

Response to the Joint Communication from Special Procedures

October 6, 2023

Thank you very much for your letter dated June 27, 2023 reference AL OTH 89/2023.

We are afraid that we are unable to comment on specific companies; however, we hope you will find the below information regarding our efforts on climate change and human rights useful.

SMBC has established the principle of “We contribute to a sustainable society by addressing environmental and social issues” as part of our Mission.

In addition, we have established “Environment” and “DE&I/Human Rights” as part of our priority issues (materiality) and integrated them into our business goals.

In this context, we support the ten principles proposed by the United Nations concerning human rights, labor, the environment, and prevention of corruption. We support various guidelines of the United Nations as well. For example, we participate in the “Net-Zero Banking Alliance” and set targets to reduce portfolio greenhouse gas emissions, and are also a signatory to the Principles of Responsible Banks (PRB).

SMBC has a robust governance structure for its climate change and human rights-related strategy, performed based on discussions by the Management Committee and supervised by the Board of Directors and Sustainability Committee.

Initiatives related to climate change and human rights are incorporated into the evaluation items of the executive compensation system, in which portfolio greenhouse gas emissions reductions and progress on human rights due diligence are considered.

In addition, SMBC considers environmental and social risks, including climate change and human rights, when providing financial support to its customers. For large-scale projects that may potentially exert a major impact on the environment and society, SMBC conducts appropriate environmental and social risk assessments by performing due diligence based on the Equator Principles.

Specific efforts for climate change and respect for human rights are as follows:

Climate Change

- SMBC has developed a transition plan to achieve net zero emissions and is working to reduce climate change risks and expand business opportunities associated with decarbonization.

- SMBC is committed to achieve net zero for Scope1&2 emissions by 2030 and portfolio greenhouse gas emissions (Scope3) by 2050. For Scope3, sectoral medium- to long-term reduction targets are set in line with the IEA's SDS and NZE scenarios for the power, oil & gas and coal sectors.
- In order to achieve the Scope1 and Scope2 emissions reduction targets, we are promoting the conversion of electricity consumption to renewable energy using EVs and FCVs, and the installation of solar power generation facilities in idle spaces.
- In order to achieve the Scope3 emissions reduction targets, which account for the majority of our company's greenhouse gas emissions, we are strengthening efforts toward climate change both in terms of strengthening risk management and promoting decarbonization business.
- With regard to risk management, scenario analysis of both transition risk and physical risk is conducted. For transition risk in particular, we conduct scenario analysis for sectors subject to the calculation of the NZBA greenhouse gas emissions reduction targets, accurately grasp the assumed risk exposure and reflect it in the transition plan.
- Furthermore, we formulated a policy of not supporting newly planned/expansion of existing coal-fired power plants and thermal coal mining projects and also set phase-out targets. In addition, the Risk Appetite Framework, a company-wide approach to risk management, uses portfolio greenhouse gas emissions as an indicator to manage climate change risks across credit portfolios.
- SMBC has set a target to execute 50 trillion yen of sustainable finance within 10 years, from fiscal 2020 to fiscal 2029. In particular, in order to support the transition of high-emission sectors, we established a “Transition Finance Playbook”^{*1} that outlines our definition of and approach towards transition finance. We aim to meet our customers' financial needs for decarbonization and enhance our risk-taking for anticipated increases in new technology projects to expand sustainable finance.

Human Rights

- SMBC has established a Statement on Human Rights expressing its minimum commitment to understanding and respecting internationally recognized human rights, and working to respect human rights based on the United Nations Guiding Principles on Business and Human Rights and the OECD Guidelines for Multinational Enterprises, etc. The Statement clarifies that SMBC shall respect the human rights of its customers, suppliers, and employees and that it will fulfill its responsibility to respect human rights.
- Our company states in its credit policy that it will not extend loans considered problematic in terms of public responsibility.

- SMBC conducts human rights due diligence on customers with financing transactions in order to identify, prevent and mitigate the negative impact of its business activities on human rights. If we discover that a customer is committing human rights violations or has been sanctioned as a result of a violation, we will not conduct any new transactions with that customer. We also take a cautious stance regarding those customers with whom we already have financing transactions and we encourage them to mitigate the impact of human rights violations. If no remediation or improvement is observed, we will reduce our credit exposure.
- Our company has also set up a grievance desk to respond to the opinions of customers and others and improve services. In addition, a whistle-blowing system has been established. The scope of opinions we expect includes human rights violations, such as those in the International Bill of Human Rights, as well as violations of our company procedures and rules, such as the Statement on Human Rights.

For more information on our company's efforts for climate change and human rights, please refer to the SMBC Group TCFD Report ^{*2} and SMBC Group Human Rights Report ^{*3}. SMBC will continue working to strengthen its efforts to respond to climate change and fulfill its responsibility to respect human rights, while fully understanding the mutual relationship that exists between the two, and is committed to realizing a sustainable society.

*1 https://www.smfg.co.jp/english/sustainability/materiality/environment/business/pdf/ftp_en.pdf

*2 https://www.smfg.co.jp/english/sustainability/materiality/environment/climate/pdf/tcfid_report_e_2023.pdf

*3 https://www.smfg.co.jp/english/sustainability/group_sustainability/forrights/Human_Rights_Report_e.pdf

Sincerely yours,

Sumitomo Mitsui Banking Corporation