Consideration for Borrowers' Environmental and Social Impact

Basic Policy on Environmental and Social Considerations

The SuMi TRUST Group identifies "consideration of environmental and social impact of investment and financing targets" as one of its most important (materiality) issues from the standpoints of both the impact on the Group's corporate value and the Group's impact on society.

Please refer to the SuMi TRUST Holdings' website for further details, etc. of each of the above policies.

Under the "Basic Policy on the Social Responsibility of the Sumitomo Mitsui Trust Group," the Group provides products and services that contribute to solving environmental problems through its business. The Group has also established the "Environmental Policy" to reduce the environmental burden arising from its business activities. Furthermore, it has established the "Action Guidelines for Mitigating Climate Change" and the "Action Guidelines for Preserving Biodiversity" to promote initiatives to address the two globally important environmental issues, and has been making efforts to engage in dialogue and cooperation with various stakeholders. In terms of social issues, with the aim of respecting each individual's human rights and diverse values and rejecting unjustifiable acts of discrimination, the Group has established the "Human Rights Policy" and gathers information regarding how the investment and financing targets negatively impact human rights. In addition, the Policy provides that the Group takes necessary countermeasures in cases where legal norms, etc. are violated.

Environmental and Social Considerations in Asset Management

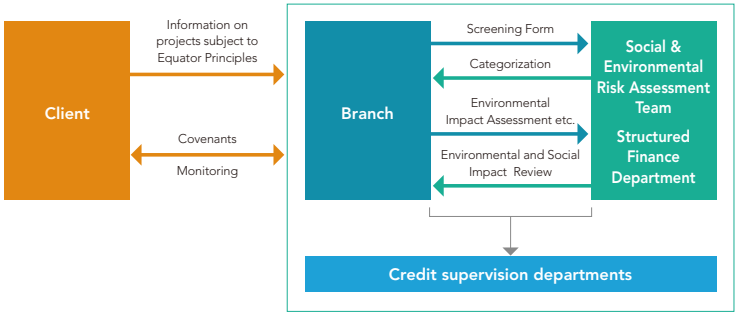
As a "responsible institutional investor," Sumitomo Mitsui Trust Asset Management institutes the ESG Guidelines. The contents of the guidelines are based on the UN Global Compact, an international corporate code of conduct. The guidelines clearly spell out expectations on investee companies to minimize their environmental impact, uphold international labor rights, ban discriminatory hiring practices, prohibit child labor, stamp out forced labor, prevent every form of corruption, including extortion and bribery, and more.

SuMi TRUST Holdings follows the ESG Guidelines to practice various forms of engagement (dialog) with investee companies on ESG issues. In addition to the work performed by analysts and specialists in the Stewardship Development Department, our engagement involves collaboration with organizations in Japan and abroad on specific topics such as palm oil and forest resources (see page 59 for details).

Initiatives as an Equator Principles Signatory

SuMi TRUST Bank is a signatory to the Equator Principles. These international guidelines for private-sector financial institutions in approving loans for project finance etc. are to ensure project implementers give sufficient consideration to impacts on the natural environment and regional communities. In the decision-making process for lending, banks review the environmental and social risks of projects, the country where projects are located, and impacts on the environment and society according to sector in arriving at a comprehensive risk assessment.

Systems and Processes for Evaluating Environmental and Social Considerations



Application processes: Following internal policies based on procedures for evaluating social and environmental considerations, the Equator Principles Department carries out assessments of environmental and social impacts relating to individual projects.

Implementing environmental and social impact reviews: Reviews of the environmental and social impacts of a project proposed by developers take into account its industry, the country where it is sited, and whether it meets the standards called for by the Equator Principles, and from there, a comprehensive risk is judged.

Monitoring compliance: Compliance with important items concerning environmental and social impacts have been reflected into loan agreements, and compliance with these is regularly confirmed through such methods as reports on project compliance status on these fronts.

Company training programs: Regular training sessions are provided for employees in departments and sections relating to sales, assessment, and screening to foster a thorough understanding of internal operations supporting environmental and social impact reviews and raise their awareness about related concepts.

The Equator Principles

The Equator Principles are standards that enable private-sector financial institutions approving loans for a large-scale project to confirm the project pays sufficient care to impacts on the natural environment and regional communities. Regardless of the country where the project is sited or industry, the Principles apply to project finance, project-related corporate loans (PRCL), and bridge loans that are intended to be re-financed by a project finance or PRCL.

The Equator Principles are based on guidelines and standards concerning environmental and social risk management established by International Finance Corporation, a member of the World Bank Group. These standards and guidelines span many fields from implementation processes for assessing environmental and social risks and/or impacts, pollution prevention, and consideration for regional communities to environmental protections.

The Equator Principles Association Annual Meeting in November 2019 adopted EP4, the fourth version of the Equator Principles. Other than stronger consideration of indigenous peoples in developed countries and partial expansion of applicable transactions to include refinancing and the like, EP4 reinforced action on climate change by adding to the due diligence items. The added items were implementation of physical risk analysis in cases likely to cause substantial or greater impact, and, for projects with annual greenhouse gas emissions in excess of 100,000t-CO_2, the implementation of transition risk analysis in TCFD in addition to consideration of alternative proposals.

As of December 2019, 101 banks (including export credit agencies) from around the world have signed the Equator Principles. Signatories require project proponents to comply with the Equator Principles. The signatories can refrain from providing financing if requirements are not met, particularly in the case of large-scale projects in developing countries.

Types of financial instruments and other criteria including financing size for the application of the Equator Principles

Type	Application criteria including financing size
Project finance	All projects with total project capital costs equivalent to USD 10 million or more
FA services*1	Same as the above
Project-Related Corporate Loans (PRCL)*2	If all four of the following criteria are met: 1. The majority of the borrowing amount is intended for a single project in which the borrower has effective control (either direct or indirect) of the project; 2. The total borrowing amount is equivalent to USD 100 million or more; 3. The commitment amounts (at syndication or prior to sell-down) of the individual signatories are equivalent to USD 50 million or more; and 4. The loan term is two years or more.
Bridge loans	Bridge loans with a loan term of less than two years that are intended to be re-financed by a project finance meeting the above criteria or PRCL

*1 Project finance advisory services

*2 PRCL includes the buyer's credit-type export financing but does not include the supplier's credit-type export financing. Furthermore, it does not include asset financing, M&A financing, hedging transactions, leases, L/C transactions, general funds and general working capital to maintain operations of a company.

Implementing Environmental and Social Impact Reviews

In our processes for assessing project finance for projects subject to the Equator Principles, we conduct environmental and social impact reviews to confirm whether the response of project implementers in taking into account environmental and social impacts satisfies the standards set by the Equator Principles.

In environmental and social risk/impact reviews based on screening forms, the relevant project is categorized into one of three categories—A, B, and C as shown below—reflecting its environmental and social risks and/or impacts. The Structured Finance Department conducts detailed reviews based on environmental impact assessment reports that take into account the risk/impact category, the status of the country (designated* or non-designated country) where the project is sited, and industry. The results of the environmental and social risk/impact reviews are sent to a credit supervision department, where it devises a comprehensive risk assessment based on the review results.

* Designated countries are those countries deemed to have built robust environmental and social governance, legal systems, and institutional capacity to protect their people and the natural environment. Specifics can be viewed at the Equator Principles Association's website.

http://www.equator-principles.com/index.php/ep3/designated-countries

Company Training Programs

In adopting the Equator Principles in February 2016, we provide multiple training sessions for the employees of sales, assessment, screening and other departments and sections involved to foster a thorough understanding of Equator Principles concepts as well as implementation processes for environmental and social risk/impact reviews. Through regular training programs, we strive to go further to raise awareness regarding environmental and social impacts among our employees and deepen their understanding of Equator Principles concepts and implementation processes for environmental and social risk/impact reviews.

Monitoring Compliance with Equator Principles

As a rule, projects subject to the Equator Principles are engaged to submit regular reports in the loan agreement stipulating compliance with important items concerning environmental and social laws, regulations and rules as well as approvals and permits. Based on regular reports submitted by the borrower of the projects, we monitor compliance with rules relating to the environment and communities.

Number of Projects Subject to Equator Principles

22 projects were subject to the Equator Principles in fiscal 2018. Projects featuring the mark have received third-party certification from PwC Sustainability LLC.

Project Finance Cases

	FY2018			
	A	B	C	Total
	4 ✓	17 ✓	0 ✓	21 ✓
Sector	**A**	**B**	**C**	**Total**
Mining	0 ✓	0 ✓	0 ✓	0 ✓
Infrastructure	0 ✓	3 ✓	0 ✓	3 ✓
Oil & Gas	0 ✓	0 ✓	0 ✓	0 ✓
Power	4 ✓	14 ✓	0 ✓	18 ✓
Petrochemical	0 ✓	0 ✓	0 ✓	0 ✓
Others	0 ✓	0 ✓	0 ✓	0 ✓
Region	**A**	**B**	**C**	**Total**
Americas	0 ✓	2 ✓	0 ✓	2 ✓
Europe, Middle East, and Africa	0 ✓	4 ✓	0 ✓	4 ✓
Asia and Pacific	4 ✓	11 ✓	0 ✓	15 ✓
Country classification	**A**	**B**	**C**	**Total**
Designated Country	3	16	0	19
Non-Designated Country	1	1	0	2
Independent Review	**A**	**B**	**C**	**Total**
Implemented	4	16	0	20
Not implemented	0	1	0	1

Corporate Loans Tied to Projects

	FY2018			
	A	B	C	Total
	0 ✓	0 ✓	1 ✓	1 ✓
Sector	**A**	**B**	**C**	**Total**
Mining	0 ✓	0 ✓	0 ✓	0 ✓
Infrastructure	0 ✓	0 ✓	1 ✓	1 ✓
Oil & Gas	0 ✓	0 ✓	0 ✓	0 ✓
Power	0 ✓	0 ✓	0 ✓	0 ✓
Petrochemical	0 ✓	0 ✓	0 ✓	0 ✓
Others	0 ✓	0 ✓	0 ✓	0 ✓
Region	**A**	**B**	**C**	**Total**
Americas	0 ✓	0 ✓	0 ✓	0 ✓
Europe, Middle East, and Africa	0 ✓	0 ✓	0 ✓	0 ✓
Asia and Pacific	0 ✓	0 ✓	1 ✓	1 ✓
Country classification	**A**	**B**	**C**	**Total**
Designated Country	0	0	1	1
Non-Designated Country	0	0	0	0
Independent Review	**A**	**B**	**C**	**Total**
Implemented	0	0	0	0
Not implemented	0	0	1	1

Project Finance for Coal-fired Power Generation

Regarding the issue of climate change, which has become a major global issue, SuMi TRUST Bank has always made careful decisions regarding coal-fired power generation projects, which emit a relatively large amount of CO_2, by setting certain internal criteria on factors including power generation efficiency and environmental impact. As initiatives for realizing a low-carbon society are crucial management issues for financial institutions in the industrialized world, SuMi TRUST Bank has decided, in principle, not to engage in new projects for the construction of coal-fired power plants. However, in cases where exemptions are considered, lending decisions will be made carefully, with a comprehensive consideration of backgrounds and characteristics undertaken on a case-by-case basis, under strict standards that address the environmental impact, such as the OECD Guidelines and the energy efficiency of the specific projects.

Establishment of Policies for Specific Sectors

The Group has established policies for specific sectors that promote business activities with significant environment and social impacts and restricts loans and investments to companies and projects with negative impact.

In specific terms, SuMi TRUST Bank does not provide loans to companies that manufacture cluster bombs, regardless of whether they are located in Japan or overseas. In asset management, we prohibit active investment, actively conduct engagements to demand the suspension of manufacturing of cluster bombs in passive investment, and publicize such engagements.

The Group also intends to establish a policy for sectors that are considered to be involved in the manufacture of palm oil and the destruction of tropical rainforests during fiscal year 2019.

CSR Procurement (Procurement that Considers the Environment and Society)

The Sumitomo Mitsui Trust Group strives to give procurement priority to goods and services that factor in consideration for the environment and society based on its Basic Policy on the Social Responsibility of Sumitomo Mitsui Trust Group (Sustainability Policy). Through its cooperation with suppliers who care about the environment and society and efforts to spread CSR procurement, the Group seeks to contribute to sustainable social development as a corporate group trusted by the public.

CSR Procurement Policy

Papers, stationery goods, fixtures and equipment used by SuMi TRUST Holdings in its businesses have been procured through a long supply chain that begins with the mining of resources and extends to its processing, manufacturing and sales. Throughout this process, it is a duty of consumers to procure products and services that have been designed not to pollute the environment or cause human rights issues. SuMi TRUST Group has formulated a CSR procurement policy to promote procurement that gives consideration to the environment and society.

1. **Fair Transactions**
   We select suppliers through a fair and transparent method by taking comprehensive account of economic rationality, appropriate quality, delivery punctuality, compliance with social norms, consideration for social challenges and consideration for the environment.
   We do not provide profits to or impose undue disadvantages on specific clients without due reason.
2. **Compliance with Laws, Regulations, etc.**
   We respect laws and social norms in procurement and never violate them in any case. We are not involved with antisocial forces in any way and reject unjust demands.
3. **Consideration for Social Challenges**
   We strive to conduct transactions with and procure products and services from suppliers who respect basic human rights, give consideration to industrial safety and health and avoid violations of human rights, such as unjust discrimination, forced labor and child labor.
4. **Consideration for the Environment**
   We strive to conduct transactions with and procure products and services from suppliers who promote efforts to reduce the environmental burden and contribute to mitigating and easing environmental problems, including climate change and biodiversity problems.
5. **Cooperation with Suppliers**
   We seek cooperation from and promote cooperative initiatives with suppliers in order to give consideration to social challenges and the environment across supply chains in our procurement activities.