and human rights, and utilized such understanding to manage

our non-financial risks. As part of this process, we confirm customers' compliance with laws and regulations related to the environment and their efforts toward protecting natural capital, and consider response measures in case they are inadequate.

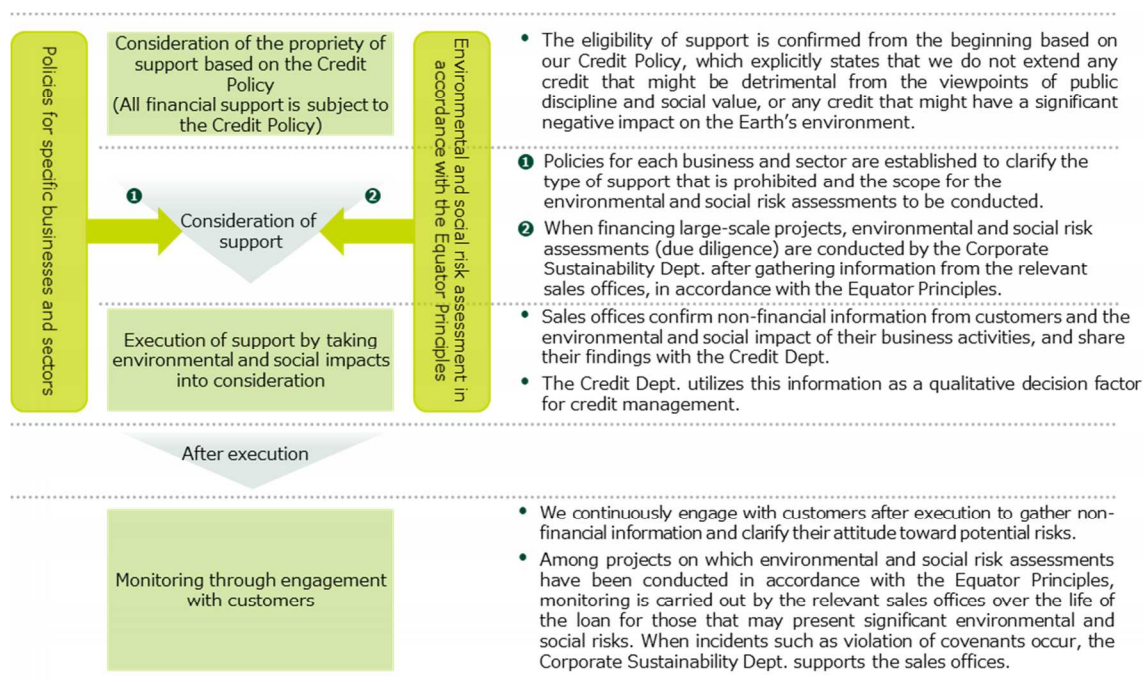
Going forward, we will strive to establish systems to manage risks related to customers' dependencies on natural capital, and work on advancing our measures to manage the impacts on natural capital.

Due diligence

In SMBC Group's Group Credit Policy, which contains overall financing policy, guidelines and rules, the Group declares not to extend any credit considered problematic in terms of public responsibility, or which may have a negative impact on the environment.

Sumitomo Mitsui Banking Corporation, which handles the Group's core credit operations, obtains non-financial information from customers and utilizes it qualitatively in credit operation, as explained below. Moreover, by conducting environmental and social risk assessments on specific transactions, it properly identifies environmental and social risks and manages them through periodic monitoring.

4-2 Due diligence flow chart



● Grasping non-financial information

At Sumitomo Mitsui Banking Corporation, we recognize our customers'

environmental and social impacts from their business activities by understanding not only their financial information, but also non-financial information represented by ESG, by engaging in dialogues with them. Targeting certain major customers subject to policies for specific sectors and businesses, we grasp the status of their responses to environmental and social risks, including risks related to climate change and natural capital, using the “ESG Risk Summary Sheet.” and employ this information as a qualitative factor in credit operation. In parallel to this, environmental and social risk assessments based on the Equator Principles are also conducted, making our due diligence even more sophisticated and broad reaching.

In terms of managing risks related to impacts on natural capital, we confirm the status of customers’ environmental and social management systems that are used to grasp and manage environmental impacts, including impacts on natural capital, as well as their regulatory compliance status.

In the TNFD Framework, businesses that conduct activities in areas under water stress⁷ are recommended to explain the relationship between their business and water. When considering water stress from the perspective of risk management, for customers who enjoy the benefits of ecosystem services derived from water such as use of surface water and ground water, water stress resulting from the impaired value of water could become an impediment to their business continuity.


Going forward, SMBC Group will strive to recognize risks related to water stress more accurately. Moreover, we will work on advancing our risk management by considering ways to understand how customers who are considered to be heavily dependent on water are addressing water stress, and to quantitatively measure the potential impacts to SMBC Group related to such water stress suffered by customers.

By gathering non-financial information, we will deepen the quality of engagements with customers concerning ESG risks, actively support their environmental and social efforts, and work together to address risks that are a cause for concern.

- Assessment of environmental and social risks

SMBC adopted the “Equator Principles,” a set of guidelines developed by private-sector financial institutions for managing environmental and social risks, and conducts environmental and social risk assessments through due diligence when financing large-scale development projects.

⁷ A situation where it is difficult to secure water resources as the demand for water exceeds the supply



In the process of conducting environmental and social assessments, we check how conservation of biodiversity and sustainable use of natural and biological resources are managed in each project, by referring to the “Equator Principles” and the Environmental and Social Performance Standards established by the International Finance Corporation (IFC). Through this process, we assess the impacts of each project on natural capital.

In projects that contribute to climate change countermeasures, such as renewable energy projects, if potential negative impacts on natural capital and biodiversity are anticipated, the trade-off relationship between climate change countermeasures and natural capital conservation will be considered. SMBC Group controls such negative impacts through appropriate environmental and social risk assessments, and implements initiatives that align the direction of climate change countermeasures and natural capital conservation.

Policies for specific businesses and sectors

SMBC Group is introducing policies for specific businesses and sectors that are likely to have significant impacts on the environment and society. These policies are rolled out to SMBC Group companies, including SMBC, SMBC Trust Bank, Sumitomo Mitsui Finance and Leasing Company and SMBC Nikko Securities, in line with their business models.

For businesses and sectors that are considered to have impacts on natural capital and biodiversity, SMBC Group confirms their status of compliance with regulations that aim to reduce the impacts on the ecosystem.

Figure 4-3 Sectors and businesses that are considered to have impacts on natural capital

Nature Conservation Areas	<p>Policy</p> <p>The SMBC Group does not provide support for new projects that are perceived to have a significant negative impact on wetlands specified in the Ramsar Convention and UNESCO-designated World Natural Heritage sites.</p>
Palm Oil Plantation Development	<p>Policy</p> <p>For palm oil plantation development projects, we provide support only after having confirmed that they have been certified by the Roundtable on Sustainable Palm Oil (RSPO), which is given for palm oil produced in consideration of the environment and society, that forest resources and biodiversity are protected when new plantations are developed, and that there are no human rights violations, such as child labor. For those customers that have not yet been certified, we encourage and support them in obtaining RSPO certification, and request them to submit a certification acquisition plan.</p> <p>If they do not have a plan to obtain RSPO certification, we encourage them to do so and request that they respond under the same standards as RSPO in the meantime.</p> <p>We require our business partners to publicly declare their compliance with NDPE (No Deforestation, No Peat, No Exploitation), and encourage them to enhance supply chain management and improve traceability so that their supply chain partners will also obtain RSPO certification and comply with NDPE.</p>
Deforestation	<p>Policy</p> <p>For any business involving deforestation, we provide them with support only after having confirmed that there is no illegal deforestation, burning, or illegal labor in accordance with the laws and regulations of each country.</p> <p>In particular, we require large-scale plantation^{(*)1} development projects to publicly declare their compliance with NDPE.</p> <p>*1 Targeting farms of 10,000 ha or more (e.g., projects aimed at cultivating soybeans, natural rubber, coffee, etc., or using them as grazing land for livestock)</p> <p>Also, when we provide support to any business involving forest management business^{(*)2} in countries other than high-income OECD countries, we require them to obtain FSC (Forest Stewardship Council) certification or PEFC (Programme for the Endorsement of Forest Certification Scheme) certification, and to publicly declare their compliance with NDPE.</p> <p>For those customers that have not been certified, we encourage and support them in obtaining certification, and request them to submit a certification acquisition plan. We also encourage them to enhance their supply chain management and improve traceability so that their supply chain partners will also obtain FSC or PEFC certification and comply with NDPE.</p> <p>*2 Forest management business refers to any business that grows and manages forests and cuts down trees to harvest and sell timber. Businesses that cut down trees only to conserve forests (forest thinning) and not for the purpose of harvesting and selling timber are not subject to this policy.</p> <p>In addition, when considering financing for any large-scale project not limited to above-mentioned projects, we strictly conduct environmental and social risk assessments as per the Equator Principles, while closely monitoring the applicant's stance on the following points: impact on virgin forests and ecosystems and mitigation measures for the foregoing; inclusion of peatland development; consideration for workers and local residents, etc.</p>
Hydroelectric Power Generation	<p>Policy</p> <p>For those cases in which financing is used for hydroelectric power generation projects, the SMBC Group carefully monitors whether appropriate mitigation measures against the impact on biodiversity and local communities caused by resettlement have been implemented, and conducts environmental and social risk assessments when it considers granting loans.</p> <p>Understanding of the Sector/Business</p> <p>As the transition to a decarbonized society progresses, hydroelectric power generation will play a greater role in power supply. However, when constructing a hydroelectric power plant, it is important to consider the impact on biodiversity associated with dam construction as well as on local communities due to resettlement.</p>

5. Metrics and Targets

SMBC Group has set a goal to execute JPY 30 trillion in sustainable finance (of which JPY 20 trillion is green finance) over 10 years from FY2020 to FY2029. We strive to conserve natural capital by actively supporting green projects that contribute to decarbonization, which accounts for the majority of sustainable finance, thereby contributing to the mitigation of climate change.

Going forward, we will continue to consider indicators and targets to show the extent to which our efforts toward decarbonization and efforts to help our customers achieve nature-positive contribute to the conservation and restoration of natural capital.

Figure 5-1 Metrics and targets related to promotion of sustainable business

Metrics (KPI)		FY2020 results	FY2021 results	Targets
Promote sustainable business	Sustainable finance execution amount	JPY 2.8 trillion	JPY 5.4 trillion	2030 Cumulative: JPY 30 trillion
	Of which, green finance execution amount	JPY 2.5 trillion	JPY 5.0 trillion	2030 Cumulative: JPY 20 trillion

6. Moving Forward

To address issues surrounding the Earth's environment, SMBC Group has been advancing its efforts to achieve net-zero emissions by actively working on a climate change response and establishing a transition plan. On the other hand, considering the various interfaces with human life in the Earth's environment that arise under the dependency between climate change and natural capital, we believe that environmental risks that cannot be addressed simply by taking measures against climate change as well as environment-related growth opportunities may start to materialize as business activities become more sophisticated and social transformation advances.

To address these risks and opportunities in a flexible manner, SMBC Group will accelerate its efforts against climate change and advance its strategy by conducting more detailed analyses on the relationship between natural capital and the Group's business activities. Based on this strategy, we will set quantitative goals that we should pursue as SMBC Group, advance our risk management to achieve these goals, and support nature-positive efforts.

In order to implement these efforts, we believe it is important to address issues related to natural capital in cooperation with our stakeholders, including our customers, after gaining their understanding regarding how we deal with natural capital through our business and our underlying approach. As the TNFD Framework is expected to be finalized in September of this year, we will continue to periodically review and enhance the information we disclose, and contribute to the conservation and restoration of natural capital while constructively engaging with our stakeholders.

Appendix 1. Definitions of terminology

The Definitions for “natural capital”, “ecosystem services”, and “Impact drivers” in this report are as follows. These definitions are based on the terminology organized by the UNEP-WCMC, which leads the development of “ENCORE”.

Figure App-1 Definitions of natural capital assets

Natural capital	Definition
Atmosphere	The atmosphere is the mass of air surrounding the earth. It's components (such as oxygen) and it's processes (such as temperature regulation) support a number of essential ecosystem services.
Habitats	Habitats refer to the conditions of the environment necessary for life to prosper. These conditions vary widely between species but can include such elements as water and food availability, temperature range, or absence of predators. Habitats can be defined very narrowly for one population of a particular species or more widely by type such as forests or coastal habitats that host many different species.
Land geomorphology	Land geomorphology describes the structure of the land, such as mountains and valleys. Land geomorphology supports the provision of regulatory services, like erosion control.
Minerals	Minerals are naturally occurring compounds produced by substances other than living beings, such as metals and nonmetallic substances. Ecosystem services such as soil quality are maintained by an abundance of minerals.
Ocean geomorphology	Ocean geomorphology describes the structure and shape of the seabed, such as continental shelves and slopes.
Soil and sediments	Soil and sediments are the layers of the Earth's surface. They comprise top-soil, sub-soil and ocean sediments, and support a number of regulatory services such as climate regulation and erosion control.
Species	Species includes plants, animals, fungi, algae and genetic resources. An abundance of species is referred to as biodiversity, and a wide range of ecosystem services are supported by biodiversity.
Water	Water refers to water in general, such as surface water, ground water, ocean water, fossil water and soil water.

Figure App-2 Definitions of ecosystem services

Ecosystem services	Definition
Animal-based energy	Physical labor provided by domesticated species, including oxen, horses, donkeys, goats and elephants.
Fibers and other materials	Fibers and other materials from plants, animals, and algae. This includes wood, timber, and fibers, as well as material for production such as cellulose, cotton and dyes, and material for fodder and fertilizer.
Genetic materials	Deoxyribonucleic acid (DNA) in all living organisms, including plants, animals and algae.
Ground water	Water stored underground in aquifers made of permeable rocks, soil and sand. Water that originates from rainfall, snow melts and water flows from natural freshwater resources such as lakes and rivers.
Surface water	Water provided through freshwater resources from collected precipitation, lakes and rivers.
Nursery habitats	A nursery habitat provides a place for larvae from particular species to grow. It creates a place that protects larvae from predators, such as coral reefs and algae in the ocean.
Pollination	Pollinating functions provided mainly by three elements: animals, water and wind. The majority of plants depend to some extent on pollinators such as insects or the pollination function of water or wind for reproduction.
Soil quality	Soil quality such as fertility and soil structure maintained through weathering, nitrogen fixation, nitrification and mineralization processes.
Ventilation	Air purification function provided mainly by plants. It prevents the accumulation of harmful substances such as airborne bacteria and molds, and reduces long-term health hazards to living organisms.
Water flow maintenance	A function that enables circulation of water through the Earth's atmosphere, land, and oceans. It is responsible for maintaining ground water and surface water flows.
Water quality	The function of maintaining freshwater (e.g., rivers, streams, lakes and ground water sources) and oceans in a quality that is favorable to the local ecosystem.

Ecosystem services	Definition
Bio-remediation	Decomposition, reduction and/or detoxification of contaminants by organisms such as micro-organisms, plants, algae, and some animals.
Dilution via the atmosphere and by ecosystems	Dilution of gases, liquids and solid waste produced by human activities by water, both fresh and saline, and the atmosphere.
Filtration	Filtering, sequestering, storing, and/or accumulating pollutants by a range of organisms.
Mediation of sensory impacts	Reduction of noise and light pollution through vegetation.
Buffering and attenuation of mass flows	Transportation and storage of sediment by rivers, lakes and seas through buffering and attenuation of mass flows.
Climate regulation	A climate regulation function provided through the long-term storage of carbon dioxide in soil, plant biomass, and the oceans.
Disease control	Disease control functions in animals, plants and humans.
Flood and storm protection	Flood and storm protection provided by the sheltering, buffering and attenuating effects of vegetation such as forests.
Mass stabilization and erosion control	A function of stabilizing terrestrial, coastal and marine ecosystems, coastal wetlands and dunes through protection of vegetation such as forests. Vegetation on slopes prevents avalanches and landslides, and mangroves, seagrass and macroalgae protect coasts and sediments from erosion.
Pest control	Pest control through appropriate maintenance of ecosystems.

Figure App-3 Definitions of impact drivers

Impact drivers	Definition
Disturbances	Impact caused by noise or light pollution at a high intensity or over a long period of time
Freshwater ecosystem use	Impact caused by construction of bridges, dams, and flood barriers, etc. in freshwater ecosystems such as wetlands, ponds, lakes, streams, rivers or peatland
GHG emissions	Emissions of GHG such as carbon dioxide (CO ₂) and methane (CH ₄)
Marine ecosystem use	Alteration of marine ecosystems due to the development of aquaculture and seabed mining fields
Non-GHG air pollutants	Air pollution caused by pollutants other than GHG
Use of other resources	Extraction of minerals, and hunting of wild fish and mammals, etc.
Soil pollutants	Contamination of soil by waste, etc.
Solid waste	Impact caused by the disposal of waste by classification (i.e., nonhazardous, hazardous, and radioactive), by specific material constituent (e.g., lead, plastic), or by disposal method (e.g., landfill, incineration, recycling, specialist processing)
Terrestrial ecosystem use	Alteration of terrestrial ecosystems due to the development of agricultural fields, commercial forests and mines, etc.
Water pollutants	Impact caused by the emission of contaminants
Use of water	Impact caused by the use of ground water and surface water

Appendix 2. Water usage and waste volume of the SMBC Group

We strive to reduce our impacts on natural capital by measuring our water usage and waste volume and by working to reduce them.

Figure App-4 Water usage and waste volume of the SMBC Group

Metrics (KPI)		FY2020 results	FY2021 results
Water usage ^{*1}	Water and sewage	2,193 thousand m ³	2,151 thousand m ³
	Conversion to GHG emissions	984t-CO2	948t-CO2
Waste volume ^{*2}	Total amount	712t	682t
	Of which, amount reused, recycled or sold	543t	507t

^{*1} Results for FY2020 include the results of major domestic offices of Sumitomo Mitsui Financial Group, Inc. and its nine major group companies (Sumitomo Mitsui Banking Corporation, SMBC Trust Bank Ltd., Sumitomo Mitsui Finance and Leasing Company, Limited, SMBC Nikko Securities Inc., Sumitomo Mitsui Card Company, Limited, SMBC Finance Service Co., Ltd., SMBC Consumer Finance Co., Ltd., The Japan Research Institute, Limited, Sumitomo Mitsui DS Asset Management Company, Limited), and results for FY2021 include the results of major domestic offices of Sumitomo Mitsui Financial Group, Inc. and its eight major group companies (Sumitomo Mitsui Banking Corporation, SMBC Trust Bank Ltd., SMBC Nikko Securities Inc., Sumitomo Mitsui Card Company, Limited, SMBC Finance Service Co., Ltd., SMBC Consumer Finance Co., Ltd., The Japan Research Institute, Limited, Sumitomo Mitsui DS Asset Management Company, Limited).

^{*2} Targets the four headquarter buildings of Sumitomo Mitsui Banking Corporation (Head Office, East Tower, Osaka Head Office, and Kobe Main Office)