SUMITOMO MITSUI
FINANCIAL GROUP

Management of Environmental Risks

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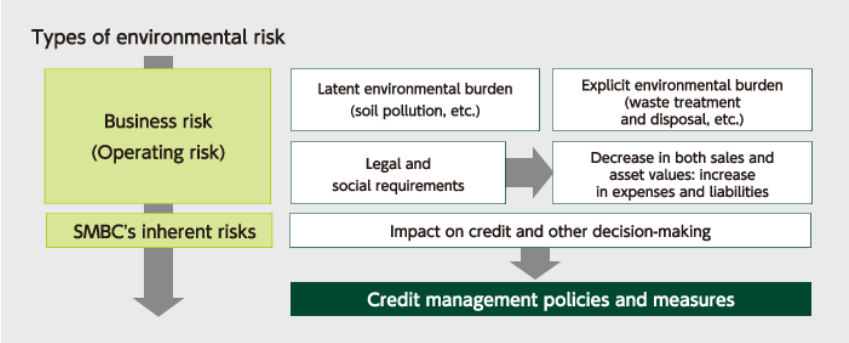
"Managing environmental risks" is one of the SMBC Group's three key environmental themes, articulated in the Group's environment policy. As a global financial group, SMBC is working to strengthen its structure for managing environmental and social risks.

Environmental Risks That Financial Institutions Should Address

Financial institutions confront various types of environmental risk including:
- Credit risks associated with a deterioration in the customer's debt repayment capability. This can be attributed to such factors as the suspension of business operations due to a breach of environmental regulations and restoration expenses incurred as a result of soil pollution.
- The risk of a decline in the value of assets due to the disclosure of soil pollution or asbestos in real estate as collateral.
- Lender liability risks that accrue to the lender in connection with business and other loan proceeds that adversely impact the environment.
- Reputation risks attributable to any of the aforementioned.

SMBC has adopted the Equator Principles, a set of principles for determining, assessing and managing social and environmental risks in finance to large-scale development projects and has established the Environment Analysis Department (ENAD) to assess the social and environmental risks in accordance with the principles.



Consideration of ESG risks

SMBC Group

In SMBC's Credit Policy, which contains our overall financing policy, guidelines and rules, we declare that we will cease to provide financial support to borrowers engaged in businesses contrary to public responsibility, or which may have a significant negative impact on the global environment.

Also, 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. We will engage closely with customers through gathering non-financial information, and strive to improve expected risk with customers while actively supporting their environmental and social consideration activities.

In addition, for large-scale projects which may potentially exert a major impact on the environment and society, we will continue to comply with the Equator Principles, a set of guidelines developed by private-sector financial institutions for managing environmental and social risks related to financing large-scale projects. We will also conduct appropriate

environmental and social risk assessments by performing due diligence in our Environment Analysis Department. Through such actions, we expect project companies to conduct activities for environmental and social consideration, including climate change and human rights, to address the Task Force on Climate-related Finance Disclosures (TCFD), and to respect the FPIC (free, prior and informed consent) of local residents.

For further details about the Equator Principles, please refer to the following link.

Working with the Equator Principles

We establish policies for each business and sector which is likely to have a significant impact on the environment and society.

These policies are also rolled out to SMBC Group companies, which include SMBC Trust Bank, Sumitomo Mitsui Finance and Leasing Company and SMBC Nikko Securities, in line with their business. This strengthens our risk management system.

1. Coal-Fired Power Generation

(Policy)

Support for newly planned coal-fired power plants and the expansion of existing plants are not provided.

(Understanding of the Business/Sector)

SMBC Group expects our customers to establish and publicly announce long-term strategies aimed at realizing a carbon neutral business model and other initiatives to address climate change. Moreover, SMBC Group will support the activities of our clients contributing to the transition toward and realization of a decarbonized society.

2. Hydroelectric Power Generation

(Policy)

For those cases in which financing is used for hydroelectric power generation projects, 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 we consider lending.

(Understanding of the Business/Sector)

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 and also on local communities caused by resettlement.

3. Oil and Gas

(Policy)

The scope of environmental and social risk assessments that take into account Equator Principles is be expanded for the following business and sectors when we consider lending. After identifying and evaluating environmental and social risks, appropriate measures are considered.

(1) Oil Sand

Oil sand (tar sand) has relatively high carbon intensity and large environmental impacts are associated with its development. As such, SMBC Group conducts environmental and social risk assessments, paying close attention to soil and water pollution caused by wastewater, deforestation, and efforts to protect biodiversity and indigenous communities, when we consider lending.

(2) Shale Oil and Shale Gas

During shale oil and shale gas development, the use of hydraulic fracturing methods is assumed to cause groundwater contamination and induce earthquakes. SMBC Group carefully monitors whether appropriate mitigation measures have been implemented for these issues, and then we conduct environmental and social risk assessments when we consider lending.

(3) Oil and Gas Mining Projects in the Arctic

The Arctic Circle (an area north of the 66º33' latitude) is home to rare ecosystems and indigenous people with a unique culture. For mining projects in this region, SMBC Group conducts environmental and social risk assessments, playing close attention not only to environmental considerations but also to measures to protect biodiversity and indigenous communities, when we consider lending.

(4) Oil and Gas Pipelines

Pipelines are expected to have a wide range of environmental impacts due to oil spills and deforestation, as well as social impacts on indigenous communities, not only at the time of construction but also when completed. SMBC Group carefully monitors whether appropriate mitigation measures have been implemented for these issues, and then we conduct environmental and social risk assessments when we consider lending.

(Understanding of the Business/Sector)

Oil and gas will continue to be an important source of energy, and we actively consider measures that contribute to the transition to a decarbonized society. On the other hand, as the transition to a decarbonized society progresses, it is important to consider the risk of stranded assets that will cause the value of the assets owned to decline in the future, measures to reduce the environmental impact associated with development, and give proper consideration to the residents of the development area.

4. Coal Mining

(Policy)

The scope of environmental and social risk assessment that take into account Equator Principals is expanded for coal mining businesses when we consider lending. Through this, environment and social risks are identified and evaluated. In addition, we don't provide support for coal mining projects that are conducted using the Mountain Top Removal (MTR) method, as this method has a large environmental impact.

(Understanding of the Business/Sector)

In addition to the risks of stranded assets associated with the transition to a decarbonized society, it is important to consider human rights with respect to the elimination of illegal labor and child labor in coal mines and biodiversity issues associated with mining.

5. Tobacco Manufacturing

(Policy)

With regard for support for tobacco manufacturers, Sumitomo Mitsui Banking Corporation has confirmed that particular issues including health hazards and considering of human rights to eliminate illegal labor and child labor are being addressed.

(Understanding of the Business/Sector)

Smoking can cause health hazards, such as lung cancer and respiratory dysfunction. In addition, with the cultivation of leaf tobacco (a raw material of cigarettes), it is important to consider human rights to eliminate illegal labor and child labor.

6. Nature Conservation Areas

(Policy)

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.

7. Palm Oil Plantation Development

(Policy)

For palm oil plantation development projects, SMBC Group confirms that the palm oil which is produced is produced with due consideration for the environment and society and has been certified by the Roundtable on Sustainable Palm Oil (RSPO) or by an equivalent certifying body. Support is only provided after confirming 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, SMBC Group encourages and supports them to obtain certification.

8. Deforestation

(Policy)

For projects which involve deforestation, SMBC Group provides support after confirming that illegal logging and incineration are not carried out and the laws and regulations of each country are observed. For large-scale projects, environmental impacts, such as the destruction of primeval forests and ecosystems, are evaluated in accordance with the Equator Principles when we consider lending.

9. Manufacturing of Cluster Bombs and Other Weapons of Destruction

(Policy)

Cluster bombs are considered inhumane, therefore SMBC Group prohibits credit to those manufacturers. In addition, it is confirmed that loans are not used for manufacturing of other weapons of destruction.

More information related to this topic

- Working with the Equator Principles
- Response to climate change (Working on TCFD Recommendations)
- For Next Generation
- For Community

Information

Group Companies **Link to our group companies' website**

SUMITOMO MITSUI BANKING CORPORATION | SMBC TRUST BANK | Sumitomo Mitsui Finance and Leasing | SMBC NIKKO | SUMITOMO MITSUI CARD

SMBC FINANCE SERVICE | SMBC CONSUMER FINANCE | Japan Research Institute | Sumitomo Mitsui DS Asset Management

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